

# BIGMOSCOW

12. 2012 | DIGITAL MAGAZINE

ENGLISH VERSION



## Market Openings

*WTO Standards Will Help  
Foreigners Do Business in Moscow*

### **Swede Salsing**

Who does phytodesign  
keep warm in winter?

### **Dutchman Ketting**

Why was he seen as  
a crank back home?

### **American O'Brien**

What kind of wagons  
does Moscow need?

# Content

BIGMOSCOW

DECEMBER 2012

infancy".



## "I'm Like the One-eyed Man in the Land of the Blind"

There are particularly promising prospects in Moscow for investments in e-commerce and energy-saving technology. Such is the opinion of Dutchman **Jeroen KETTING**, who has introduced dozens of foreign companies to Russia. "The Land of the Blind", incidentally, is his reference to The Netherlands.

### START-UP AND VENTURE



#### Everything Rolled Into One!

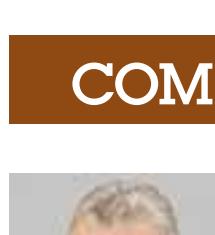
On Shopium.ru, in test mode, over 800 shops with more than 2.7m goods are open for business. And this is with just a fifth of the original plan fulfilled! Director of the project, **Veniamin BAKALINSKY**, tells us more about it.



#### The Synergetic Effect

Shopium.ru investor and Managing Partner of United Managers Japan Inc. **Yusuke OTSUBO**, is certain that launching any kind of project from scratch is only marginally more difficult in Moscow than anywhere else.

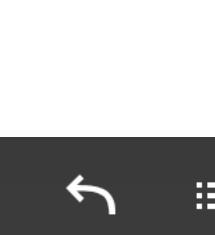
### GOING TO WORK IN MOSCOW



#### A Huge Area of Operation

Chairman of the Board of Directors of GVA Sawyer, **Cameron SAWYER** knows how to profit from new property sites, find investors, and calculate the risks. And he prefers to do so in Moscow, rather than in the West, where all niches, in his words, have been filled already.

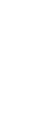
### COMPATRIOTS



#### A Little Bridge From East to West

The foreign investor can receive a consultation on Russian business prospects whilst still at home. Chairman of the Board of the Business Council of Russian Compatriots in Japan, **Yury BULAKH**, believes that this can help save on both time and money.

### CONSULTATIONS



BIGMOSCOW



#### 1 Main Menu

Touch the screen for it to appear.

#### 2 Previous Issues

All previously downloaded BIGMOSCOW issues in your Personal Library.

#### 3 Back

This arrow takes you back to previously viewed content.

#### 4 Contents

Complete list of issue's contents.

#### 5 Detailed Contents

List of contents with preview of each page, brief announcements, indication of the authors.

#### 6 Quick Navigation Panel

Quick transfer through pages of the issue.

#### 7 Social Sharing

#### 8 Bookmarks



View article by scrolling vertically



Navigate between articles by scrolling horizontally



Read the magazine in a way that is comfortable for you



Additional content



Link



Send E-mail



Video



Read more



Next article



Scroll through text

6



# WTO Helps Business

**Frank SCHAUFF, Director-General of the Association of European Business in Russia, predicts growth of foreign investments in Moscow and other regions of the country.**

***“How difficult is it for a foreigner to open a small or medium-sized business in Russia?”***

“The media most often reports the arrival on the Russian market of major banks and European car giants, and on government cooperation in the power generation field. It can sometimes appear that only big European

companies can work here. But actually, these companies simply have greater resources, and their arrival in

a new market gets noticed immediately. But medium and even small businesses organised in Russia by West Europeans are developing very actively. This is a natural process. The members of our Association also include small companies which have been operating

in Russia for about 20 years now. And these are not industrial giants. Their owners are ordinary people from Germany, England, the Netherlands, France, Italy and other European countries who started building their businesses here from scratch and who are doing very well.”

***“In what do these companies specialise?”***

“In food production, construction, and many in services. Some are successfully building up consultancy businesses. For example, the Lighthouse company was founded by Jeroen KETTING from the Netherlands. He came to Russia way back in the nineties. He has very wide experience of working here, and is a member of the Board of our Association.”

***“What did these companies find was the main problem in starting up a project in Moscow? What is the main difference about business in Russia?”***

ABOUT FRANK SCHAUFL



**During and after the economic crisis, the situation changed. Today there is much more willingness for a dialogue with foreign partners.**



"There are not many differences. The main one (and at the same time, the main problem) is the amount of "red tape" you have to get through in order to open a business. It's no secret that many processes in Russia are tangled up in bureaucracy."

"But don't expect, after overcoming these barriers, that you will not have competitors. That time is completely over. No matter what field of production or services you specialise in, similar companies already exist in Russia. Therefore you must offer a really unique product or favourable pricing to be competitive."

"Another problem for business in Russia is the high additional costs. For example, the cost of leasing an office in Moscow is on a par with Paris or London. The salaries of qualified staff in the Russian capital are also no lower than in the European market. If you are thinking about a business in Moscow, you have to be prepared for this."

### ***"So is the game worth the candle?"***

"If you have managed to solve all the organisational questions, you can reckon on a very successful business. Russian Gross Internal Product is rising, and so is the purchasing power of the population. All the members of our Association (and there are more than 600 of them) are very pleased to be operating in the Russian market. For some of them, turnover last year was up by more than 10 percent. This is a very good figure, particularly against the background of the situation in the European countries. The comparison of business profitability in Russia and

**The members of our Association include small companies which have been operating in Russia for about 20 years now. And these are not industrial giants.**

Western Europe for 2012 will also be unambiguously in favour of Russia.”

### ***“Which sector of the economy is the most promising?”***

“All the sectors are interesting at present, but particularly car manufacture. More and more cars are being bought in Russia every year. Almost all the major players in the international car market have already invested in Russian factories in Kaluga, St. Petersburg, Tolyatti and other cities. And the question of localisation of production keeps arising. This means that small and medium companies engaged in producing car components can also open their own production facilities here.”

