

BIGMOSCOW

JULY – SEPTEMBER 2014 | DIGITAL MAGAZINE

ENGLISH VERSION

Western Business Needs Russia

De Facto Partnership



German Schneider

Why isolating Russia
isn't possible

Frenchman Chavrot

How to find your
niche in Moscow

Englishman Waddoup

What to offer
middle-class Moscow

Content

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2014



Pioneer

CEO of **WILO RUS**, the German **Jens Dallendörfer**, favours working in Russia over Germany, as it is here that he finds sweeping horizons opening up before him.

TRADING WITH MOSCOW



Consumers' Club

Michael van Kempen, Moscow branch Managing Director for the German trading company *Westwing*, has no doubt that Russia stands to become one of the world's leaders in e-commerce.

STARTUP AND VENTURE



Double Shopping

Nastya Sartan, founder of startup *TrendsBrands*, talks about the strategy of multi-channel sales.



Long-Running Trend

Alain Caffi, managing partner of *Ventech ventures* fund, makes strategic investments in Russia.

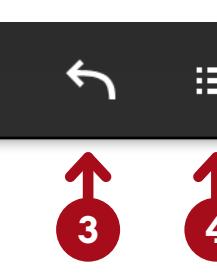
TRENDS



Megacity of Eurasia

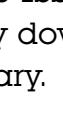
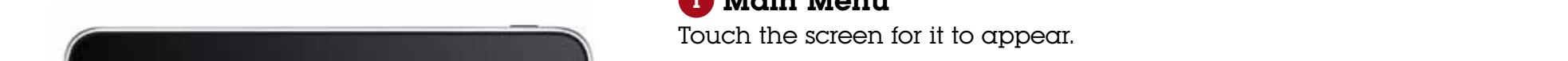
Group Managing Director at *Lombard Odier Bank*, **Arnaud Leclercq**, doesn't believe that the current geopolitical crisis will hold the Russian capital back in becoming a global economic powerhouse.

CONSULTATIONS



The mission can be fulfilled

CEO of Moscow consultancy company *Dvornikova&Partners*, **Ekaterina Dvornikova**, speaks about the specifically Russian approach to strategic business planning.



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The German **Ulf Schneider** hopes that the present political crisis between the West and Russia will be overcome, and that nothing further will cast a cloud over international cooperation

Hoping for the Best

Ulf Schneider, Managing Director of RUSSIA CONSULTING, has a good sense of humour and the ability to assess the particular features of both Russian and German businessmen. Therefore, he is confident that a certain difference in the mentality and culture of doing business will never be an obstacle to the development of business relations between the West and Russia.

— Mr. Schneider, the RUSSIA CONSULTING group of companies is represented in various countries and cities. How does Moscow compare with them?

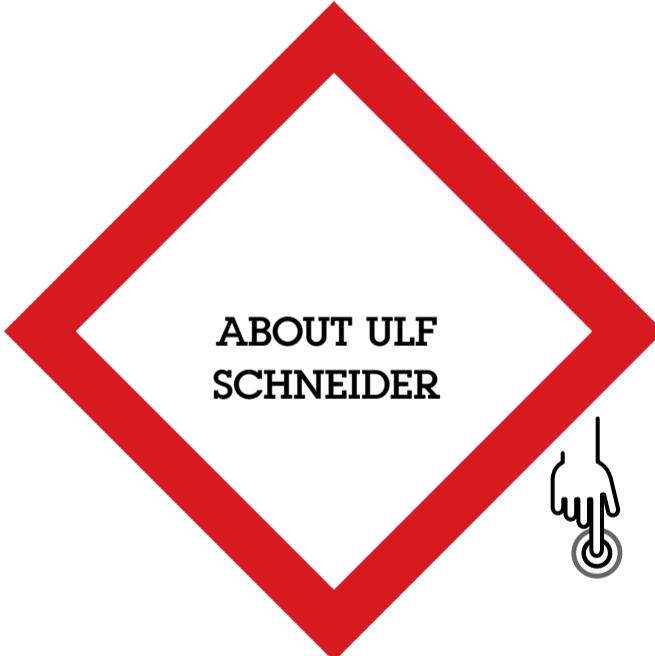
— I must admit that in a period of economic crisis, the businessmen of Germany see a very large and attractive market in Moscow. Moscow is a giant super-city, We have nothing like it in Germany. We have about ten important economic and financial centres (Berlin, Hamburg, Frankfurt, etc.), but no such dominant super-city as Moscow, the population of which, if you include the Greater Moscow Area, is 17-18,000,000. Ninety per cent of German investors open their businesses in

Moscow. Those whose business is connected directly with production are an exception. It makes sense for them to go directly to the regions, where everything is cheaper and a bigger workforce is available. The best

known investment of this kind is Volkswagen going to Kaluga.

— But let us return to the 90% whose choice is in favour of Moscow. What attracts them here, apart from the size of the place?

— In Germany we have virtually everything, and it is very difficult to offer something new there. It's not easy to surprise Moscow either, but there are more opportunities here, because the Russian capital is developing so dynamically. Much remains to be done to make life more comfortable.



ABOUT ULF SCHNEIDER

— As part of a series of measures held by the Russo-German Commercial Guild of Hamburg, a RUSSIA CONSULTING delegation recently met representatives of Hamburg business. What were they interested in at this meeting?

— They were talking there about how Germans could start up a business in Russia and what Russian businessmen's first steps in Germany should be — a sort of comparative analysis. It turned out that we have much in common. Do you know why Germans work so successfully in Russia? Because they don't have to get used to bureaucracy! There is no less bureaucracy in Germany than there is in Russia. In this, we are almost at the same level. But there is a difference in the fields of bookkeeping, taxation

and tax administration, of course. Germans are sometimes surprised that Russians turn out to be even greater pedants than they are, and that bookkeeping here is more difficult than ours at home. For example, such documents as the combined dispatch note and invoice, or the consignment note, simply do not exist in Germany. Nor do we have quarterly reports and tax declarations, and the time allowed for returning those we do have is more generous. The last-year balance sheet has to be handed in by 30th June in Germany, but by 30th March in Russia. So here, we have to employ twice as many bookkeepers. Germans do not see the sense in this, and ask for the financial report system to be simplified. But we explain that you have to reckon with these bureaucratic standards and strictly observe the current rules. As



Do you know why Germans work so successfully in Russia? Because they don't have to get used to bureaucracy!

a result, bookkeeping in Russia costs two or three times as much as in Germany, in spite of the rouble being weaker against the euro.

— *What other problems lie in wait for potential investors in Moscow? What are the most typical mistakes they make?*

— You have to understand that we have a different business culture. For

why they have to spend more time on meeting their Russian colleagues. They consider it illogical, so they see no sense in it. But this is a mistake. It makes sense to spend an extra hour or two in pursuit of rising profit. And not only because the Russians take a long time to get ready. Sometimes, when negotiations end successfully, the parties are ready to sign a contract immediately. But time is required to type the final version of the document

Russian and German businessmen sometimes fail to find a common language, not because of any disagreements in principle, but because of differences in their mentalities.

example, Germans are used to holding from five to ten business meetings every day. If we arrive in another city late in the evening, we plan our first meeting for as soon as eight a.m. But nobody wants to attend a meeting at that hour in Moscow. And the Germans would like to have their second meeting by nine. And at eleven, there is a third one due at the other end of town. But to reach it, you have to get through the Moscow traffic jams! So German businessmen sometimes run out of patience. It's hard to explain to them

into the computer, print it and sign it over company stamps. The Germans think this is just a technical matter. And they think they can leave, after appointing someone to sort out any remaining questions. This is also a mistake. With a Russian partner, you must also discuss certain details "off the record". You might go to a restaurant together. This is something Germans are not used to. They may even think that such behaviour could be detrimental to the proposed deal. A Russian businessman is convinced



of the opposite. And if a German leaves immediately after having agreed to something, the Russian may conceive the idea that this is not a very reliable man, and not one to be taken seriously. Otherwise, why should he leave at once?

A lot of other typical mistakes have to do with time factors. For example, American managers usually keep to very tight schedules. And worse than that, they force these schedules on their partners in negotiations. An American manager will say “I’m flying back to the States the day after tomorrow, and we have to settle certain matters within that time”. His Russian business partner at once draws the conclusion that the American needs the contract at any price, and behaves accordingly. Yes, time plays a very big role in business. But in any case, each partner must weigh everything up carefully and only take a decision at the last moment. In doing this, you don’t have to “whip the horses”, as they say in Russian.

But let me say something about the mistakes that Russians make

too. In Germany, there is the concept of “Mittelstand” – that is, medium business. And this is not simply a matter of size, but again, of business culture. For example, a Russian entrepreneur goes to Germany to meet the director of a factory producing spare parts for cars. He hears that these are excellent products, used in every other car. He flies to Frankfurt, goes on to Stuttgart by train, and then by car for another hour and a half. He ends up in a traditional German village, and cannot believe that such a high-tech product could be produced here! The village has a population of three thousand, two hundred of whom work in the factory. And these people produce spares for half the cars in the country? It’s not possible! And when he sees the factory director arriving for work on a bicycle, this really stuns him. I have bought myself a bicycle in Moscow, by the way.

But in Germany it is the medium businesses which are the locomotive of the economy. They account for more than 75% of German enterprises.

Bookkeeping in Russia costs two or three times as much as in Germany, in spite of the rouble being weaker against the euro.



Products for the whole world are produced by small-scale businesses.

So you see, Russian and German businessmen sometimes fail to find a common language, not because of any disagreements in principle, but because of differences in their mentalities. They must be helped to understand each other, they need to be told of these little things which sometimes hinder the realisation of big projects, how to get their bearings, how to act correctly in particular situations.

— That is, you are trying to make it clear that the difference in business culture should not be an obstacle to cooperation?

— Yes, just so. You have to adapt. But that wasn't the only thing we discussed with the Hamburg businessmen. Interest was also expressed in purely technical questions. For example, the reputation of Russian taxation among German businessmen is pretty poor. They think it's just large-scale bureaucracy, and that everything here is organised wrongly. Yet they don't realise that the tax rates in Russia are

very attractive. The tax administration has greatly improved over the past ten years. In my opinion, some things are better organised here than in Germany. They used to have a terrible customs system in Russia. It was corrupt all the way through, and everything took an awfully long time. But today, goods get customs clearance quickly. And again, by no means all Western managers know about this. Unfortunately, some continue to think that it is impossible to work legally in Russia. I am happy to say that this is not the case.

— What is the reason for the persistence of these stereotypes?

— The lack of objective information about Russia in the West. And the present situation in relations between Russia and the West, unfortunately, does not help in doing away with this problem. For many Western businessmen, Moscow is a terribly long way away. I was recently talking with a top manager from Berlin. He was interested in the prospects of opening a business in

You really don't have to invest millions to open a business in Russia. You can begin with one or two colleagues, as I once did.





Russia has long been part of the world economy, and no sanctions will take that away from her.

Russia, but he was also going on about the ‘insurmountable distances’. I asked him how often he travels from Berlin to Frankfurt. If he goes by train, it takes him four hours. But a flight from Berlin to Moscow only takes two and a half hours.

— *Won’t Moscow seem further away than ever because of the sanctions introduced against Russia?*

— I think that those who are afraid to open a business in Moscow will become even more afraid. And those who are calmly working and earning a profit here will carry on doing so. The crisis in relations between Russia and the West is of a political nature, and I very much hope that it will not badly affect the economy. In particular, Russian and German entrepreneurs are acting quite calmly and sensibly in this respect. Of course, politics are bound to have some effect on the economy. Some investments will be delayed. Or, for example, we see that certain major Western firms doing business in Russia are today carefully calculating how much money they need in Russia, and everything beyond that is taken back to the homeland, e.g. in the form of dividends.

— *In these circumstances, is it likely that Russia will turn away from the West and towards the East?*

— There is such a possibility, but only a small one. To wind up cooperation is not in the interests either of Europe or of Russia, although if I were in the Russians’ place, I would develop cooperation in both directions. You need to have good relations with everyone. Russia has long been part of the world economy, and no sanctions will take that away from her.

— *Could you give examples of the most successful investments in the Russian market?*

— There are many such examples. One of the most noteworthy is the company Metro Cash & Carry. It has completely changed the small-scale retail market in Moscow. Another company working successfully here is IKEA, although it had certain difficulties in opening practically all its shops. KNAUF is an example of a successful medium business. They bought up old factories in Russia and modernised them, profiting from the increased demand for good-quality building materials. There are many other small and medium businesses which have found their niche here. You really don’t have to invest millions to open a business in Russia. You can begin with one or two colleagues, as I once did. Of course, it costs three or four times as much to lease an office in Moscow as it does in Berlin. But I’ll tell you something else. It used to



take several years and considerable resources to start up a business in Moscow, whereas it was much simpler to do so in Paris. Today there is hardly any difference.

— Which is more profitable? To import goods from abroad, or to open up production in Russia, as KNAUF does?

— There is no one definitive answer. It depends on what you are producing, what customs duties you pay and what your transport costs are. When Procter & Gamble started to supply Pampers to

Olympic Games, which we realised were extremely well organised. And the Football World Cup is coming to Russia soon. Not only will football stadiums have to be built, a huge infrastructure will be needed as well. And Western investors could take part in the planning and construction of many facilities, and supply modern building and finishing materials. This is a business with very good prospects.

I think our countries could find many points of contact in matters of modernisation. But it would be

With a Russian partner, you must also discuss certain details “off the record”.

Russia 20 years ago, the huge transport costs and the doubling of the cost of production made them bring their production facilities here. But now it is no cheaper to produce in Russia than in Western Europe.

— Which fields offer the best prospects for investors? What can you make money from in Russia?

— From a lot. Some German firms, for example, made money in the period of the preparations for the Sochi

wrong to think only of how Russia could modernise its economy with the assistance of German companies. If it is a real partnership we are talking about, we should also be discussing how to help Russians invest more in the West. And here, visa regulation is a very important question. In my view, the sooner Russia and the EU do away with their visa requirements, the better it will be for everyone. It will make mutual understanding and doing business easier.



— Are there still free niches in Moscow in which one can succeed?

— It is customary to believe that everything already exists in Moscow. But if we are speaking not of the consumer market, but about raising the quality of city life, acting against traffic jams, organising the movements of public transport and parking places, then there is a lot of work here. Contemporary technologies in these areas are successfully being applied in Germany, and it would make sense to introduce them in Moscow. For example, the German engineering concern Siemens is willing to offer modern electric suburban trains and high-speed trains.

Or take another example. Moscow has its so-called dormitory suburbs and the centre, where everyone works.

The Moscow authorities are now trying to change this situation by creating jobs on the outskirts. But this requires creative ideas. And Germans are ready to propose them, to tell of their urban management system and their solutions in city construction.

All this should be taken into account in taking a decision about investments in Russia. But knowledge is just what many potential investors lack. Then again, sometimes simple decisiveness is also lacking. The Germans are pedantic people, and before they embark on a new project, they want everything to be explained clearly. However, Russia is the sort of country where it is not possible to be 100% sure of everything. Furthermore, it is all changing very rapidly here. ■

If it is a real partnership we are talking about, we should also be discussing how to help Russians invest more in the West.



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PIECES OF ADVICE
FROM **ULF SCHNEIDER**
FOR THOSE WHO WANT TO START
A BUSINESS IN MOSCOW



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

PIECES OF ADVICE
FROM ULF SCHNEIDER
FOR THOSE WHO WANT TO START
A BUSINESS IN RUSSIA

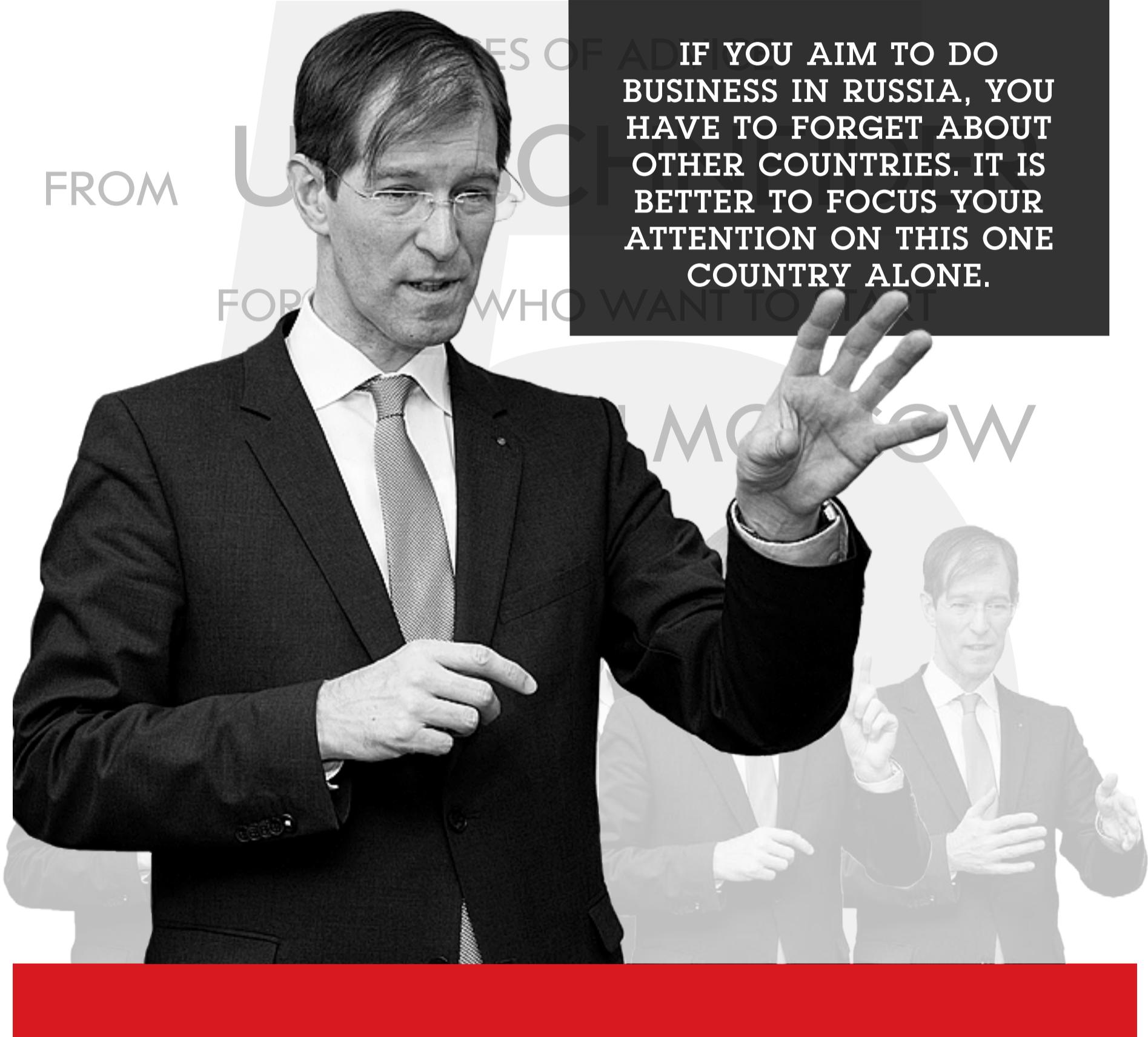
BE PATIENT. EVEN
WHEN IT SEEMS TO
YOU THAT SOMETHING
IN THE OTHER
COUNTRY IS NOT
ORGANISED SENSIBLY.



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FROM

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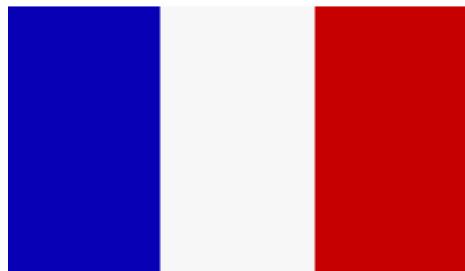


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PERSONAL EXPERIENCE



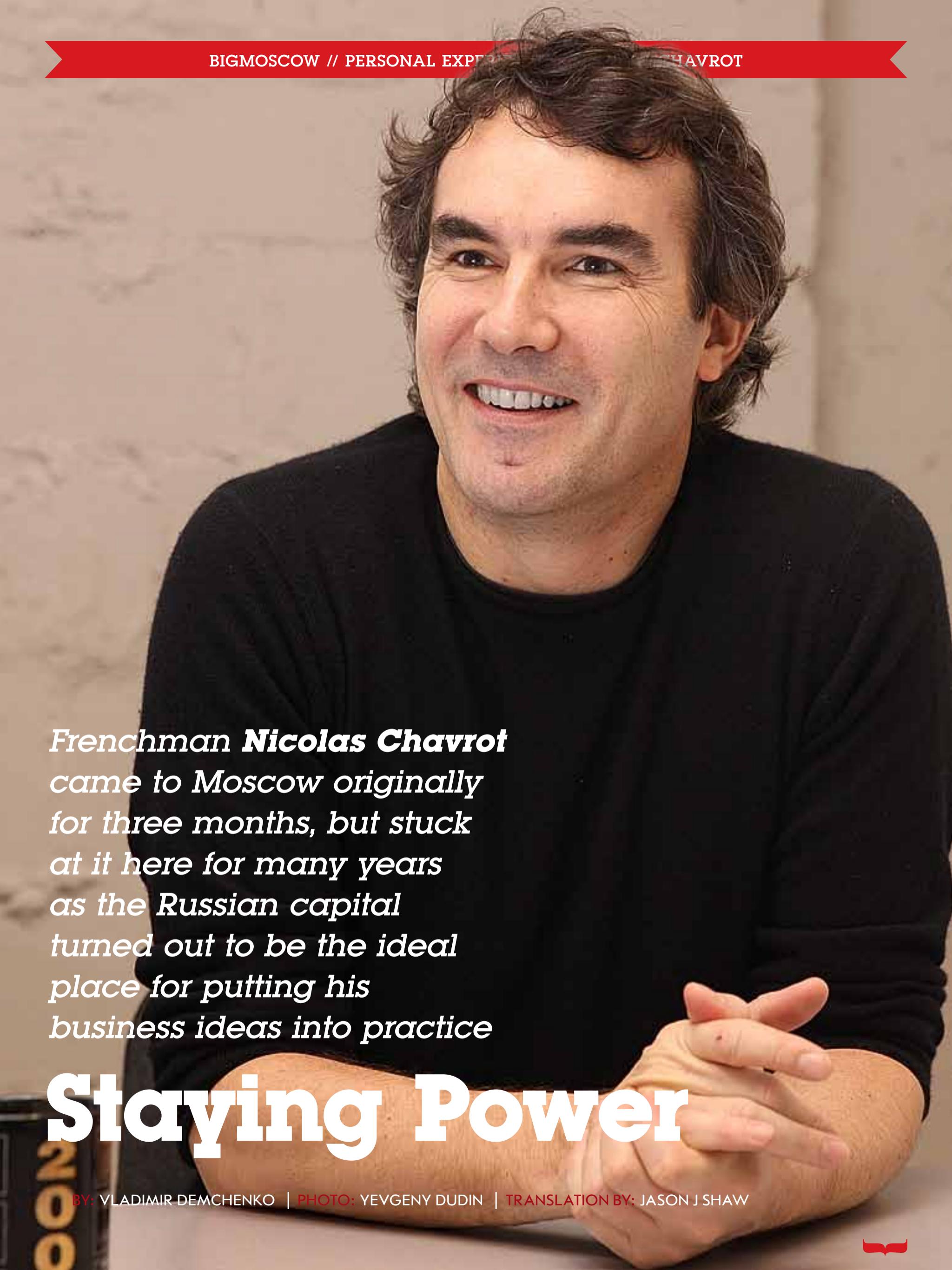
*It was in Moscow that Frenchman **Chavrot** found the staying power to start his own business*



*When it comes to developing Moscow's MICE market, Englishman **Waddoup** is well ahead of the race*



*American **Ruditser** has furnished Muscovites with a nose for real coffee*



Frenchman **Nicolas Chavrot** came to Moscow originally for three months, but stuck at it here for many years as the Russian capital turned out to be the ideal place for putting his business ideas into practice

Staying Power

BY: VLADIMIR DEMCHENKO | PHOTO: YEVGENY DUDIN | TRANSLATION BY: JASON J SHAW

*Of his 42 years, he has spent 18 in Moscow. He has business here, or rather businesses. Frenchman **Nicolas Chavrot** manufactures a glue (one of the most popular in the country), adhesive labels, and even sausages. He has an innate talent for entrepreneurship. He loves nothing better than launching a business, championing it, and bringing it up to a certain level. After which, the business is carried on by a professional director, whilst **Nicolas Chavrot** himself sticks to thinking up new ideas.*

DEFECTOR

— How did you end up in Moscow?

— I realised whilst still a teenager that I didn't want to work in France. I found it boring. I wanted to visit Russia back in 1989, as young as 18. But, as I am sure you can appreciate, in France, Moscow at that time wasn't considered the kind of place to be packing your offspring off to. I went to university and earned some spare money in England and America during the holidays. But I still yearned to go to Russia. Hanging up in our kitchen at home was a map of the world. I used to love looking at it. Russia was impossible not to notice on it. I always found it fascinating that people could occupy such a large part of the world. And keep hold of it. But I knew virtually nothing about how things actually happen here.

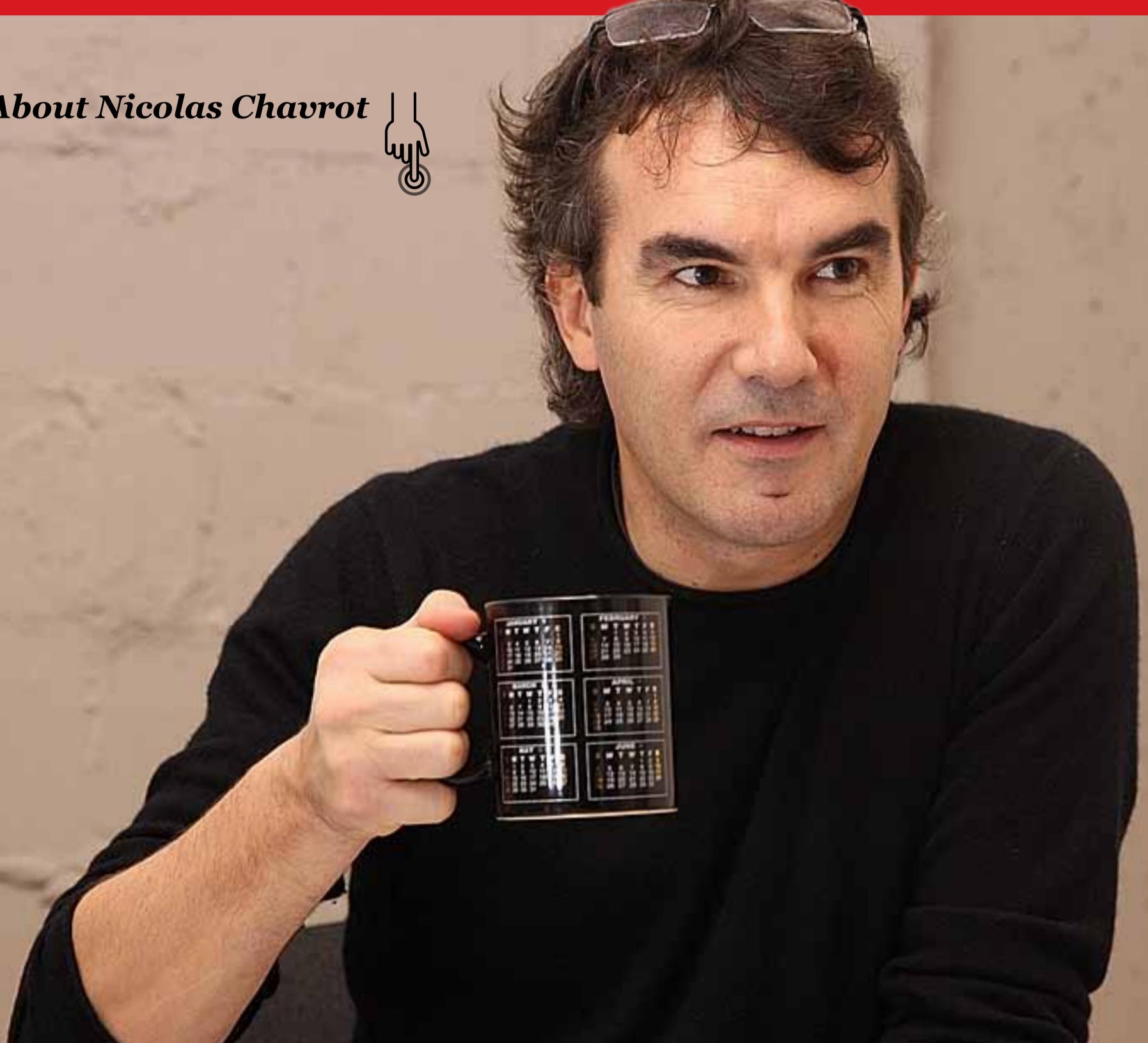
— But you must have had some kind of inkling, all the same?

— Not really, no. There were lots of stories going around. They said you could get rich by coming to Moscow with a suitcase full of jeans or cosmetics. People talked about it being all-out gangsterism here. One of my friends spent six months in Moscow. He explained how none of these stories bore any relation to reality. In the end,



www.kleo.com

About Nicolas Chavrot



I arrived in Moscow for three months. And I have been living here ever since.

— Were your parents in shock at the thought?

— Yes, they couldn't understand my choice, at first. But, little by little, they got used to the idea, and now they absolutely love coming here. Every year they spend about a month in Russia, travelling. They've been to Baikal, toured round the Golden Ring...

YOU WON'T EARN MUCH BEING A MIDDLEMAN

— Did you have any idea what you would do here?

— Me and my friend spent a long time discussing this. But what can two young lads with no professional experience and absolutely no money do? Just represent other people. And that it was we did. We set up a small office in our flat and set about searching for companies in France

interested in the Russian market. We put them in touch with Russian traders. And we ourselves received a commission.