“Another very interesting trend is the production of building materials. The best example is probably the Knauf company. This company, a medium-sized one by German standards, has become very successful in Russia. It has already opened several factories

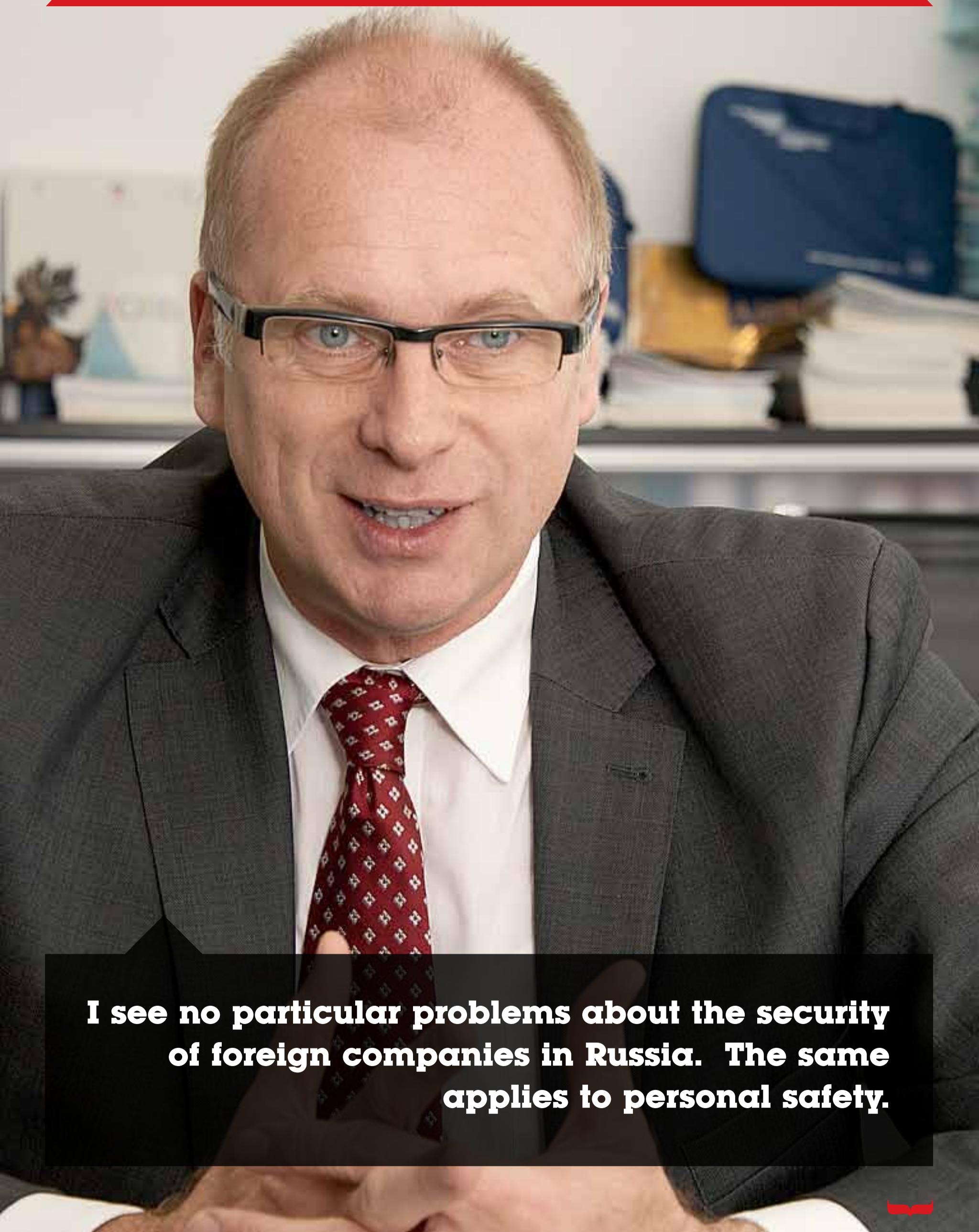
here. The reason for its success is that Russia is experiencing a real boom in construction.”

***“Many say that you can put your money into Russia, but there is a lack of technology and of top-quality managers. So investment should not be only in the form of money, but also of technology?”***

“I visit the Russian regions and I see that a great deal of money is needed to raise living standards and modernise the infrastructure. It is probably incorrect to assume that this can only be done from the Russian state budget. Remember East Germany. After unification, vast sums were invested there. And now look at the situation in Russia – here we have 10 times the population and 150 times the territory of the former GDR. And there is never enough state money. Partnership relations between the state and private investors are needed. They have been thinking seriously about state-private

**The Knauf company, a medium-sized one by German standards, has become very successful in Russia. Its products are very popular and well known here.**





**I see no particular problems about the security of foreign companies in Russia. The same applies to personal safety.**

partnership in Russia, by the way. A draft law has even been produced.”

“As for Russian managers, their quality is steadily improving. Many of them work no worse, and some work better, than Western specialists. But that does not mean that there will be no demand here for European or American managers with good knowledge and experience. Incidentally, the law was relaxed in Russia two years ago to attract foreign specialists.”

“Therefore the correct answer to your question is: money, knowledge and technology are all needed.”

***“If we come to matters of security, what does the European businessman have to fear?”***

“In my view, there are no particular problems about the security of foreign companies in Russia. If we are talking about personal safety, I also see no great difference between the situation here and in large cities in the West.

Actually, as compared with some American super-cities, Moscow is much safer. Here you can happily walk in any part of the city in the evening. But in New York, I would strongly advise you against it.”

“Nor does Russia differ much in taxation, although there are situations in which the tax authorities blatantly and unjustifiably interfere with business. However, there is one significant fact: if companies, being sure of the justice of their cause, appeal in court against the actions of the tax authorities, in most cases, they win.”

***“But what does the average European, and more specifically the average small or medium-sized businessman, know about Russia? In general, does he realise that he can open a branch or company here and start trading?”***

“For a foreign businessman working

**Russia's entry into the WTO will make it easier for foreign financial corporations to come here. It will eventually be easier to work in the financial field.**



in a small or medium-sized business it is often not that easy to understand how the market is developing in Russia. Russia's image in the West is not very positive, to put it mildly. And the Russian government is doing very little to change this situation. It is very rarely that the Western media highlight and analyse successful investments in the Russian economy. It is no coincidence that those who have worked in the Russian market take a much more positive view of Russia than those who have never been involved in business here. Negative views usually change quite rapidly when people start working here."

"Obviously, the market in Russia is very different from that in Western Europe, where the rules of the game are much the same (or at least approximately similar) wherever you go. Russian law is built on a different basis. This, in my view, makes it more difficult to open and run a business. But in spite of all the difficulties, trade with the European Union is growing in Russia, particularly in the case of small and medium-sized companies. And it will continue growing, because Russia has joined the WTO. In time, more and more medium and small-sized European companies will enter the Russian market. Russia's entry into the WTO will also make it easier for foreign financial corporations to come here. It will eventually become much easier to

work in insurance and banking here."

***"How does the Russian state, those same officials we mentioned earlier, relate to foreign investors? Is there any interest on their part?"***

"When I took up the post of head of the AEB in 2007, the dialogue with the Russian state authorities was not going well. In private conversations, many officials said frankly that everything could be done without foreign partners. But now, during and after the economic crisis, the situation has changed. Today there is much more willingness for a dialogue with foreign partners."

***"Are relations with the Moscow administration any different in this respect?"***

"The situation has improved for the Association of European Business over the past two years, since the composition of the Moscow administration changed and Sergei SOBYANIN took over the leadership of the city. It has become much easier to conduct a dialogue."

***"If a medium or small-sized European or American businessman decides to open his business in Russia, where should he turn for advice?"***

"To his country's embassy and to auditing and consultancy agencies. To



the various associations of European businessmen in Russia, including ours. And although we mainly represent major European companies, our members also include those in small and medium-sized businesses. We are constantly being approached for advice. For example, we were recently visited by a Danish pharmaceutical company which was planning to enter the Russian market. Before that, an architectural

design bureau in Germany ordered studies from us on how the Russian market was developing in this field. We are receiving similar requests more and more often, virtually every week. The WTO has drawn Russia still closer to Europe!” ■

**For some members of the Association, turnover last year was up by more than 10 percent. This is not at all bad, against the background of the European countries.**



Join in a discussion  
of the article  
on facebook.com



PIECES OF ADVICE  
FROM **FRANK SCHAUFF**  
FOR THOSE WHO WANT TO OPEN  
**A BUSINESS IN RUSSIA**



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

## PERSONAL EXPERIENCE



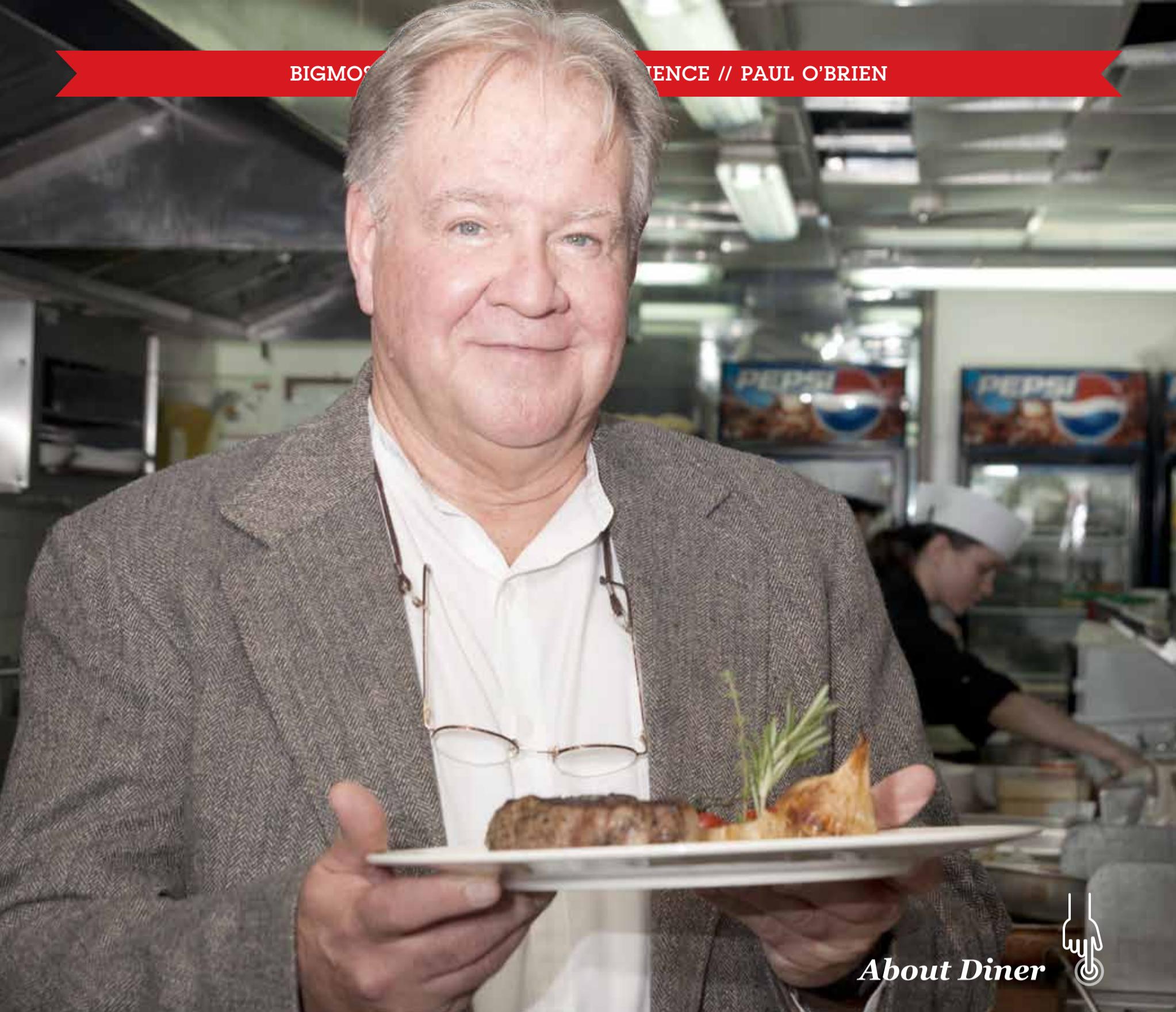
American  
**Paul O'BRIEN**  
has  
familiarised  
Muscovites  
with eating in  
diners.