— *How many such services are still sought after now?*

— With the internet all around, being an intermediary business is very hard. But even in those days, earning serious money like that was pretty much impossible. You are tolerated for as long as your commission is not too high. But turnover increases, and your partners try all the harder to cut you out of the chain. I worked as a middleman for several years: we were dealing in paints and lacquers and had thoroughly researched the market. But then, the crisis of 1998 set in, the rouble declined sharply, and imported paints became too expensive. There was no question of continuing in the trade or as working as intermediaries, so my friend and I decided to go our separate ways.



— *Why did you not decide to go home?*

— What for? Other opportunities did present themselves. I decided on a change of direction. If the rouble loses value, then it becomes profitable selling

Russian goods to the West. True, Russian goods capable of competing with Western ones were thin on the ground. But such products did exist. For example, fireworks: they make very good ones in Russia. It turned out though, that you need a raft of permits to import Russian fireworks into Europe. It's almost as if you are trying to export arms. Then I decided to supply black caviar to France. But on further investigation, I found out that there is an association of importers in France from which you have to receive permission. In other words, I am supposed to ask my own competitors if I may be allowed to

Hanging up in our kitchen at home was a map of the world. I used to love looking at it. Russia was impossible not to notice on it.

engage in this business. Now, as it happens, France produces caviar itself, although it is not the best. Exporting synthetic diamonds – powder or paste for abrasive tools – went well. They know how to make them in Russia, and I traded in them for about two years. And then I simply got tired of it. Such a business is a lot to do with technical refinements. Endless negotiations with engineers... Not to mention that Russia has one standard of diamond powder, and Europe another. And when I asked Russian engineers to come up with a product to the European standard (which, I might point out, had no effect whatsoever on production costs or processes), they immediately raised the wholesale price. "We know that you are going to sell it abroad," they said.

But they were unknown to anyone in our market. You have to get potential buyers interested: with an attractive price, first of all. They didn't all get this. In the end, I realised that I would do better to go back to that area I know best of all. The market for paints was already very crowded, so I decided to deal in something a little simpler: wallpaper paste. I invented the brand and arranged for it to be sold across Russia.

LAUNCHING A BUSINESS DOESN'T REQUIRE A GREAT DEAL OF MONEY

— You began producing and selling adhesives?

— Yes.

Opinion



Svetlana Pryakhina,
*Managing Director
of the company
"Progress-D"*



...
for adhesives, particularly wallpaper paste, the leader is the Henkel concern with its "Moment" brand. But the Kleo brand is also well known in the sector of wallpaper paste and other finishing materials. "Progress-D" is a retail network operating in the region of the capital, and we know very well that the Russian consumer is extremely well informed, including about finishing materials, and is in no way different from the Western one. He would not buy a product which



— **So, you must have had serious start-up capital to be able to get production up and running?**

— Not at all. There was some money left over from previous projects, but not a lot. You know, it doesn't take much money to launch a business. I found enterprises in Europe which make glues, and I placed orders with them as my own brand. I had partners in France, Germany, Poland... Now we produce our own.

huge importers bring the goods in and then sell them wholesale to large regional distributors. We tried working with these distributors, offered them our goods... But they didn't show any interest. So then we went to the shops, direct i.e. we introduced our own notion of distribution. There had never been such a thing before as a manufacturer and importer offering goods direct to stores as one. In the end, it came off: within two years, we had opened outlets in seven regions,

With the internet all around, being an intermediary business is very hard.

— **Why did you call your brand Kleo?**

— It sounds nice, as well as foreign, which was important then. And it sounds like it is associated with adhesives, as if it is an abbreviation for “Glue for Wallpaper” [KLEj Obojny in Russian].

— **So, it doesn't have anything to do with Clio the muse of history, then. And so, everything went smoothly, without a hitch?**

— There were some snags, of course. But they were just teething troubles. The system in Russia worked like this:

and then more. In a relatively short space of time, we managed to occupy a decent share of the market.

— **Did you not encounter any gangsters? After all, they say that in Russia there is mafia, and corruption...**

— No, I managed to avoid all that. I haven't heard of any of my friends having any problems, either. My Russian friends have always said to me: if anyone proposes a “front”, don't go for it. It was an issue in the early 90s, but now... Corruption rears its head when we ourselves infringe upon

something. But I decided that for me everything will be “above board”, as they say. The most corruption I allow is giving the secretary a chocolate.

— There is a widespread belief that, in Russia, if you do everything “above board”, then you will never make any money...

— Making money isn't easy but it is possible. It's hardest of all for small companies. Large firms can compete with their large turnover, but for a small one, it is extremely tough keeping prices down whilst paying taxes and social security contributions. In the last five years, most companies have

“come out of the shadows”. Or, at least, those linked to trading networks and banks have. Their security services check everything out. If you are in the shadows, you can’t do business with them.

**FINDING AN OFFICE IS EASY.
FINDING YOUR NICHE
IS HARDER.**

— Aside from adhesives, you decided to enter the meat products market. Why was that?

— I had noticed that in Russia there is a lot of fakery in food. Not in the sense of it being produced under a different brand name, but rather in the sense of what it is made from.



Nailya Mandzhiyeva,
a senior consultant
of the company
“Chaika-Audit”

a business in the field of selling finishing materials. In order to open a shop, with a view to expanding to a network of shops, you need to spend on leasing and fitting out a trading area (from 1,000,000 roubles), paying staff wages (wages fund, from 1,300,000 roubles), and advertising and promotion of the sales point (from 1,000,000 roubles). Obviously you have to have the correct relations with suppliers, and must arrange the logistics. The total cost of starting the project is from 3,500,000 roubles. In selecting an object for



The market for paints was already very crowded, so I decided to deal in something a little simpler: wallpaper paste.

And so we decided to create an online supermarket selling real food, products made, let's say, without the application of "cutting edge" technology. We started off selling food products made according to French recipes by French people living in Russia: that market was completely untapped. Then we expanded our range of frankfurters and frying sausages etc. We have a lot of Russian customers now. But the ethos of the company remains the same: to offer genuine products containing meat and seasoning, and nothing more. We have production set up here, in Moscow.

— *The food industry is strictly monitored by the government. Were there any complications at all?*

— Yes, with this type of production it is difficult getting a project approved. Some shelf or other always turns out to be in the wrong place. But there are firms which develop turnkey projects where they guarantee that all the necessary permits will be granted. How they manage this, I don't know. My job

is to do what is needed to stick to the project.

— *How is the qualification level of Russian experts?*

— When I was starting out, there was a dearth of properly trained managers. A Director of Marketing who knew at least something about marketing was nowhere to be found. Now the problems with marketing consultants and other specialists have been solved: there are many experts on the market who have worked or trained abroad. And also, Russian educational establishments turn out staff who are competitive. The lack of staff is in the internet and web technology area. Purely because this area is developing and changing so incredibly quickly.

We have assembled a team who value their jobs. Although we don't pay them so much yet: only as much as our financial situation will allow.

— *What advice would you give to Westerners intending to start a business in Moscow?*



**There had never been such a thing before
as a manufacturer and importer offering
goods direct to stores as one.**



Your company is affiliated to the Franco-Russian Chamber of Commerce: how do you help newcomers to the market? Do you assist with finding offices, hiring staff?

— Yes, the Chamber is able to assist in many things. But, you know, renting office space in Moscow is now as simple as anything: there are premises at every turn. Before, there used to be problems regarding premises whereas it was easy to find an empty niche for your business. Now, it's the other way round — it is harder to find yourself a niche than somewhere to lease.

— ***And which areas of business, in your view, have the best prospects?***

- I think that there are still a lot of jobs going in the interior design and decorating market. And there are other niches for unique and individual products or solutions. But in principle, it is not absolutely essential to find an untapped market. It is possible to try to enter an already developed market: you just have to try to become better than the rest. In general, you should set about doing something which you yourself enjoy. If you are enthusiastic about your business, then you will always find other people who are just as enthusiastic. And it doesn't matter if your niche seems to be filled already. If you conduct your business well and with devotion, the customers will always follow. ■

Before, there used to be problems regarding premises whereas it was easy to find an empty niche for your business. Now, it's the other way round.



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*Englishman **Kim Waddoup** came to Moscow during the “turbulent 90s”, started organising exhibitions, and established an entire holding company*

Fine Organisation

*With the experience of launching several business projects in Moscow in the 1990s behind him, at the start of the noughties he set up a company staging exhibitions and corporate events which soon evolved into a full-blooded holding company. How did this punctilious Englishman manage to acclimatise himself to the Russian capital? What was the key to the success of his endeavours? Answering the questions put to him by our correspondent is founder of aiGroup, **Kim Waddoup**.*

– What did you start your business in, in Moscow, way back in the 1990s?

– In property: that sector was experiencing a great boom at the time. Everybody was buying, selling or building something. But nobody was trying their hand at selling overseas property to Russians. This is what my first company dealt in. We offered Russians properties in Spain, Turkey, Costa Rica, Panama and Thailand.

– Are you still involved with property?

– Yes, it is an important aspect of aiGroup. Furthermore, it crosses over with our other business: organising trade exhibitions. We have already held 22 International Property

Show and 14 Investment Shows in Moscow, as well as 12 exhibitions in St. Petersburg. Aside from which, we publish a property magazine, “International Residence”, and the portal “1-property.ru” is ours too. We also arrange medical and business tourism exhibitions. In addition to all of which, we publish the magazine “Moscow Expat Life”: which is my pet project.

– Yet aiGroup is best known as the main player on the MICE market.

Incidentally, what does that stand for?

– Meetings, Incentive, Conferences, Events: i.e. organising meetings, incentive tourism (tourism as motivation for



ABOUT
KIM WADDOUP



employees with elements of training included), conferences and events. We conduct MICE forums, exhibitions and conferences on incentive, business and medical tourism. These are industry events in Moscow unique to this segment.

— *Medical tourism is not so widespread. How did you get into that? Where is it that Muscovites go for treatment?*

— I began to become involved in medical tourism in Moscow in the middle of the 1990s when I had small spa business in Austria. We transported high-ranking clients, including government figures, to the foothills of the Alps, to mineral spas. But we did have other clients. We helped victims of the Chernobyl disaster in particular.

Today's Muscovites go mainly for treatment to Germany, Israel and Thailand. India and Korea are popular as well. On the international market, different countries specialise in different branches of medicine. Thailand, for example, has great

specialists in cosmetic surgery. Russians go on up to 70,000 medical tours a year.

— *Who are your clients in Moscow? Wealthy people?*

— No. The middle classes. A large middle class has already developed in Moscow. The streets are full of nice cars: many families own two cars. The restaurants are full. It is precisely this middle class which is the main target audience for our exhibitions, the Moscow MedShow in particular.

— *And what is the situation with business tourism?*

— That is also developing rapidly. Russian companies are striving to widen their sales market, to become integrated with the global economy. Many send their employees abroad on courses and for training. If you value your employees, paying them a high salary is simply not enough. You can always find someone who will pay you more. You have to care about your staff. Taking them abroad for the New Year holidays or for training is a good way

A large middle class has already developed in Moscow. It is precisely this middle class which is the main target audience for our exhibitions.





**Russia is not like the States or Great Britain:
it is different. But it is possible to live,
relax and work here.**

of increasing loyalty. And it really isn't that expensive. MICE generates a great interest in the business for me, and the Moscow International MICE Forum is very successful.

– Many competitors?

– In business tourism there were quite a few competitors but they have almost all exited the market. Only the strongest players are left, ourselves included. There are some good conferences held on medical tourism but they are strictly within the confines of B2B. But we put the emphasis on B2C. We try to avoid direct competition. We never operate according to the mantra: "Oh, that's not a bad idea. Let's do that too". We try to come up with something of our own, to distinguish ourselves from our competitors, and we prefer to launch a business when the market is only just starting to develop.

– Tell us in more detail how you established aiGroup. Why did you decide to move into organising exhibitions?



– I was running a tourism business, it grew, but so did the offers. Competition came down to the simple principle of: "What price did they offer you? I'll do it for you 10% cheaper". That's not my style. So, I began to look into other market sectors. I had already entered the overseas property market by way of tourism. And I discovered that there were absolutely no related exhibitions or magazines in Russia. I already had a Russian business partner, and we had been working well together. Young and ambitious. He brought a few more people with him: his friends from

**It's not possible to understand Russia from behind the window of a limousine or a taxi.
Go on foot and you will fathom something.**

MSU. Some very talented programmers and designers. It was, in its own way, an “East-West” axis. I was the “West”, giving the company Western concepts of business: demanding the highest quality and, especially important to service, the principle of “the customer is always right”. With us, everybody smiled, even though in Moscow at that time the only people who smiled were the girls at reception desks of expensive hotels. The Russians were the “East” and brought with them their fantastic university education and the capacity to make off-the-wall decisions.

– Did you take out loans, look for investment?

— No. We didn’t take out loans then, and we don’t now. We invested our own money only. Our first office was ghastly: I was ashamed to receive people there for meetings. But it was cheap and we had to minimise our costs at the time.

– What was the hardest thing of all at the very start?

— Not having enough faith in the future. I had invested everything in a new business, we worked hard, but the surrounding realities didn’t always inspire optimism.

– Where did you put on your first exhibition?

Opinion



Aleksei Boyarkin,
Managing Director
of “Bizneskom”



in the GNP is 1.3%, but in Russia it is only 0.3%. That is, the Russian MICE market is in the stage of being formed, and it is logical to suppose that new players, including Western ones, will soon appear in it. Of course Moscow and St. Petersburg are the main MICE centres in Russia. The Russian capital has more than 50% of the market turnover in this segment, St. Petersburg has 14%, and the rest are big cities with a population of more than a million. One of the central events of this sector is the MICE forum held by the company aiGroup. At these forums it is apparent how rapidly this form of





**Guidelines, decisions made over
dinner in expensive restaurants:
that's not my style.**

— In the foyer of the Penta hotel. Now, we arrange all of our exhibitions at the exhibition centre in Tishinskaya Square. The place suits us down to the ground.

— *How did you recruit your staff?*

— We placed an advert: “Students who can speak good English and know how to smile are invited for temporary work at an exhibition”. Over 100 turned up. We put together a great team, the majority of them women. At the exhibition, they were dubbed Kim’s Angels. They still work for us now.

— *Is the whole of your business located in Russia?*

— All of our business is international, and all of it is based on the Russian market. We – me and my colleagues

and partners – often perform the function of a unique bridge between East and West. Before the Olympics, we were asked a lot of questions on Twitter and by mail: “But what’s it like over there in Sochi, is it possible to travel there, is it not dangerous?” We patiently explain. Russia is not like the States or Great Britain: it is different. But it is possible to live, relax and work here.

— *How many people are there on your staff?*

— Eighteen permanent. Some work remotely. Myself included. I haven’t been into the office for two months but all our affairs are perfectly in order. Of course, for important exhibitions or other key events, we are all present.



Elena Kostenko,
head of the estimates
department of
“BK-Arkadia” Co. Ltd.



The main exhibition sites in Moscow are “Crocus City”, “Expotsentr” and the All-Russian Exhibition Centre. All the leading industrial exhibitions are held in these three. Experts link the prospects for the development of the exhibitions market to those of the Russian economy as a whole. The growth of each industry always leads to an expansion of exhibition activity in the relevant field.

By comparison with the Western market, I believe that at the level of the top exhibition centres, there are no significant differences in the way business is



– Do you have a Russian partner?

— Yes, we have been together for 13 years now. A lot of people at the company have been with us almost from the very beginning: staff turnover is minimal. As well as them, for specific projects, the very same exhibitions, we take on up to 60 people on a temporary basis. We call students. Do you want to gain experience? Come along. I do a lot of it myself. Guidelines, decisions made over dinner in expensive restaurants: that's not my style.

– Would it be simpler or more complicated running the same business in a different country, in England or Austria?

— Now, I wouldn't even begin to try. The market in Austria and Great Britain is over-regulated. There, everything was all carved up long ago. But when I started out in Moscow, there was a blank canvas here. Got an idea? Get out and do it. Now, of course, you have to be careful. Calculate everything meticulously. Establish a solid legal

basis before launching a business. It has become safer, cosier. But it has lost something. Many don't understand Russia and say that doing business here is extremely difficult. It's not possible to understand Russia from behind the window of a limousine or a taxi. Go on foot and you will fathom something. Some foreigners who come to Moscow are scared of going on the metro because they have been told that it's dirty and dangerous in there. Rubbish! I go by the Moscow metro all the time.

– Your office is in a prestigious part of Moscow. Is that important to your business?

— No. It's just that it's a five minute walk from my flat. Clients rarely turn up here. Usually all matters are dealt with over the internet.

– You are the organiser of the Moscow International Golf Show. Do you resolve business issues during a round of golf? Or is it purely sport for you?

We never operate according to the mantra: “Oh, that's not a bad idea. Let's do that too”. We try to come up with something of our own.



— Purely sport, recreation. My golf, by the way, is not up to much. I don't like how golf is developing in Moscow. There are courses but exclusively for the elite. Golf should be more democratic.

— ***Do you like living in Moscow?***

— I have been in Moscow for many years and have always greatly enjoyed it in this city. But I'm not overly fond of the Russian winters. Maybe my age is catching up with me. So I prefer to sit out the colder weather here in warmer climes. But I come back to Moscow all the same. ■

I had invested everything in a new business, we worked hard, but the surrounding realities didn't always inspire optimism.



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*The American programmer
Jerry Ruditser requalified as
an entrepreneur and has made
more than 50 sorts of coffee
available to Muscovites*

Business from Grain

BY: SVETLANA SAMODELOVA | PHOTO: YEVGENY DUDIN | TRANSLATION BY: JACK DOUGHTY

He opened his first Coffee Bean coffee house in Moscow in 1996.

Now this brand is known not only in the Russian capital.

There are nine Coffee Bean coffee houses operating in Moscow, and eight more in other regions. Visitors are offered numerous sorts of coffee, and also coffee cocktails: "Milky Joe", "Cream Mocca", "Chocolate Kiss", and others. Jerry Ruditser told BIGMoscow magazine frankly about how he started his business in Moscow and what startup capital this required.

"WHEN THE DELIVERY CHAIN WAS SORTED OUT, I WAS BORED"

— I was born in Minsk, in one of the former republics of the Soviet Union. My parents emigrated to America, to New Jersey, near New York, when I was 12 years old. In the States, no-one could pronounce my name, Gennady, and I became Jerry. At university, I gained the specialty of programmer. But the settled way of life was not for me. I wanted to travel. My mom worked as a volunteer, helping

families who had only just emigrated from Russia to the USA. In 1990, I got to know someone from Chișinău. Oleg, a Moldovan Jew, strongly urged me to go to Russia. "The Iron Curtain has fallen, limitless opportunities have opened up, you can earn big money". The Soviet Union was the last place I wanted to go. But Oleg persisted. "Buy me a ticket, and when we get there I'll introduce you to some influential people." I borrowed the money for two tickets from Mom, and in 1990 we flew to Moscow.

— What were your first impressions?

— We stayed at the Sportivnaya Hotel in Luzhniki. We went down to the restaurant for lunch and found closed doors with a sign "Lunch" on them. No-one seemed to be interested in the guests. In the evening, looking through the menu, we tried to place





**The Iron Curtain has fallen,
limitless opportunities have opened up,
you can earn big money**

an order, but all we heard from the waiter was “That’s off, that’s off too”. All they had to offer was chicken. In the window of the delicatessen next door there were only three tins of anchovies in tomato. And yet wherever we went as guests, one of the rooms was set aside as a store. Boxes of food products were piled right up to the ceiling.

— *And what were you doing at the beginning of the Nineties?*

In 1993 we were delivering consumer goods. I organised the production of perfume under contract in the USA, and my partner in Moscow dealt with sales. After a few years, the business was standing on its own two feet. I switched to wholesale delivery of skis. The chain was sorted out, and I...was bored. At the end of each season, we had some unsold goods remaining. I proposed to my partner that we open a shop where we could sell these left-overs. He was against the idea, and I

**Coffee is like wine.
Red wines are all red,
but they all taste different.**

— Russia lacked even the most basic food products. Oleg and I decided to deliver equipment which would make it possible to make sausages and process vegetable directly in the fields. But it turned out that this interested hardly anybody. It was necessary to set up a production line and then think about the source of the raw material for processing. In two years, we only sold one mini-factory. Oleg said he had to feed his family, and went back to America. I had already got to know another entrepreneur.

had to leave the business. But apart from skis, I had begun selling coffee.

“THE EMPHASIS WAS ON RELATIONS WITH CUSTOMERS”

— As long ago as 1990, when I first came to Moscow, I had noticed that in every office there was an electric sandbox, where coffee was brewed in Turkish coffee brewing pots. The raw material itself was terrible. And where they didn’t have one of these sand contraptions, they drank disgusting



After a year and a half, we had so many customers in our coffee shop that it was full to bursting point.

instant coffee. Life itself has refuted the universal opinion that Russia is a tea country. I was always being asked “What else do you propose to sell, apart from coffee?” When I replied “Just coffee”, they shrugged their shoulders in bewilderment. “What about sausages?” In 1996, while still in the sports business, I opened a coffee shop. People came in, saw several dozen varieties of coffee, and were lost, not knowing which to choose. Coffee is like wine. Red wines are all red, but they all taste different. I set up a coffee machine and two tables in the shop, so that customers could try different sorts of coffee.

— How much was the startup capital?

— I borrowed \$35,000 from a friend and added \$15,000 of my own. The equipment was quite cheap. Most of the money went on repair and on leasing the premises. The coffee was delivered to us from the USA.

— Was the business successful from the start?

— The coffee house was next to Kuznetsky Most metro station, in a passageway leading to Pushkinskaya Street. Unsavoury characters hung around in this passageway, drank vodka and chewed pasties. Brawls occurred there now and again. Most citizens tried to nip through this passageway as quickly as possible. For the first six months, only a few people a day came into us. There was an attractive girl working for us. Long legs, short skirt... One day she went out to sweep the step, and five young people followed her back into the shop. After that we used to joke: “So, when there are no customers, go out and sweep the step.”

We gradually got more and more customers. We were aiming for students and young office workers, who wanted to invite a girl to somewhere decent but didn’t have the money for a restaurant. After a year and a half, we had so many customers in our coffee shop that it was full to bursting point. People were sitting not only at tables, but on the stairs.





— How did you gain customers?

— The emphasis was on relations with customers. When one came in, he or she was very cordially greeted. People asked in surprise: “Do you know me?” Polite and friendly sales staff were a novelty for Soviet people. Customers were allowed to try one sort of coffee and then another. And the customer would come back next day with a crowd of friends. Young men were flattered when our waitresses asked them: “Will you have the same coffee as yesterday?”

— Surely the fact that you knew Russian made it easier for you than for other foreigners?

— If only! In America, even at home, we very soon went over to English. The first time I went to negotiations here, I took an interpreter with me.

“THREE GOLDEN RULES: LOCATION, LOCATION, LOCATION”

— When did you open your second coffee house?

— Two years later. It was located inside the glass pavilion at

the Pokrovskie Gates, where pelmeni had been sold for a long time. It was much easier to lease premises in those days. Not like it is now. Our second establishment was already more of a café than a shop, although we continued to operate in the form of “coffee house plus coffee shop”. We opened in January, and in August the crisis happened. Russia proclaimed a default. Previously students had come in and ordered two or three slices of cake. But in September, this is what we were hearing from businessmen: “Just a cup of coffee for me, please, nothing more”. The rouble crashed. In those days, we were changing the price of coffee virtually every hour.

— How did you solve the problem of selecting personnel?

— In the first year, when we advertised for staff, the phone was constantly ringing. But when we asked: “Can you smile for eight hours a day?” we often heard the reply: “I’m not going to work in a circus!” It took a long time to educate the personnel. We kept telling them: “Imagine guests are coming into your home. Greet them with animation and joy, as if they were your nearest and dearest.” Now, of course, young people are different: more relaxed, more inclined to smile, more free.

Opinion



Sergei Lapada,
head of marketing section
of the Dunkin' Donuts cafe
chain



house.

Obviously, these costs do not include lease payments or staff wages. In 2013-2014, the development of the public catering market slowed down somewhat, from 7% growth to 4%. This of course affected the coffee house market too, although the share of chain coffee houses in the market increased by 14%. The chain coffee house market is of the order of 1000 coffee houses for the whole country. In the quick service restaurant segment, these figures are three and a half times as high.

In opening a coffee house in Russia, you have to



— *Have your customers also changed over the years you have been working in Moscow?*

— They have become more demanding. Customers in the super-city are very spoiled. Moscow is a city that never sleeps, many shops here, where you can get absolutely everything, are open round the clock.

— *How many coffee houses do you have operating now?*

— Nine in Moscow and eight in the regions.

— *In which cities exactly?*

— Coffee Bean coffee houses are operating in Ulyanovsk, Samara,

Vladimir, Ivanovo, Ryazan and Belgorod.

— *Why did you decide to turn your attention to the regions?*

— The market in Moscow is saturated, the competition has become stronger and lease rates have crept up. Leasing in the centre now costs from two to three thousand dollars per square metre per annum. Often about 50% of the income from one of our establishments goes on paying for the lease. And whereas in the USA or Europe leasing agreements are concluded mainly for 10-20 years, in Russia they are reviewed virtually every year. Location is important for

Expert



**Natalia Eksakustos,
Director of CIMAN
consultancy
company**



chains of coffee houses are developing. The "coffee to take away" format, well developed in Europe, is growing in popularity.

The opening of a coffee house is a business trend with good prospects. A permanent coffee house requires premises of an area from 60 sq.m., but for the "coffee on the run" format, 3-5 sq.m. is enough. Costs for opening a permanent coffee house start from \$80,000. This includes refurbishment of the premises, delivery of furniture and equipment, procurement of products and an advertising campaign. It pays for itself on average in 18-20 months.



coffee houses, second-rate ones just don't work for them. As in retail trade, there are three golden rules here: location, location, location.

— *What difficulties did you face in the oblast cities of Russia?*

— People there often complained: “Why don’t you allow smoking here?” Our staff have also heard: “Why don’t you have waiters?” In Moscow, people are somehow more democratic. True, there the same customers would admit: “I’ve been into your competitors, and while I was waiting for the waiter, I realised that in your place, I could have drunk a cup of coffee and had a snack in that time.”

— *Is there a difference in the price of a cup of coffee between Moscow and the regions?*

— Due to lower leasing costs in the regions, a cup of coffee costs a third less.

“YOU HAVE TO KNOW WHAT RULES TO PLAY BY”

— *Who designed the décor of your establishments?*

— We have an architect who worked on the design of our coffee houses. He considers that the interior should be quite neat and uncluttered. The black wooden panels are the traditional colonial style, plus they give the effect of ageing, so that the premises should appear to “have a history”. To create a homely atmosphere, we have shelves of books. Our guests can read a book and leave behind one they have already read. So the books are rotated. And when people see a café or restaurant with lustre and gilding, they are often reluctant to enter the place, they think: “This isn’t for me”, and pass by.

— *How much does it cost today to open one coffee house?*

— It averages about \$200,000. It pays for itself in three or four years.

— *What advice would you give to foreigners who intend to open their own café in Russia?*

We got through it all, taking quite a few knocks and gaining experience along the way.



— In any city, in any country, if you do everything well, the café will be successful. But in Russia, you have to be prepared for the confusing tangle of bureaucracy. A newcomer will not know where to submit an application, who is responsible for it or what the procedure is for its consideration. Here you have to know what rules to play by. We got through it all, taking quite a few knocks and gaining experience along the way. For example, when I opened my first coffee shop, I went into the Sanitary-Epidemiological Inspection Service, and being so naïve at the time, asked for a print-out of the sanitary requirements. They replied: "Really! What a thing to ask!" The implication was: if you knew everything, how could we then check you, find faults and extort bribes?

When I opened my second coffee shop, I got my team together and instructed them. I explained: we have

to have complete interchangeability of personnel. If the floor needs washing, you go and wash the floor. If the toilet needs cleaning, you go and clean the toilet. The day before we opened, my employees gave me an ultimatum: "If you don't take on a cleaner, we won't come in to work." I said: "You're fired." I took up position behind the counter myself. I advertised for personnel. I remember a woman coming in for an interview, and I was standing in the café with a mop, washing the floor. I said: let's negotiate while I carry on mopping. She gave one look at all this and walked out. There's snobbishness for you! But a week later, those who had been sacked came back.

So if someone is not looking for a quiet life and is ready to be patient, and learn the nuances of the market and the local way of thinking from his own experience, why should he not come to Russia? ■

Whereas in the USA or Europe, leasing agreements are concluded mainly for 10-20 years, in Russia they are reviewed virtually every year.



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Pioneer

*The German **Jens Dallendorfer** knows how to combine German high quality and the potential of Russian engineers*

*He can talk for hours about pumping equipment, and the same goes for stories about his Russian clients and friends. He has been working in Russia for ten years. Since 2012 he has been the managing Director of the company WILO RUS, which forms part of the German firm WILO SE. The firm's motto is "Pioneering for you". This refers to both an innovative approach and innovative solutions for making life as comfortable as possible. That's just what **Jens Dallendörfer** is – a pioneer. The managing director of WILO RUS tells BIGMoscow magazine how to create a close knit team of professionals, find a common language with partners and start up a new production facility.*

About Jens Dallendörfer



"I NEED LARGE-SCALE TASKS"

— I was born in East Germany in 1961, the year Gagarin flew into space. All the rest of my life has been connected with the famous space pioneer. I studied in a school named after Yuri Gagarin. We actively corresponded with pioneers in the children's branch of the Young Communists' League in Leningrad. I remember sending a blue pioneer scarf, as worn in the GDR, to my girlfriend in the city on the Neva. In return, I received a red scarf of the Soviet pioneers. I had a whole collection of postcards and badges from the USSR. I was immersed in Russian as well as German culture from childhood.

After university, I worked in the construction market, selling ceramic pipes and bricks. I also offered clients canal equipment: pumps, fittings, cranes and heating materials.

— Are you a pioneer by nature, like Yuri Gagarin?

I organised logistics, concluded contracts and worked with clients. In the middle of the bare steppe!



— Yes. I needed new horizons, large-scale tasks. Therefore, when I was told by a representative of the Swiss cement firm Holcim "We need a managing director in Russia. Would you like to try it?" I agreed without a second thought. And I moved to Russia in 2005.