Swede  
**Christofer  
SALSING**  
believes that  
five years  
in Russia is  
equivalent to  
15 spent in  
Europe.



Dutchman  
**Jeroen  
KETTING**  
has introduced  
hundreds  
of foreign  
companies to  
Russia.



*About Diner*



# “Wagon-loads” of Profit

American **Paul O'BRIEN** has familiarised Muscovites with eating in diners. And he has taught them that America is not just about McDonalds.

BY: VIKTOR DEMCHENKO | PHOTO: VIKTOR VARZAKOV | TRANSLATION BY: JASON SHAWY



**Paul O'BRIEN** seems like a perfectly contented individual.

He, along with his partners, started a chain of Starlite Diner restaurants and recently added the Chicago Prime Steakhouse.

Paul has spent over twenty years in Moscow but, even so, still hasn't learned Russian very well. This doesn't perturb him, although he readily admits that without the language barrier his business would be even more large-scale.

## IT ALL STARTED WITH THERE BEING NOWHERE TO GO AND EAT

"The idea of opening a restaurant came up quite by chance," Paul relates. "On Sundays, I used to play basketball with my friends in the sports-hall of the American Embassy. After the game we were usually terribly hungry. But where could we go to eat? There weren't any decent places with a menu familiar to Americans. You could eat in the hotel restaurant or in McDonald's. But that was it: there was nowhere else to go. At one point we thought that it wouldn't be a bad idea to open our own restaurant. My friends asked "If we found the money, could you do it?" And I said "Sure!" I had spent many years dealing with hotels and restaurants in the US. By then I had already opened three restaurants in the Radisson, so there was nothing I didn't know about the business. And I had a Russian partner as well which made

everything a lot easier. We weighed up all the pros and cons and decided that the best idea would be a diner-style restaurant (One of the meanings of the word "diner" is a restaurant-car)."

"We opened the first Starlite Diner in Aquarium Park right opposite the Mossovet Theatre," continues Paul O'BRIEN. "The building was entirely constructed in America: only the foundations were laid in Moscow. The walls, furniture, equipment, pictures: they were all shipped to St. Petersburg and came to Moscow by train. It was hard to find materials in Russia at that time. You couldn't even get your hands on stainless steel. And an American diner is like a Lego set: a free-standing building made up of four assembled units. Two seven-tonne cranes lifted each unit, and some guys from the States put it together in eight days. Everything was finished in two weeks, and, in all, from the idea to its realisation, took six months."



## HOW DO YOU TURN ONE RESTAURANT INTO A CHAIN?"

"The first establishment cost in the region of \$1 million," O'BRIEN remembers. "A lot of people predicted disaster: "What are you doing this for?" they asked. But I knew that it would be a success. And when we opened, not even I expected such staggering success. Then, we had hardly any competition: 85% of our customers were from abroad, and 15% Russian. Jumping ahead, I can say that now it is the exact opposite: 85% of our customers are Muscovites or visitors to the city. We noticed that in Russia the traditional way people eat in a restaurant differs from in the West. Here, people spend a long time over their meal and order a lot of drinks: tea, coffee and alcohol."

"The returns from our first restaurant exceeded all our expectations. And still, in 16 years, no-one else has been able to open anything resembling a real diner in Moscow. Some have attempted it - but they have not had the success we have