— *What difficulties did you encounter?*

— I had studied Russian at school, but without paying particular attention to it. I much regretted this when I found myself in Russia. There was a language barrier. I could read Russian but not speak it. But

all the difficulties were ironed out in personal contacts. I am an open sort of person, as Russians are, and it was easy for us to find a common language.

– Were you working in Moscow?

– Yes, the head office was in Moscow, but we operated throughout Russia. In 2009, Holcim combined with the company Alpha Cement. A decision was taken to build a new factory in Kazakhstan. So I set off for Kazakhstan, from which Yuri Gagarin took off from the Baikonur

Lake Baikal, on the road to Astana. We built a railway branch line, and bought two locomotives and 300 wagons. I had to decide on a wide variety of questions, even what sacks to pack the cement in. It was very interesting. After all, it is interesting not simply to import a high-quality product, but to produce it yourself, creating jobs for the local population. Hardly anyone speaks English in Kazakhstan, so that was where I had to get serious about learning Russian. I studied with a teacher, but I was often away on business trips. I travelled all over

**The foundation must be built in Russia,
so that we have our own production
facilities here.**

cosmodrome built in the Kazakh steppe. And now, in the same steppe, we were building a factory from nothing.

– What post did you hold there? What was your area of responsibility?

– I was appointed commercial director. I organised logistics, concluded contracts and worked with clients. In the middle of the bare steppe! Our factory now stands near

the steppe region. I learned Russian on the road communicating with my fellow travellers. Great practice!

I became so Russian that when I went on leave to Germany, I was often asked for my passport by officials who were very surprised to learn that I was German.

“THERE ARE FIRST-CLASS ENGINEERS IN RUSSIA”

– How did fate happen to return you from Kazakhstan to Moscow?





— WIKO SE was looking for a managing director for WILO RUS, a German specialist who knew the local mentality. The previous director was a Russian, who had done excellent work in the job for 15 years, and had retired on pension. Restructuring was taking place in WILO RUS. They introduced new international rules and financial documents, and changed the industrial management. The company wanted to build factories and build up a different logistics system.

— And this coincided with the appointment of the new managing director?

— Just so. My initial task was to form a team, so that our co-workers would understand our new strategy. At that time, I often heard: “Why do you have to produce the goods in Russia? We need German quality, we should continue to import.” This is the wrong strategy. I am convinced that “the foundation must be built in Russia, so that we have our own

production facilities here.”

After all, there are first-class engineers in Russia. These engineers created spacecraft, Tupolev and Ilyushin aircraft and much, much else.

— How many people work in the company?

— When I arrived in WILO RUS, there were 170. Nepotism and jobs for the boys were rife. Take on an employee and he would bring in after him his brother, his sister, his marriage broker, and so on. The personnel had to be reviewed. But not everywhere. The financial department did not lose anybody, and the post of financial director was added. In the sales department, new segments were created, for which new people were brought in. And the marketing department is 100% new. The logistics and procurement departments have also been renewed. We now have 190 employees. They form a well-knit team of professionals.

ABOUT WILO RUS



— You are building a factory near Moscow. Don't the officials bother you with their bureaucracy?

— We have plenty of bureaucracy in Germany too.

We bought five and a half hectares of land in Noginsk. In the autumn of 2013, we held the triumphal ceremony of laying the first stone of the factory in which we plan to house production facilities for pumps with industrial applications. We paid the necessary dues, and the documents are now being registered in Noginsk. This took a year. I think agreement has been reached quite quickly. We are already laying the road.

— What is your main role in these processes?

— I generate ideas, and my experienced assistants bring them

I generate ideas, and my experienced assistants bring them to life and draw up all the necessary papers.

to life and draw up all the necessary papers. I have good people to rely on. We are open, we have no secrets, we punctiliously pay all our taxes to the oblast budget.

– When do you plan to start production?

– In 2016. That will provide about 400 new jobs. Incidentally, it is not in the least bit cheaper to produce in Russia than in Germany. But at this stage it is more important to us that we should be close to the sales market, to the customers.

– Is it hard to find clients in Russia?

– In Germany you can meet seven to ten clients a day and spend ten minutes talking with each of them. It doesn't work like that in Russia. Three clients at most, and the conversations are much longer. But we know each other well. I must admit that for me, working with clients is the most pleasant part of the job.

– How do Russian clients differ from Western ones?

– They are more capricious and demanding.

– Do you face strong competition?

– We ourselves do not. There are other producers who also make quite good equipment. There are Russian pumps, Danish ones, German ones... I don't like to talk about price. It's the whole package that's important, including the logistics. It's like buying a suit in a shop or having one individually tailored. If I say that our pumps are better than those of our competitors, who will believe me? But our pumps are installed in the Kremlin, the Mariinsky Theatre in St. Petersburg, and in the Hermitage.

"I HAVE A DREAM – TO BUILD ANOTHER FACTORY"

– Where do you live in Moscow? In a city apartment or out of town? Have you bought a property in Moscow?

We are also building a new factory in Germany now, but I wouldn't decide anything there, the decisions are taken by a couple of dozen people.



— I have an apartment in Zürich in Switzerland. In Moscow I rent an apartment.

— ***Is that more expensive than in Germany?***

— When a landlord sees a foreigner, he almost doubles the price. If I take an apartment in Dortmund, where we have a factory, it only costs a third as much.

— ***In which region of Moscow are you renting an apartment?***

— I used to live in the very centre, on the Arbat, where the heroes of

Mikhail Bulgakov's novel "The Master and Margarita" lived. I took an apartment there because I don't like getting stuck in traffic jams. But now I have moved to Strogino. You don't feel as if you are living in Moscow here. It's a very clean, green district. In the evening, I have walked in the forest for three and a half hours. You can sit by the river and see the "Moscow City" international business centre on the other bank. It only takes 40 minutes to reach Revolution Square in the centre.

— ***What do you think of Moscow restaurants?***

— In 2005, prices in restaurants were very high, and the quality was simply awful. Today the prices and quality are comparable. Expensive, but excellent quality. They serve fresh oysters, for example!

— *What would be different about your activities if you were working for a similar company in Germany?*

— In Germany, sales would be double what they are here. But I couldn't work in Germany nowadays. We are also building a new factory in Germany now, but I wouldn't decide anything there, the decisions are taken by a couple of dozen people.

— *What are your plans for the future?*

— Russia is a very big country. I have a dream — to build another factory somewhere in Ekaterinburg or Novosibirsk.

— *Would you advise your fellow-countrymen and other foreigners to come and work in Moscow?*

— When I was getting ready to go to Russia, my friends said “Jens, what's the matter with you? You have the whole world open to you, but you've decided to go to Russia.” People are afraid of going to Russia. Many aren't willing to leave home at all, to move away from what they are used to. In the West, they often think this way: “I'll go, work there for three years and come back.” But you don't get the feeling of the country in so short a time. In the first year, you don't understand anything at all. In the second year, you're just beginning to, just a bit; and in the third year, just when you're beginning to understand something, it's time to go.

The Russians say “Moscow doesn't believe in tears.” They are ready to work hard, to learn from their mistakes, and not to despair. So welcome to Russia! ■



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Consumers' Club

*The Dutchman **Michael van Kempen** successfully applies a club trading business scheme in Moscow invented in the West*

*The shelves of the internet shop Westwing are groaning with the weight of goods for design and decor. You can find everything here, from crockery to furniture. But to devote yourself to shopping, you have to become a full member of the consumers' club. According to **Michael van Kempen**, managing director of the Russian department of the German trading company Westwing, this makes it possible to reach a better understanding with the client and to satisfy consumer demand more effectively.*

About Westwing



Russians have taken to the club system of trading very well. Our sales here are growing even more quickly than in other countries.

NON-STOP SALES

“But you are depriving yourself of customers!” I am amazed by what seems to me a strange concept. But Kempen imperturbably replies that before Russia, the scheme had proved its effectiveness in many countries in different parts of the world.

— Our clients are people who know the value of the brands we offer, he says. They are mostly Western companies producing high-quality products in the medium-price segment. These products are not for those who go round the goods-for-the-home hypermarkets looking for the cheapest. Nevertheless, our business is based on the principle that the consumers never lose out, and indeed can make a considerable saving in their purchases. We hold events every day, when the prices on certain goods are reduced by as much as 70%. Look at this.

Michael van Kempen opens a page of the Westwing website on a computer screen.

— The usual price of this dinner service is 2200 roubles (\$65). At the present

moment, we are offering it for 800 roubles (\$27). The event ends a week from now at exactly 6p.m. And over this week, we start up many other events with considerable discounts on other goods. Our clients constantly monitor our bargain offers. It is a sort of non-stop sale for the middle class.

— ***Is the club system based on the idea that people are flattered to belong to some closed society of the chosen?***

— Not at all. There is no closed society, it is just one of the models for working with a target audience. In this way one can get to understand the customers better and make them more precise offers. Incidentally, Russians have taken to the club system of trading very well. Our sales here are growing even more quickly than in other countries.

— ***But how do you manage to offer such large discounts?***

— We work directly with the brands and producers, without any middlemen.



The fact that we are trading in 11 countries strengthens our position in negotiations with the brands and enables us to get very good terms for our clients.

A NEW NICHE

— *How much difference is there between internet trading in Russia and in Europe?*

— Online commerce is not yet as popular here. In Germany, the volume of electronic deals is over 5.5% of the entire trade turnover. In Great Britain, it is even more, about 12%. But in Russia it is less than two per cent. However, it is this

in a large chain of retail stores. I had acquaintances in Moscow who had left for Russia at the end of the nineties, and it must be said, had been extremely successful. I was inspired by their example, but I wanted to do something new, something of my own. I came to Moscow several more times, and studied the markets, trying to find my niche.

— *How exactly did you study the Moscow market?*

— I talked to the experts and asked them lots of questions. There are

In Russia you can make a great leap forward, which is not possible in the entrenched European markets.

very fact which creates the prospect of growth. In Russia, you can make a great leap forward, which is not possible in the entrenched European markets. Looking at the big picture, that is precisely what brought me here.

— *How and when did this happen?*

— I came to Moscow for the first time in 2008 as a tourist. After training in the specialities of “economics” and “information technology”, I was working

agencies in Europe, CBS for example, which are willing to provide any information about one or other specific market. I did not find anything of the sort here — which, by the way, is one of the possible market niches.

Eventually I decided to stay in internet trade in designer products, to create a resource something like multi-brand catalogues. I took the English catalogue Asos as a model, and then went to the well-known electronic trade website Ozon.ru and proposed a partnership.





**Many firms want to enter
the electronic trading market
but don't know how to do so.**

They agreed, but expressed a desire to conduct sales on their own site. However, this did not interest me, I wanted to go my own way. But then it turned out that Russia lacked the necessary logistics infrastructure. Or rather it did exist, but only a few companies like Ozon.ru had it. But what were needed were couriers, warehouses, personnel and special software. Because this is not an ordinary warehouse full of the same type of goods stacked on pallets. In electronic trading, each box is individual.

— *How is this problem solved in the Netherlands?*

— Courier services and the mail are well developed there. Here, the mail works very slowly and unreliably. Furthermore, there is the Russian habit of paying in cash, and after delivery. In Holland, most purchases are paid for by credit card, and the courier then delivers



the order, whereas in Russia, so far, a certain distrust prevails; no-one is keen to pay in advance. It should be said that as a result of this, there are many returns, when the client refuses to purchase the goods ordered. For example, in the clothing segment, the return rate sometimes reaches 50%:

it doesn't fit, or it's not the right colour. But with electronic trade, it's simpler. The return rate is only 3-4%. To sum up, there is still a lot of work to be done on the internet trade infrastructure. I also notice that many firms want to enter the electronic trading market but don't know how to do so. One company which owned an internet startup wanted me to deal with this problem.

INFRASTRUCTURE ON THE RISE

— *Where do you begin in creating a goods delivery system?*

— You begin with a specially equipped warehouse. We opened one near

**If only due to its size,
Russia will surpass
many countries in internet trade.**



Moscow. We offered the use of our warehouse to other internet stores too. It was fitted with everything necessary for accounting for and processing orders – including packing the goods and sending them off to the end customer. Gradually the sales people came to appreciate the convenience of our system. There was no need to lease their own premises

and take on staff, all they had to do was provide for the delivery of the goods to the customer. When the system was up and running, I considered that my job was done and decided to leave.

— ***Are you using the same model in Westwing?***

— In principle, yes. We have our own courier service in Moscow. In other cities, we make use of outside courier services to deliver the goods. This can sometimes be expensive, but it means that we are not distracted from strategic matters.

— *To which regions do you deliver orders?*

— Fifty per cent of our trade turnover is in Moscow and Moscow oblast, seven per cent in St. Petersburg, and the rest is spread all over Russia. The sheer size of Russia presents certain problems, of course. Delivery times can be noticeably longer by comparison with other countries. And the longer the delivery time, the more risks for the product being delivered.

— *Which factor do you think is slowing down internet trade the most? Insufficient development of the postal service, or something else?*

— I think I would have to say the distrust to which I referred. This concerns not only prepayment for goods. In Russia, for some reason, contracts for negligible sums, which in Holland would be signed almost without looking at them, are studied for many hours, finding fault with every letter. And with bigger deals it's far worse! But anyway, all this will sort itself out eventually, and then, if only due to its size, Russia will surpass many countries in internet trade too. Retailers cannot be everywhere, but electronic commerce is a universal solution. ■



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Double Shopping

Nastya Sartan, founder of the TrendsBrands.ru project, was one of the first in Russia to apply the strategy of multi-channel sales, and her business is growing at a rate of 150% a year

It all began with Nastya Sartan going to the USA under the Work&Travel programme and finding work there as a designer. “When I returned to Moscow”, says Nastya, “I was often approached with requests to import the sort of clothes I wore myself. I gradually compiled a whole catalogue, and then had the idea of an internet store for fashion articles.”

The TrendsBrands.ru project, started in 2011, applies the “Omni Channel” strategy of multi-channel sales, with online and offline channels augmenting and supporting each other.

– How much more difficult is it to conduct a business online and offline at the same time, as compared to the management of a traditional shop? Surely they are quite different marketing technologies and different logistics?

– The technologies are certainly different, so we have different teams responsible for online and offline”, Nastya explains. “But we try to give the customer complete freedom of choice and to make shopping as convenient as possible on both platforms. That is the whole point of the Omni Channel concept. This strategy is well developed in the USA and Europe, but in Russia we were one of the first to apply it.

– And how does all this look in practice?

– For example, a girl comes into a shop, tries on a dress and likes it. But she still wants to ask her friend’s opinion, or maybe she doesn’t have any money with her. On the other hand, on a website, if you have doubts about buying online, you can go to the nearest shop and try on the article that interests you. And this allows us to study the habits and preferences of customers and offer them precisely what they want. The startup’s turnover is growing at a rate of 150% a year. A rate like this requires considerable investments. The first to support the project were the Russian funds ru-Net Holdings and Kite Ventures, which invested two million dollars in the startup. They were joined by the French fund Ventech, which invested three million dollars in TrendsBrands.ru in 2013.

– What are your risks and difficulties?

– In Russia we have great problems with logistics, so clients are not willing to pay for their orders in advance, which immediately affects the whole economic basis of the project. There are no internet stores in the USA like ours, with such variety and such accessible prices. It’s hard to believe, but it’s true. Therefore every time I find myself in the American environment, I begin



thinking, not without regret, how much simpler everything would have been if TrendsBrands.ru had started life there.