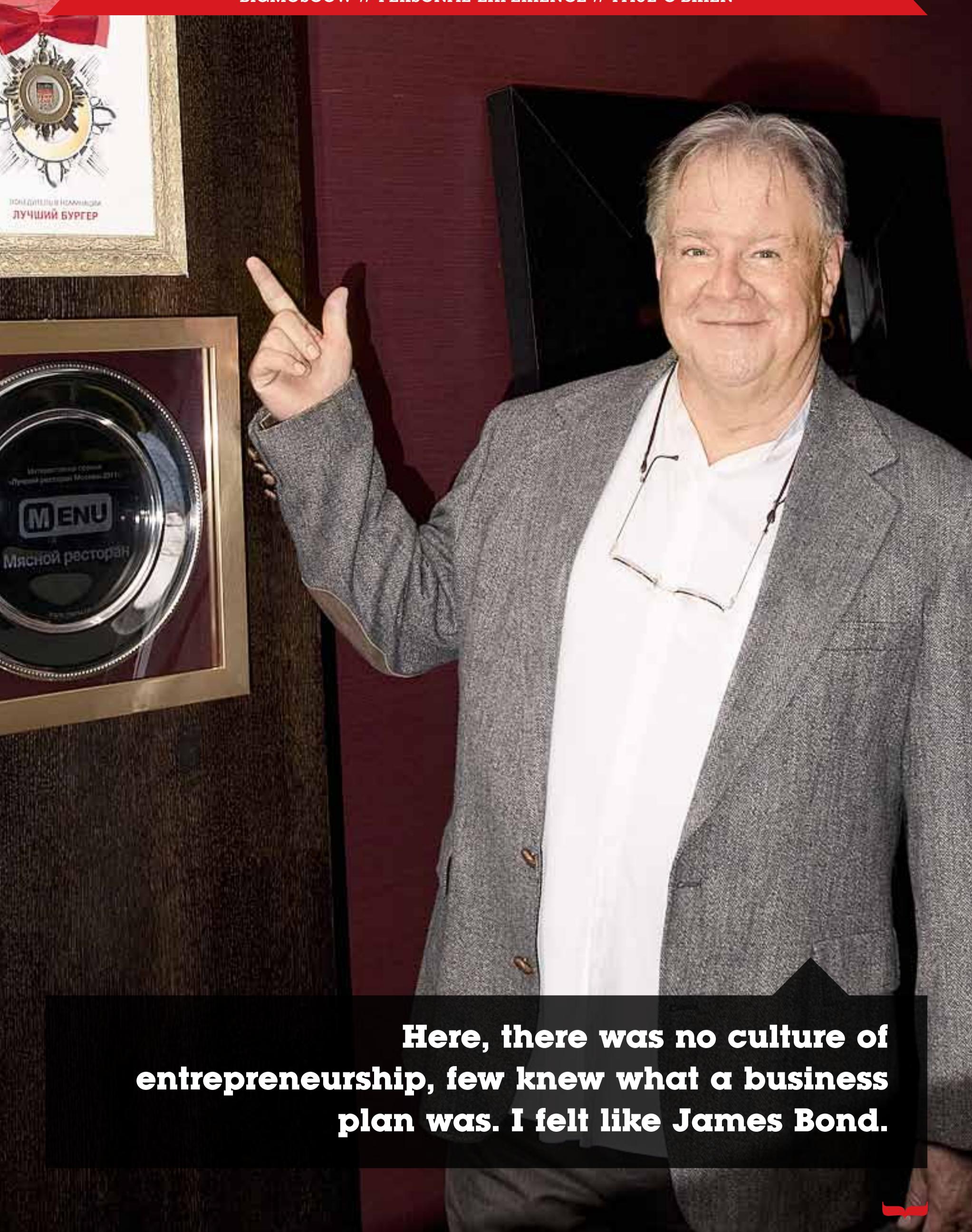
had. After two years, we opened a second establishment near to Oktyabrskaya metro station. That restaurant cost more: somewhere in the region of \$1.2 million. But it was bigger. That place also became popular, which enabled us to keep moving forward."

## FRANCHISING WILL HELP YOU GET YOUR MONEY BACK

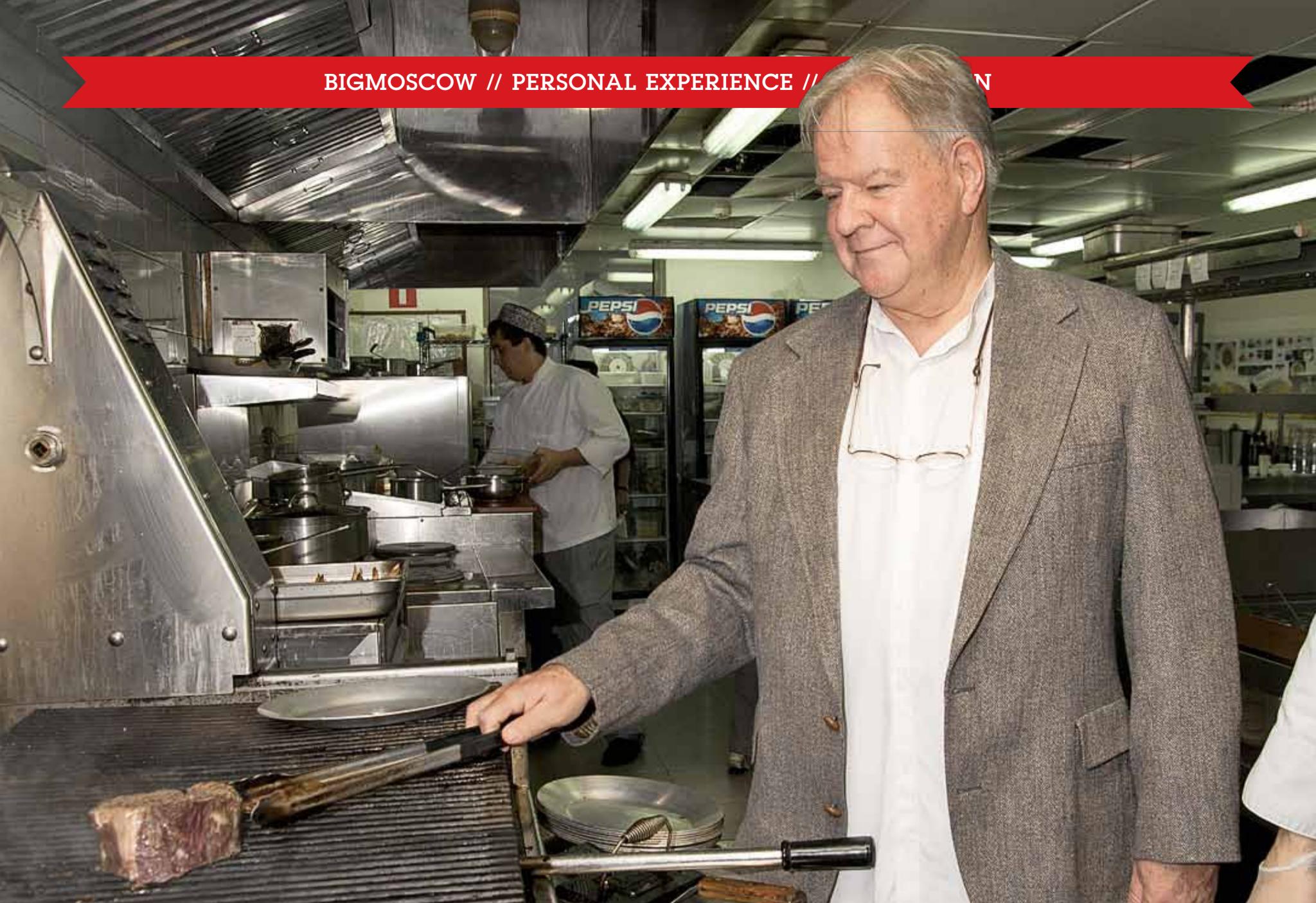
"For all of those years we did not to take any money out of the business: we ploughed everything we earned back into it," admits Paul. "As soon as we had accumulated enough, we immediately opened another restaurant. We figured that we'd stop when the number of establishments reached five. But in 2010, we decided to add one more, and opened the Chicago Prime steakhouse. It's a Hi-End Steak Restaurant on Strastnoy Boulevard. Starlite is for the lower middle class, Chicago Prime is a cut above. All the fittings and furniture were also brought over from the US. A Hi-End establishment costs a great deal more:

**If you can succeed in making it truly popular, a Hi-End restaurant will bring in more profit than one like the Starlite.**





**Here, there was no culture of entrepreneurship, few knew what a business plan was. I felt like James Bond.**



at least \$2 million. But the average bill there is much higher than in a diner. So, if you can succeed in making it truly popular, a Hi-End restaurant will bring in more profit than one like the Starlite.”

“Once we had five Starlite restaurants and one Chicago Prime, we decided to stop and begin selling the franchise rights: simply because we had been investing money for all those years, and now it is time for a return on our investment. We have prospective partners already. They are looking for a place, land with a restaurant on it, and then we can talk over the finer points of the agreement. The main difficulty with a franchise is that you have to

make sure that the quality and original concept are maintained. In Moscow alone over 100 establishments have been opened on the basis of a franchise, but going from one place to another you could be forgiven for thinking that the food doesn’t correspond to what it is supposed to be. That is pretty sad.”

## WHAT DOES A RESTAURANT BUSINESS START WITH?

“Whoever is planning to buy a franchise needs to own the land to be built on”, Paul recommends. “If that’s possible, of course. This will probably constitute the largest investment. But, as a consequence, there won’t be any rent to pay. And that very land in 10

years will be worth a lot more, so if the business doesn't take off, you can lease the land or sell it at a profit."

"But it is virtually impossible to buy land in Moscow. In a case like that, I would suggest a long-term lease. 10 years minimum. Or, on the other hand, you could find a partner who owns some land or premises."

"Overall, price and location are a huge problem in Moscow. Most property has been bought up already and rents are very high. In the

square metre per year. Take a step back – it's already \$2,000 every quarter. And somewhere on the Third Line is already \$1,500. The next problem is to find a qualified team of builders. There is some sense in finding builders by recommendation, asking other businessmen with some experience of having building work done. These days there are a lot services in building and decorating on offer, but finding true professionals is difficult all the same."

**In Russia, the traditional way people eat in a restaurant differs from in the West. Here, people spend a long time over their meal and order a lot of drinks.**

US, 6-8% of income is eaten up by premises, depending on the location. Right in the centre of New York, in Times Square, it can be 15% or 20%. In Moscow, there are restaurants which pay 20-25%. Being close to the centre, we pay about 15%."

"Rents for premises by the Kremlin, along Tverskaya Street, near Patriarch's Ponds are the most expensive. The last time I took an interest, it was \$3,000 a

## HOW DO YOU RECRUIT STAFF?

"A particularity of Russia is that very few people see working in a restaurant as permanent," Paul laments. "Students work as waiters to earn a bit of extra money, they are in limbo, working hard and then leaving. And chefs tend not to come from society's highest echelons. And their field of work is by no means considered the most prestigious."





“Several restaurants bring in their head chefs from abroad. We don’t. All of our head chefs are from Russia. In our first restaurant, we sent two of our chefs over to America for training. They came back and stayed with us for ten years. And it was they who taught the other chefs, and who have filled the top jobs in the kitchens of our other outlets.”

“If I was opening my first restaurant now, I’d simply go round all of the restaurants with those concepts which match mine. I’d find the best place, and entice the head chef away. But I couldn’t act that like that now. A lot of people know me, and I value my

reputation and my relationships with my colleagues. Yet, people try to lure our chefs away all the time.”

“You can find candidates for other positions on the internet. A lot of people find out through the grapevine that there is a vacancy and turn up themselves. We prefer to hire people with no experience. We train them up from scratch. It costs more, but it is still better for us. With beginners there aren’t any habits or ways of doing things which we have to iron out. Retraining is always harder. And also, I don’t know if it’s worth mentioning. Generally, they don’t know how to steal.”

## PARTICULARITIES OF THE RUSSIAN RESTAURANT TRADE

“The main characteristic of Russia”, maintains Paul, “is that for every day which goes by in other countries, here three go by. And then, added to that, after three weeks you find yourself three steps back. For example, here there is a unique form of book-keeping. In the States, if you own three restaurants, you only need to employ two accountants. In Russia, due to the tax laws and the

computerised, but, at the moment, it is the way it is. A lot of things change, but very slowly.”

“Another peculiarity is security. It's possible to run a restaurant in the States without security guards. But here, 12-15 years ago, you needed a whole service to deal with security issues. Times have changed, but, to this day, you have to have a guard on the door, in the dining area. As well as that, we cooperate with law enforcement authorities and

**Price and location are a huge problem in Moscow. Most property has been bought up already and rents are very high.**

intricacies of the system, you need to employ a minimum of six accountants for one restaurant.

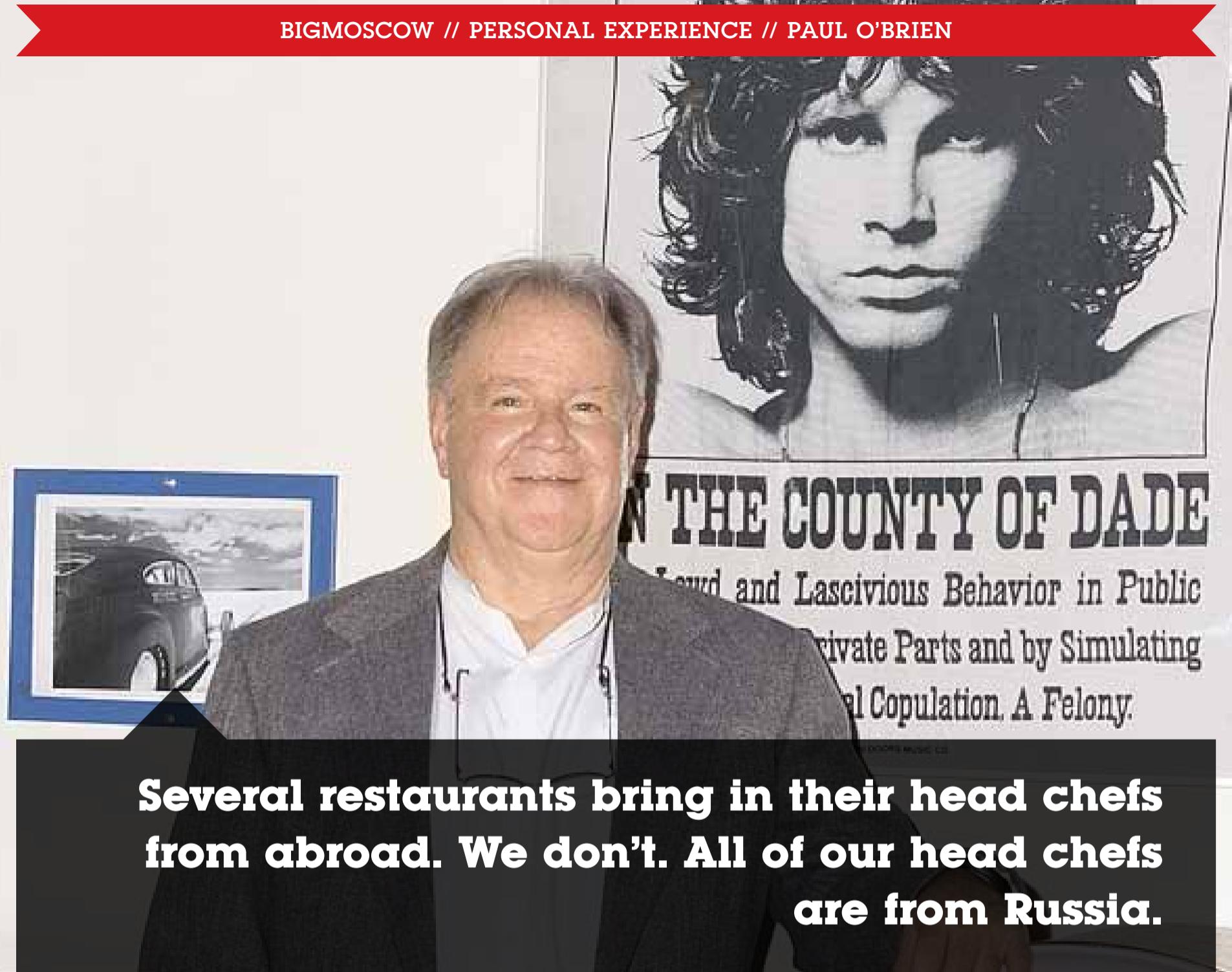
They have to do massive amount of paperwork. It seems to me that a lot of it could be

private security firms. All this costs approximately half a percent of the profits. It's not so much, but all the same.”

“In Russia, overall, there are a huge number of nuances which are difficult for the foreigner to grasp. If I had only just arrived here now, one of the first things I would do would be to look for a local partner who would help prevent me making mistakes. I

THERE IS A LACK  
OF SMALL HOTELS  
IN MOSCOW





**Several restaurants bring in their head chefs from abroad. We don't. All of our head chefs are from Russia.**

was lucky: I have had a partner for 20 years now. We will probably always be partners. Finding such a partner is not easy. The main thing is to make sure that they are in actual fact that which they are making themselves out to be, and that they are not a criminal or a con artist.”

“The best thing to do is to make enquiries about them with people who have already been doing business here for some time. There are databases on the Russian internet where you can “punch” people and find out initial information about them. It is worthwhile not ignoring this data either.” ■

**For every day which goes by in other countries, here three go by. And, after three weeks, you find yourself three steps back.**



Join in a discussion  
of the article  
on facebook.com



BIG

ENCE // CHRISTOFER SALSING

# Team Style

Swede **Christofer SALSING** believes that in his plan for gaining experience, five years in Russia is equivalent to 15 spent in Europe

BY: DMITRY SEMENOV | PHOTO: PAVEL GERASIMOV | TRANSLATION BY: JASON SHAW

*Terrakultur Russia, headed by Swede **Christofer SALISING**, constitutes a fairly novel departure for Moscow and Russia: professional phytodesign, or more simply put, greenery design, for business premises. The business has already assured its niche in this area with a steady flow of orders, and its client base is forever widening thanks to the positive feedback from those who have availed themselves of its services.*

*What is more, Christofer himself, by trade, is not a designer nor a landscape gardener. He is a manager, a project leader.*

---

### **“Christofer, how did you end up in Moscow?”**

“I chose Russia in general, but Moscow, and the job I’m doing here now, happened more by chance. I found myself in Russia in April of 2007, in St. Petersburg at first. I was invited to work for TELE2, a mobile communications operator which was opening up the Russian market at the time. I did some training, part of which involved training management staff. When I had been working there for six months I was given the choice of Russia or Switzerland for my career advancement. I chose Russia as, for me, that country represented better prospects for realising my potential. After all, in spending a long time training management staff, I had acquired leadership skills myself. I wanted to put them into practice. Once I had been offered a new place of work, I didn’t have much time to prepare, so I loaded my bike onto a truck and moved from Petersburg to Moscow. Also, the

Petersburg autumn was setting in, and I fancied a change of scene.”