– *There is an opinion that foreign venture investors in Russia prefer to invest their money in analogues of Western projects. Do you find this to be the case?*

– No, it is important to us that investors should value and understand our uniqueness, the fact that we are not

a copy, but an original business project. Funds are usually afraid of such projects, but the one who takes the risk is the one who drinks the champagne.” ■

**Interview
with Alain Caffi, an investor
in the TrendsBrands project**



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A Long-Running Trend

*The Frenchman **Alain Caffi**, managing partner of the venture fund Ventech, supports long-term Russian projects because he looks to the future with optimism*

BY: IGOR LEVSHIN | PHOTO: TRENDSBRANDS | TRANSLATION BY: JACK DOUGHTY



— *When did you first consider making investments in the Russian fashion market? Is TrendsBrands your first project in this industry?*

— We had previous experience in this field. We successfully invested in two projects: vestiarecollective.com and secoo.com. Both startups specialised in the sale of élite goods for women through the internet. The first of these was more like a social network for people interested in fashion. The project started in France, but became all-European and even came to include the USA. The second one was more traditional, on the click-and-mortar business model, i.e. trading both online and offline. This startup is now growing at a record rate in China too. In looking at TrendBrands, we were probably thinking of the example of asos.com, the like of which did not exist in Russia. We are still working in that direction, although the online concept seems more and more attractive to us. I suggest that we return to this question at the beginning of July: we shall have interesting news.

— *The general opinion is that clones of Western startups are the most attractive for foreign investors in Russia. Is this the case?*

— I have been in the direct investments market for more than a quarter of a century, and I know you have to advance carefully, step by step. And learn some lessons from each step. So we began in Russia by developing the business of our European startups: believedigital.com, crocus-technology.com, viadeo.com and a few others. But after that, we went over to direct investments in Russian projects: wmj.ru, oktogo.ru, pixonic.ru, trendsbrands.ru and mamsy.ru. At this stage it was simpler to proceed on the basis that Russia was somewhat behind the West, to make use of the undeveloped state in the Russian market of the most topical business models, reckoning that Russian teams would be able to adapt these models to the local market. And in general, I am sure that having gained experience, and ideally with a Russian partner, you can invest in unique projects, of which there are plenty in Russia, particularly in technical fields.

I have been in the direct investments market for more than a quarter of a century, and I know you have to advance carefully, step by step.



— **You also invest in biotechnology. Have you found anything suitable in Russia?**

— Our previous fund, Ventech Capital III, had two subdivisions: IT and biotechnology. Both operated very successfully. But our investors insisted that we create two separate funds. They no longer wanted mixed funds. We decided it was not worth creating two large funds in the context of the European recession, and decided to concentrate on IT.

— **Which of your projects have been the most successful? In which market segment and in which country?**

— Our greatest success has been in China. The company jumei.com, which launched an IPO on the NYSE in mid-May, was valued at 3.2 billion dollars, and is already worth over four billion dollars. Altogether we have more than 50 successful investment returns in Europe, both through mergers and takeovers, and through IPOs. In Europe, we reckon we can double our

investors' money. But in China, we can do much better than that! We are organised as two separate funds: one is concentrated in Europe and neighbouring countries, and the other in continental China.

— **How much difference is there between the behaviour of users in the USA and in the countries in which you operate? Which of the markets is most like the Russian one?**

— We do not invest in purely American companies. It would be foolish to compete with the American venture capitalists, but as a rule, our companies are very active on the US market. For example, it is from the USA that one of our best-known products, withings.com, obtains most of its income. I don't think there's anything in particular about American users, it's simply a matter of the scale of the market, which enables companies that have started locally to become instant world leaders. It's the same situation

Since we invest at an early stage, we have to work closely with the portfolio companies. We need local staff.



in China. And nowhere else. But don't forget that the American market differs in its very high competitiveness and openness to innovative technologies.

In my view, the Russian internet market is like the Chinese one, but not so much in its size as in the fact that it is hard for the leading global players to break into it. Google's market share is very small compared with that of Yandex, which dominates the local social networks. There are other examples too.

— *How firmly do the startups have to be controlled by the venture investor? How often do you come to Russia?*

— In Europe, we invest mainly in France and Germany. We have offices in Paris and Munich, with local teams working in them. For work with continental China, we have a dedicated group and an office in Beijing. There will soon be another one in Shanghai. The next place we make our mark on the map should be Russia, if we can attract sufficient capital to support an office and a team. Generally speaking, since we invest at an early stage, we have to work closely with the portfolio companies. We need local staff. It hasn't reached that stage in Russia yet. I fly to Moscow roughly once a month, but I work closely with Russian funds, in which I have complete trust.

— *Is the Moscow business climate favourable for investments from Europe?*

— It was favourable until recently. And everything will soon return to normal.

— *To what extent does corruption influence business in Russia?*

— We are investing in innovative companies, with young international teams working in them. There is no corruption.

— *How do you react to the political risks in the present difficult situation of the cooling in relations between the West and Russia over the Ukraine crisis?*

— I take little interest in politics, particularly outside my own country, because I suspect that the extent of my information and my understanding of Russia leave something to be desired, to put it mildly. But as an investor in long-term projects, I look to the future with optimism. However, we are obviously taking certain precautionary measures against unforeseen situations, and are listening to advice from the investors themselves.

— *Is the support given to the venture business by the authorities sufficient?*



— To be honest, I haven't much idea what opportunities for venture investors are provided in Russia. We have had a very positive work experience with Crocus.com, which is our biggest Russian project. We could have financed it from either of two sources: either through American investment funds or institutions, or through Russian ones. We chose to cooperate with "Rosnano", as the more interesting alternative.

— *What would be your advice to foreign investors intending to invest in Russia?*

— I'm not very keen on teaching or giving advice. I can only say that Russia and the CIS are very suitable both for the development of the business of our European companies, and for direct investments. But success, as always, depends on how capable you are of selecting suitable people and organising a well-knit international team. ■

Russia and the CIS are very suitable both for the development of the business of our European companies, and for direct investments.



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Megacity of Eurasia

Even the present geopolitical crisis does not deprive the Russian capital of the prospect of becoming one of the world's main commercial centres

BY: ARNAUD LECLERCQ, GROUP MANAGING DIRECTOR AT LOMBARD ODIER BANK

PHOTO: LOMBARD ODIER BANK

TRANSLATION BY: JACK DOUGHTY



THE INCREASE IN GLOBALISATION RATES REQUIRES CONCERTED ACTION IN THE FIELD OF MACROECONOMIC POLICIES AT THE LEVEL OF LARGE REGIONAL BLOCS.

In November 2013, at the World Economic Forum (WEF) in Abu Dhabi, the Global Agenda Council, dealing with the future of governments, considered three possible scenarios for the future global political system, the first of which focused on megacities. Moscow is not an exception. It should become Eurasia's megacity, which is not a matter of glory, but rather of necessity.

The increase in globalisation rates requires concerted action in the field of macroeconomic policies at the level of large regional blocs. But is there a man — a young, talented, financially secure man — who will endure air pollution, endless traffic jams and excessive bureaucracy? The main task for Moscow comes down to solving these problems. On the one hand, Russia, Ukraine, India, Caucasus and Central Asia need an effective regional and international centre outside the Western influence. On the other hand, to use this unique opportunity, Russia will have to overcome a number of difficulties.

In contrast to the numerous reform periods, such as in the time of Alexander II, Moscow doesn't need to rely solely on Western countries. Without forgetting them, Moscow may draw (without conquering or controlling) from the talents and resources of neighbouring countries, particularly from former Soviet republics, especially the Asian ones.

Moscow started competing with other global cities rather late, but quite possibly may become Eurasia's global city — it has a number of apparent advantages and is ready to make every effort to achieve the



goal. In terms of GDP, Moscow ranks 15th in the world: in 2012 the index value reached \$357bn, and is expected to increase by 2.3% -3% in 2014-2016. Despite the fact that the city is still home to several polluting industries as the authorities seek to preserve its industrial potential, Moscow is a pretty typical post-industrial city with a growing economy. The growth is primarily provided by the scope of services and the city's basic function as a communication node. Like other megacities, Moscow is more diversified than most industrial cities, and as a consequence, less affected by sharp fluctuations in the performance of individual sectors of the economy. Innovations are born here, supported by research and development. The city's budget is \$60bn (third in the world), and the ratio of debt to GDP does not exceed 1.7%. The population is 12 million people, the average income per capita is \$20,000 per year, 42% of residents have a college degree. More than 1.2 million young Russians and citizens of neighbouring countries are studying in Moscow. Finally, let's not leave out the attractiveness of Russia's tax system: the flat rate of income tax for individuals (regardless of the level of declared income) is 13%, and the tax rate on profits is only 20% (and even less for investment projects).

In order to ensure Moscow's status as an internationally recognised megacity, Sergey Sobyanin, the city's new Mayor, has directed his main efforts towards focusing on a number of priorities, in particular the development of education, healthcare and science (including technology parks). The investment capacity in



INNOVATIONS ARE BORN HERE, SUPPORTED BY RESEARCH AND DEVELOPMENT.

these spheres is increasing, especially in the eight special economic zones. The number of public-private partnerships is growing. The fact that the budget for these infrastructures reaches eight billion shouldn't come as a surprise. In the Soviet era, it took years before one could afford to buy a car. In modern Russia, people are feverishly impatient to buy cars in an attempt to improve their social status in a society addicted to hierarchy. This, however, led to a sharp increase in the number of cars on the roads, which went hand-in-hand with environmental degradation and, in turn, stimulated the improvement of the public transportation system and the rise in the number of passengers amongst 300 million people in 2013 as compared to 2010. And yet, one can experience how traffic jams literally paralyse the city, at times for several hours. Holding several meetings during the day, even if they are all in the centre, is a pipe dream, the naive hope of a foreign guest, that causes a sad smile on a Muscovite's face.

Yet, in some international rankings, Moscow ranks high: Fourth place in the world in terms of foreign direct investment in new projects (\$4.2 billion in 2012, up 5.9 % as compared to 2011), seventh based on the number of large companies; ninth among the most promising cities. However, a more general indicator, the assessment of business environment (*Doing Business*), leaves much to be desired, rating Moscow catastrophically low at 118th place worldwide in 2012. The problem of Moscow's (and Russia's) image in the eyes of the international community needs to be addressed on the national level.



According to the December rankings of the non-governmental organisation Transparency International, Russia ranks 127th, after Albania, Algeria and some other notoriously corrupt countries in Africa and Asia.

Yes, Russia has a high level of corruption, but (and I say this as a foreign entrepreneur who has been working in Russia for over 20 years now), I resent this offensive, overly-negative evaluation. Nevertheless, the rating is published and replicated and, unfortunately, serves as a benchmark for many companies. This is a good example of the West's soft power policy in action. I keep telling my Western European counterparts that although the situation in Russia can't be called simple, there are countries with lower levels of corruption (for it is everywhere), where it is much harder to do business. Running the project requires learning hundreds of laws and regulations. Sometimes the tax system stifles any initiative on the vine. Examples are not far to seek. Russians sometimes find that the grass is greener on the other side. They should really recall Talleyrand's remark: "When I peer at myself, I feel sad; when I compare myself with others, I calm down". By the way, even the head of the World Bank Jim Yong Kim, said: "I have visited many countries, but nowhere, except Russia, especially in Moscow, have I seen such clear desire to improve the business environment".

Moscow might want to follow the example set by China, Singapore or the United Arab Emirates, which are distinguished by a combination of a liberal economic system and authoritarian governance. The success



**THE RATING IS
PUBLISHED AND
REPLICATED AND,
UNFORTUNATELY,
SERVES AS
A BENCHMARK FOR
MANY COMPANIES.
THIS IS A GOOD
EXAMPLE OF
THE WEST'S SOFT
POWER POLICY.**

of this model is so obvious today that it may cast doubt on the effectiveness of “Western democracies”, which have ruled the world for three centuries. As for the long-term perspective, once a society reaches a certain level of development, particularly at the end of the middle class period, there is a need for system transparency and openness. If these are absent, a period of decline begins. At this important moment, Russia and Moscow should make every effort to choose the right path.

The official website of the Moscow administration presents the main factors of the city’s well-being: a significant potential for economic development, stable national currency, efficient financial system, liberal economic legislation. The situation is not unfavourable, by all indications. Despite the low rates of economic growth in Russia in 2013 (2.5%), indicators remain generally positive, with an average of 7% in 2003-2008 and 2.5%-4% over the last three years (excluding the 2009 crisis). The Dollar and Euro fluctuated during the crisis, caused by the excessive volume of subprime lending in the U.S. However, the Russian rouble has remained relatively stable. Subsequently, as in other countries, the State has taken an active part in assisting the affected banks. And yet, in order to achieve the desired result, Moscow should not just declare its readiness to develop infrastructure construction, but also clearly demonstrate it. The most important thing at the moment is to ensure the credibility of the system as a whole.



**IN ORDER
TO ACHIEVE
THE DESIRED RESULT,
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BUT ALSO CLEARLY
DEMONSTRATE IT.**

The Warsaw Stock Exchange's positive experience should inspire Moscow's authorities, and, focusing on the more distant future, the success of Dubai, as the model of which I, as an expert in the banking sector, have been looking for the last two years. Free economic zones and the Dubai International Financial Centre (DIFC) may be of some interest to Moscow. Dubai has made significant strides in its desire to become an international financial centre: avoiding the restrictions of local laws, especially of Shariah, DIFC has prepared an independent regulatory framework, in many ways similar to the British one. Dubai successfully demonstrates the ability to implement fundamental changes and use them to draw attention to the city. Moscow is not quite ready for such radical changes and such active self-promotion, but it can only achieve this goal (although it has the necessary funds) by improving its image and quality of life, which is achievable through active work on the so-called "soft factors". It is also necessary for Russia and its capital to pay attention to the ideas which are popular in the business community, in particular, the concept of customer service, as working on this aspect can bring incredible results. Dubai, a global megacity, where not-so-liberal views are upheld, but where harmony prevails, knows how to provide a warm welcome, starting with its airline, which no longer needs to rely on advertising, highlighting the broad range of destinations, especially in developing countries, the fact that the planes are equipped with the latest technology, and that the quality of service is at the highest level. Impressions



**THE CURRENT
SITUATION
IS CERTAINLY
NEGATIVE FOR
MOSCOW, BUT
ONE SHOULD
ALWAYS TAKE
THE LONG-TERM
VIEW.**

from Dubai Airport and Sheremetyevo are as different as heaven and earth. Nothing prevents Russia from creating the world's best airline and turning Moscow into Eurasia's transportation hub. Nothing is impossible. Take a look at the progress in quality of service made in such service areas as hospitality over the past 10 years. The authorities proved their willingness to work on the city's development, and yet ... It is a lot like opening a new restaurant: the construction is complete, the design meets the latest fashion trends, the cutlery is laid out on the tables in anticipation of new guests, the new chef has just started working. Everything is up to par, but going to a restaurant and having dinner there is just not quite enough to make people want to return. A congenial atmosphere is needed. Many have succeeded in this. Moscow and Russia may well achieve the same result and even surpass it.

Has Moscow's future as one of the major cities in the world dropped dead because of the geopolitical crisis in Crimea and Ukraine? Indeed, the shine of the Third Rome of the north has faded very substantially. Encouraging an inflation of bad sentiment, some media and politicians from both sides have revived expressions of the Cold War, and even worse, of the Second World War. It will surely take some time before the image of Moscow recovers, if it ever does. One should be careful with the new Cassandra prophets who keep on predicting a terrible future for Russia. Let us recall the August 17th 1998 default: the whole planet of so-called experts, and especially the Western countries of



Europe and America, announced that Russia had basically no future, it will take decades to recover, no investor will ever come back, etc. Just two years later, the situation started to improve, and growth led the way until the financial crisis of 2008. In other words, the current situation is certainly negative for Moscow, but one should always take the long-term view. Markets and business are usually short-sighted, and will come back if and when there are some favourable conditions and a decent prospect for the next new few years. Additionally, a crisis is always a time for new opportunities as long as one looks at it from a different perspective. ■



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The Mission Can Be Accomplished

What is the specific nature of business planning in Russian conditions?



Business strategy is a key element of any business, including small and medium ones, and at any stage of its development. But strategic business planning is of course particularly important at the startup stage. What should be the first concern of Western entrepreneurs intending to enter the Russian market, in tackling this problem? What are the mistakes to be avoided? Ekaterina Dvornikova, the founder and managing director of the consultancy company Dvornikova & Partners, talks on this subject.

— What is strategic business planning, what are its main stages and its results? Are there differences in principle or nuances in strategic business planning between the West and Russia?

— Strategic planning is one of the functions of management. It is a sort of cyclical process of selection of the aims of the organisation and ways of reaching them. That is to say, correctives are always being introduced. Nothing is static here. Some think you should work out a strategy and stick to it. But one of the greatest mistakes of businessmen, including Western ones, is that they consider it necessary to keep to their agreed business strategy for three or five years. This is not correct. The situation

in all markets is now very volatile, and you have to be constantly taking account of many changes, both internal and external.

As for the main stages of strategic business planning, everything begins with formulating the company's mission. This should not be approached in a formal way, such as by simply copying someone else's mission. Some think that a mission is not necessary at all. According to them, we just have to make money and that's it. The Mission is just for show! But in fact, if you take work on the formulation of the mission seriously enough, you will have a very effective tool in your hands.

Then it is necessary to determine the target priorities for the development of the business, after which there must be a comprehensive strategic analysis,



consisting of an analysis of the external competitive situation and the internal one, and an assessment of the internal potential, competence and resources of the company.

The next stage is the SWOT analysis, determining the company's Strengths, its Weaknesses, and external market Opportunities and Threats. This is also a very good tool, enabling from two to four strategic alternatives to be defined. The main thing is to make the SWOT analysis correctly and thoroughly. Unfortunately, in 95% of cases, the SWOT analysis in companies is made incorrectly!

Each of the alternatives is discussed, its pluses and minuses are revealed, and you select the variant which you are going to implement. This is the universal approach to strategic business planning, in the West and in Russia equally. Unfortunately, in Russia the first stages often fall by the wayside: no need for a mission, no need for priorities, let's see what the competition is doing and do the same, but more cheaply! This is a mistake.



— *Do Western entrepreneurs operating in Russia make the same mistake?*

— No, it is the Western entrepreneurs who are less obsessed by this attitude. They are more knowledgeable about business planning.

— *So what mistakes do Western entrepreneurs entering the Russian market make?*

The biggest mistake in business planning is inadequate collection and analysis of the state and potential of the Russian market which they intend

**THE BIGGEST MISTAKE IN BUSINESS PLANNING
IS INADEQUATE COLLECTION AND ANALYSIS
OF THE STATE AND POTENTIAL OF THE RUSSIAN MARKET
WHICH THEY INTEND TO ENTER.**

to enter and the underestimation or overestimation of it which follows from this.

— *Can you give an example?*

— A Western producer of household equipment sold a test batch of the goods on the Russian market in a narrow range. The goods went well, they were quickly bought up. They then made mass deliveries, but there was no demand. It turned out that their competitor had suffered a production failure, and their test batch had fitted perfectly into that gap in the market. Once the competitor's problems were sorted out, demand fell. They should have analysed the positive results obtained from selling the test batch, but they did not do this, so their investment proved unjustified.

— *What is the most important thing in business strategy? Is there anything specific to Russia here?*

— In business strategy, everything is important. All the stages of the work are links in the same chain, and if you miss something, the probability

of making a mistake at the next stage increases. This is because, as I have already said, strategic business planning is a continuous cyclical process which provides the basis for managing an enterprise.

Specific to Russia? Probably the importance of administrative resources in certain fields, particularly in the B2B sector. If we are talking about some IT product for corporate clients, the product itself is a minor factor, whatever super-technology you can demonstrate concerning it. You also need to take it to the people who take the decisions. At present, by the way, there is a high demand for consultancy in the field of representing the interests of business in the state structures – making connections, lobbying. This is less marked in B2C, but I must say that unlike the West, the influence of the major retail networks is strong in the Russian FMCG sector, and to enter it with some product also requires good connections and extra funds.

— *How should a Western entrepreneur entering the*

IN BUSINESS STRATEGY, EVERYTHING IS IMPORTANT.

ALL STAGES OF THE WORK ARE LINKS IN THE SAME CHAIN.



Russian market organise the development of business strategy? Is it always necessary to apply to consultancy companies for assistance?

— I consider that it is best to apply to a consultancy company, because they have accumulated experience in many fields, and this helps Western entrepreneurs save both money and the time needed to collect and analyse information about the market and to develop a strategy.

— To which ones? The Big Four?

— No, of course not. The Big Four deal with global projects, and if we are talking about small and medium business, they require more appropriate consultancy companies. There are enough of them on the Russian market. You can obtain expert advice in your speciality in an expert society. I, for example, take part in the Expert Me project, where such services are offered.

— **How important is it for a Western entrepreneur starting up a business in Russia to have a Russian partner? What could the role of a Russian partner be in developing business strategy?**

— Certainly it is very important to have a Russian partner. He knows the way things are: where to go, what to say to whom, he understands the specifics of Russia. Incidentally, one of the mistakes Western entrepreneurs make is that they sometimes fail to adapt their product or their advertising of it to the Russian market, but what is successful in the West does not always enjoy the same success in Russia. And here the role of the Russian partner can hardly be overestimated

.

— **What segments or niches of the Russian market do you consider offer the best prospects for applying Western business strategies to them, and for the entry of Western small and medium businesses?**

WHAT IS SUCCESSFUL IN THE WEST DOES NOT ALWAYS ENJOY THE SAME SUCCESS IN RUSSIA. AND HERE THE ROLE OF THE RUSSIAN PARTNER CAN HARDLY BE OVERESTIMATED.



— There is a trend towards ecological and organic products throughout the world today. In the West, this is a big industry, but in Russia it is not, and for the time being, unfortunately, it is not likely to become so, since we do not have the relevant ecological standards or ecological certification at the level of law.



But people in Russia also want to lead a healthy way of life and are willing to pay for it by buying products certified as ecologically pure. I think that great opportunities await Western entrepreneurs here. After all, these products can be anything from dairy produce, vegetables, fruit and wine to cosmetics and domestic cleaning products. ■



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An Unexpected Turn of Events

*Western investors should beware
of relying only on the word of honour
of Russian project initiators*

BY: WALDEMAR WEISS | PHOTO: NAI BECAR | TRANSLATION BY: JACK DOUGHTY



*In Russia, both in the capital and in the regions, quite a few commercial projects, including infrastructure ones, are being started up in the Private-Public Partnership field. These projects are very attractive for Western capital. However, in implementing such projects, problems may arise which will be quite unexpected for Western investors. **Waldemar Weiss**, Vice-President of NAI Becar, talks about how one should act to minimise the risks.*

SITUATION



known and highly successful Western investor with a proposal to support a project in the agricultural sector to build a large high-technology facility for production. The administration promised tax preferences and the connection of the infrastructure (light and gas) from the oblast's funds. The investor made the first investment and acquired a construction site, but those who had promised to solve the infrastructure problems were now working in different posts in the administration, and could not help in any way, and he could not obtain access to the

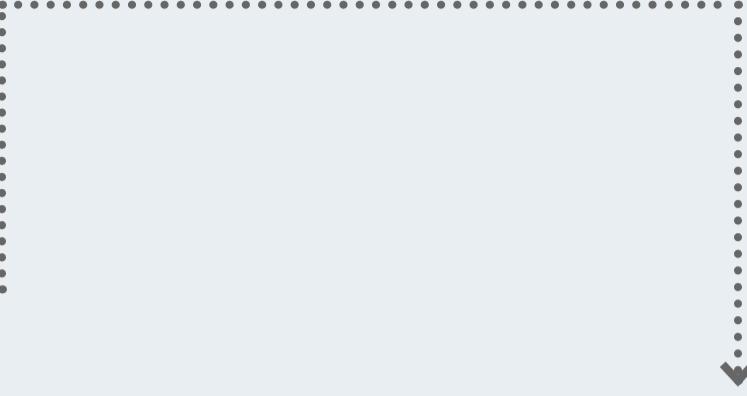
IT IS NOT enough for a decision about investment in Russia in the Private-Public Partnership field to be made by agreement with the representatives of some regional administration, however high their rank may be. Officials change, even the Governor may be deprived of his powers ahead of schedule. It is difficult for a foreigner to find his way through the mysterious maze of the Russian state machine, particularly in the regions.

IT IS DIFFICULT FOR A FOREIGNER TO FIND HIS WAY THROUGH THE MYSTERIOUS MAZE OF THE RUSSIAN STATE MACHINE, PARTICULARLY IN THE REGIONS.



SITUATION**2**

A large Russian development company went to a Western investor with a proposal for partnership in a major investment project to build an industrial complex for producing building materials, and to set up a logistics centre on Russian territory, with the participation of the state authorities. Representatives of the Russian company assured the investor that all questions with the state supervisory bodies had been settled, and the project was guaranteed direct support from the Governor. And the Governor did meet the investor in person. The Western investor invested in the project; however, at the very first stage of implementing it, unforeseen expense headings for subcontracted building work arose, which aroused the investor's suspicions and made him apply for independent expert advice.



....., as it subsequently turned out, were affiliated to the commercial organisations of the Western investor's Russian partner. The investor's assets had been unjustifiably squandered, and a considerable part of them had ended up in the accounts of his partner in the project. When this was pointed out to the Russian partner, he, of course, denied that any machinations had taken place, and offered his own interpretation of the understandings previously reached. In the end, under the pressure of incontrovertible facts, the Russian partner had to take a more correct position and return some of the assets. The frozen project was then resumed, but under much stricter control on the part of the Western investor. An independent audit of the Russian partner should have been carried out before entering into any agreement with him.

**AN INDEPENDENT AUDIT
OF THE RUSSIAN PARTNER
SHOULD HAVE BEEN CARRIED
OUT BEFORE ENTERING INTO
ANY AGREEMENT WITH HIM.**



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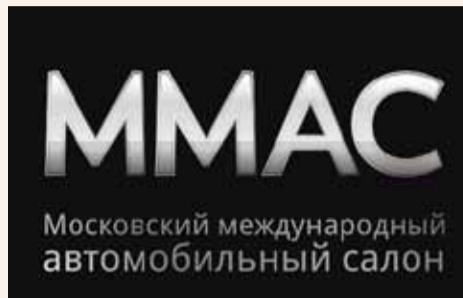




Peak of Activity

After the summer break, in September, entrepreneurs will set about their business with redoubled vigour, and the commercial calendar of Moscow's exhibition centres will present them with the ideal opportunity to do so

BY: IGOR IVANOV | TRANSLATION BY: JASON J SHAW



**THE MOSCOW
INTERNATIONAL
AUTOMOBILE SALON**
www.mas-expo.ru

27.08 – 07.09

Location: Crocus Expo IEC

**Theme: Automotive Industry,
Transport**

This is the major automobile event of the year in Moscow and the whole of Russia. MIAS 2014 will cover over 110,000 sq. m. and there will be more than 50 different makes of car on display. Taking place under the auspices of the International Organisation of Motor Vehicle Manufacturers (OICA), the Moscow International Automobile Salon



will allow visitors to get up to speed with the industry's latest trends and developments, get a feel for things to come, catch up with long-standing partners, and forge new business ties. Forming part of this majestic auto industry pageant will be an array of events including conferences, discussions, and an entertainment show.





CONSUMEXPO 2014
www.consum-expo.ru

02.09 – 04.09

**Location: Expocentre Central
Exhibition Complex**

Theme: Consumer Goods

The autumn “Consumexpo” exhibition presents a new section: “Fashion jewellery and accessories” which will feature in addition to the traditional display of porcelain and ceramic crockery, cookware, household goods and appliances, gifts, and souvenirs. Worthy of particular



attention amongst the as-always packed programme is the “New Products and Innovations” display dedicated to the latest developments in consumer goods. Taking part in the exhibition will be more than 400 leading producers from more than two dozen different countries.





INTERLOGISTIKA—2014
www.interlog-expo.ru

08.09 – 11.09

Location: Crocus Expo IEC

Theme: Logistics, Transportatio

The annual international Comprehensive Solutions in Transport and Logistics exhibition, InterLogistika, is designed to facilitate growth in cooperation between Russian and foreign companies, and state and private bodies, in the fields of trade and transport, customs, warehousing, and other related processes. InterLogistika offers a convenient way to become



professionally acquainted with cutting-edge solutions, technology, and products in the world of logistics, transportation, management, expediting, customs, freight escorting, standardisation, and certification. The InterLogistika exhibition plays an important role in furthering business contacts between companies, freight owners, those involved in international trade, and other industry specialists.





REKLAMA 2014
www.reklama-expo.ru

23.09 – 26.09

**Location: Expocentre Central
Exhibition Complex**
Theme: Advertising Industry

This international exhibition dedicated to the advertising industry is being held by the company Expocentre with the collaboration of the Association of Communications Agencies of Russia (AKAR). It is the event of the year for advertising executives in Russia. Taking part in the exhibition will be all the large Russian advertising agencies, as well

**EXHIBITION
SECTIONS**



as international agencies already active on the Russian market or intending to enter it in the very near future. It is anticipated that the exhibition will be attended by over 15,000 industry specialists. Reklama 2014 has put together a packed programme of which one of the highlights will be the 3rd Matrix of Advertising Forum. ■



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*The new “**Mercury City**” skyscraper has become not only the architectural centrepiece of Moscow’s ultramodern business centre but also one of those sights symbolising Russia itself*

**Above
Us Only
Stars**

PHOTO: “MERCURY CITY”

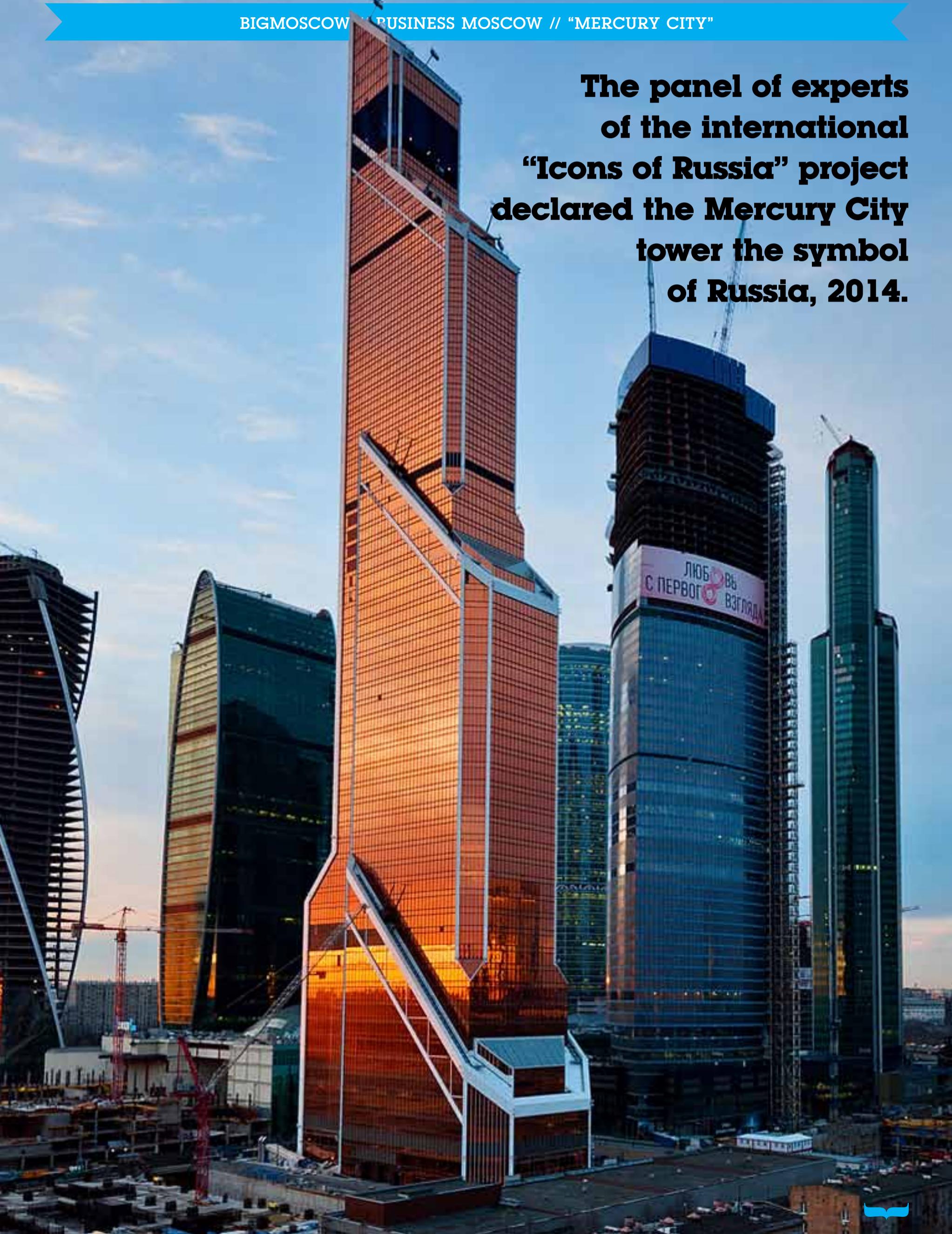




"The Golden Skyscraper", constructed in 2013, is the tallest building in Europe. It is 339 metres in height.

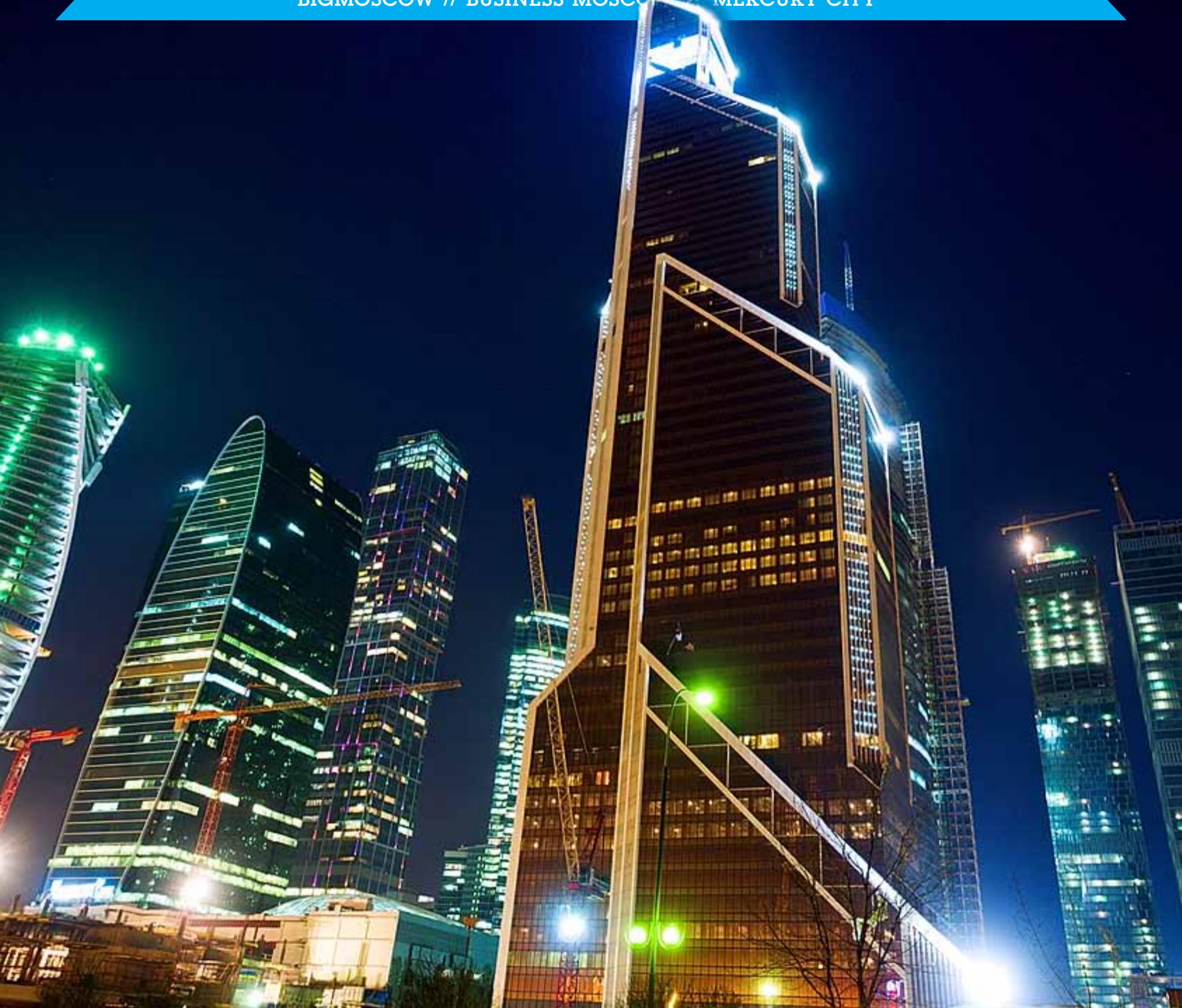


**The panel of experts
of the international
“Icons of Russia” project
declared the Mercury City
tower the symbol
of Russia, 2014.**





Creators of the project are the Russian architect Mikhail Posokhin and the American high-rise construction expert Frank Williams. The lower floors have been set aside for office space and retail areas, and the 43rd to 75th floors for luxury class apartments complete with designer interiors and hotel service.



The building has an overall area of 173,960 sq. m. There are 75 storeys above ground level and five storeys below it, incorporating restaurants, underground parking, and a club floor. All this goes into making Mercury City — above which there are only stars.



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*Young German expert
Dominik Weiland
moved to Moscow
to build 3D models,
not to mention
his whole life*

Mechatronicsian

BY: GOR LEVSHIN | PHOTO: YEVGENY DUDIN | TRANSLATION BY: JACK DOUGHTY



*Having failed to lose the interest in Russia and its culture which he had developed whilst still at school, **Dominik Weiland** decided to trade in his career at a huge multinational to work for a small company in its office in Moscow. And, as he enjoys living and working in the Russian capital, he has had no cause to regret it whatsoever. He tells our correspondent about the Russian soul, mechatronics, 3D-modelling, running in Izmaylovsky Park, and about what it is like living a life unregulated in the German way.*

– What is it that brought you to Moscow?

– I was working at Siemens in Germany when I received an offer from EasternGraphics to open and head up their office in Moscow.

– What was it about you in particular that led them to make you that offer?

– They were looking for someone who could speak at least a little bit of Russian and who was prepared to work

in Russia. I had been recommended to them.

– By whom?

– Mutual acquaintances. I agreed and, in March 2012, I arrived here in Moscow. A legal entity had to be set up, and contracts and work permits arranged.

– And you did all of this yourself?

– No, not all of it. I was assisted by a Russian legal firm, Jus Privatum, which has a branch in Germany. They worked with us under contract.

– How much time did it take to complete these formalities?

– Almost eight months. The problem is that for Russian and German lawyers, finding a common ground is difficult. Russia has its own legal system: the documents





of incorporation, for example, are completely different. Germans are unfamiliar with it, and German lawyers come up against unexpected legal positions at every turn.

— What does EasternGraphics do?

— It develops visual configuration systems and innovative 3D planning programs. We have a representative office in Moscow offering our services to Russian companies. Really, the business started off with furniture.

The customer would have a 3D model of an interior. They'd introduce pieces of furniture with a mouse, and then instantly receive a list of prices. As a rule, they are not your average customers, but professionals, dealers. They work with a professional version of our program. In all, over four years, the free version of the pCon.planner program was downloaded by 1.8m people in 189 different countries. Often we don't even know what people are using our program for. But if any kind

of large office project is launched in Moscow, they have probably used our software for it.

– *How many people are there at the company?*

– Four, at the moment, in Moscow, including myself, but worldwide there are about 120. In 2015, the company will have been going for 20 years.

– *Do you have any competitors in Russia?*

If any kind of large office project is launched in Moscow, they have probably used our software for it.

– There is a small Russian company which has been working in this market for over 10 years. But they are in a different sector, to a certain extent. Our clients are generally Russian companies producing furniture, and we give them the opportunity to reach a European level and thus offer their dealers and partners a higher quality of service.

– *And how was it that you came to learn Russian?*

– While I was still at school, I used

to talk to Germans who had come back to Germany from Kazakhstan. They used to say a lot of interesting things about Russia. I became interested in Russian history: especially the time of Peter the Great. I liked Russian more than French, so I took it as my foreign language. I studied Russian at my school in Erfurt from the third form, and then at university in Ilmenau: it is a very small student town in the Thuringian Forest. At university, there was a cultural exchange programme with the city of Novocherkassk, and

I went there for six months. I went back to Germany with some vivid impressions.

– *Did Russia live up to your expectations?*

– It was all so much better than I thought it would be. The German media, unfortunately, rarely has anything good to say about Russia. And clichés abound: about, for example, how you always have to be on the lookout with Russians, that they drink vodka all the time. In fact, people in





I especially like the fact that young Russians are not as materialistic as their counterparts in Germany.

Russia are uncommonly open and amiable. I especially like the fact that young Russians are not as materialistic as their counterparts in Germany. And that they don't moan about how complicated their lives are.

— *Muscovites, it would seem, are very different from Novocherkassk people?*

usually a long one. But, on the other hand, once a contract has been signed, the money sometimes can even be transferred the very same day.

— *How did you go about finding a flat? How did you solve your domestic problems?*

— I was helped out by people I know. In Moscow, the flat-hunting issue can

**In Moscow, the flat-hunting issue can be dealt with in a week.
In Germany, it takes at least three months.**

— Definitely. In Novocherkassk, I got to know what the “Russian soul” is all about. The Russian soul also exists in Moscow, but you only see it once you know what it is, and where to look for it. Moscow is a huge megalopolis just like other big Western cities.

— *Have you ever been duped in Russia?*

— In business: not ever! I was afraid of people promising to pay, but not doing so when I have been launching a project. I needn't have worried. Everything is carried out very properly. True, the journey from a commercial proposal to concluding the contract is

be dealt with in a week. In Germany, it takes at least three months.

— *Do you like the food in Russia?*

— Yes. But there are also Western products on sale which are virtually the same as those you find in Germany. Cheeses, and so forth.

— *If it weren't for work, where in Russia would you choose to live? Moscow or Novocherkassk?*

— St. Petersburg. Novocherkassk is a lovely city, but it's small and lacks infrastructure. Moscow is way too big for my liking.



– Do you have a car?

– I did have in Germany, but I don't have one in Moscow. I'm scared to get behind the wheel here. I use public transport.

– Do drivers not keep to the rules?

– Yes, of course, but not like they do in Germany.

– Do you ride a bike?

– In Germany, of course. I used to cycle to work. But in Moscow it is just not feasible: the huge distances,

right, left, right, up, down: they are completely helpless. Here, many of the rules are strange, some of them are even impossible, and so, in order to achieve their aims, people are creative in the way they interpret them. Russia is a country where people know how to be flexible in their behaviour. I like that. Although, if I keep to the rules in Germany, I can be sure that everything will be fine for me. In Russia, that is not always the case.

– Do they never forget anything, or get into a muddle?

Here, many of the rules are strange, some of them are even impossible, and so, in order to achieve their aims, people are creative in the way they interpret them.

and there are no facilities for cyclists. On the other hand, I do go running in Izmaylovsky Park. In the summer. But not in the winter. I love snow but I don't ski. Only to make a snowman, maybe.

– There is the cliché that in Russia there is disorder whereas in Germany there is order.

– Yes, Germans are used to living strictly according to the rules. Left,

– Anything is possible, but for things to go smoothly, you just have to control the process better.

– Sounds convincing. Is your background in management? Or in computers?

– Neither. I am a mechatronician. It's the area where engineering and electronics meet.





— Was it this expertise which you used when you worked for Siemens?

— I designed machinery there for which I often built 3D models. Which is what then made me useful to EasternGraphics.

— How would you evaluate the level of Russian programmers and engineers?

— They have very good expertise. Even if it's not the best in the world. Although, you can find a very good programmer in Russia for

not too much money. In the West, programming is one of the most highly paid professions.

— Dominik is a fairly unusual name in Germany. It sounds like a French name.

— As a matter of fact, my name is stressed on the first syllable. But here, everybody says it in the French mode: it makes more sense to the Russian ear. That's something I don't mind. ■



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BIGMOSCOW

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his small and medium business in Moscow

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Joint Editorial Staff
BIGRUSSIA - Business Investment Guide to RUSSIA

Editor-In-Chief Nail Gafutulin

Deputy Editor Vladislav Kulakov

Editors Leonid Sokolov, Ekaterina Kolosova, Alexandr Pigarev

Publishing Editors Vladimir Mokhov and Valery Drobot

Head Designer Maria Landers

Editors-translators English version

Jack Doughty, David Tugwell and Jason J Shaw

Editor-translator German version Helga Schulze-Neufeld

Director of Development Artyom Brynn

Editorial Office. Address

office 4, building 2, 15 Amet-Khan Sultan street, Zhukovskiy,

Moscow Region, Russia 140180

+7 (495) 741-15-37

www.bigrussia.org

magazine@bigrussia.org

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