### **“When was it suggested you head Terrakultur Russia?”**

“In the same year, 2007. I knew the former head of Terrakultur Russia: he was my boss at TELE2. I wanted to carry on working with him at Terrakultur Russia but he had another proposal: for me to head the company myself. I didn’t turn it down, about which I have no regrets whatsoever.”



***“Until then you had worked both in Europe and Asia. Out of what you have managed to achieve, what are you most proud of?”***

“I think I’d like to mention my work at the University of Taiwan where I supervised students working on their theses. We managed to establish, for all intents and purposes, a branch of Stockholm University, fitting out its office in this South East Asian country, and creating a Swedish ambience. We set up a student exchange programme, too.”

“However, what I am most proud of is none other than my work at Terrakultur Russia. I feel that I managed to consolidate the team by moving the previous management system of rigidly structured “verticals” over to one of “horizontals”. The kommandny management style became another kind of kommandny style: linked not to command but to komanda [Russian for team], to collective. The work at Terrakultur Russia now is structured on the basis of equal opportunities, on a

ABOUT  
TERRAKULTUR  
AND CHRISTOFER  
SALSING



single platform. I succeeded in putting this principle into practice. A result of the team’s smooth running is that the company now not only operates in a stable fashion, but that it is bringing in tangible profit. Besides which, we have completely recouped all initial investment made in starting up the project.”

***“How does your company recruit staff? Whose skills fall within this area?”***

“It goes without saying that I, like any competent manager, play a

**Professionals in the Russian capital are highly sought-after, and there is less choice on the employment market for employers.**

part in HR, I take responsibility for staff recruitment, I follow how an employee's potential unfolds with a view to their advancement in the most suitable direction. True, I am less responsible for the administrative side of the HR process than for the overall mechanics of it. Like, for example, the development and practical implementation of incentives schemes. For the initial short-listing of candidates at our company, it goes without saying

the Russian capital are highly sought-after, and there is less choice on the employment market for employers. For example, it is now extremely difficult to find a suitable candidate as Sales Manager despite the fact that with our company they can earn up to 200,000 rubles (around \$6,500). And it's not that there aren't such specialists on the market. It's that there are few who know how to work on their own initiative. At our company we don't set specific tasks.

**It is a shame that training based on the PBL (Problem Best Learning) system is not developed in Russia: training based on solving concrete problems.**

that they have to fit the appropriate profile. But, the final say in deciding whether this specialist or that specialist is invited to work rests with me."

***"Is it a problem, generally, finding high-quality workers who fit the company profile?"***

"The problem with that is on-going, the reason being that the level of unemployment for qualified specialists in Moscow is zero. Professionals in

We give out an area of responsibility, as it is called, and it is up to the employees to make this or that decision themselves. For us, what is important is that the specialist knows how to work as part of a team, that he has skills in interchangeability and mutual assistance. We need team-players. It is a shame that training based on the PBL (Problem Best Learning) system is not developed in Russia: training based on solving concrete problems. It is a very effective





**I chose Russia as, for me, that country represented better prospects for realising my potential.**

method of training specialists, and it ought to be adopted as soon as possible.”

**“No doubt you have already reached some conclusions as to those qualities characteristic of Russians. Which of these qualities have you been struck by, and which, by contrast, do you find impossible to come to terms with?”**

“I don’t like the fact that Russians always look towards leadership and don’t

the day without considering the future. Maybe this has been brought about by a general historical experience where things in the country can change very quickly: whereby it can be difficult to make any plans for the future. In our company, we apply a system of intermediate stages, intermediate objectives. Once they have been achieved, we move onto the next ones.”

“I consider the most important quality in our employees to be the ability and willingness to work on an idea

**The market in our sector is, as regards Russia, in its infancy. It is in full bloom and so presents great opportunities.**

strive to be led by team spirit. They are simply not accustomed to it, whereas in the west, even education is based on the collective, on a team mentality. In Russian schools and colleges there aren’t any group exercises, everything is based on the individual approach. And even in manufacturing, in businesses, Russians see any kind of success as being down to the presence of a strong leader.”

“To the negative characteristics I would also add the fact that people in Russia have become used to living for

together: an idea which should come about precisely as a result of collective thinking. With us, responsibility isn’t passed upstairs: the departments operate autonomously, taking their share of the responsibility. The kind of qualities we expect from people are being able to work as part of a team, an analytical and self-critical approach to oneself and one’s work, the desire to change something, to make it more effective. We always say: in order to be effective in the market, you have to be effective internally. You have





to constantly improve the quality of your work, to move forward, to plan things properly, and to carry out those plans to the highest standards. It is important to be aware that the future depends on what you have planned and implemented.”

“As for those qualities which I like in Russians, first of all, it is their emotionalism. It is as if Russians feed off each others’ emotions. It is not like that in Sweden: there, people are more withdrawn, they kind of set their feelings aside. Also, a great deal in Russia is built on trust. If somebody trusts you, then they will accept any of your ideas, any of your projects. This is precisely why, for our company,

relationships based on trust are a way of forming effective communications. We try to create such an environment where we can discuss many things openly with our customers.”

***“Terrakultur Russia’s success speaks for itself. But, generally speaking, in your opinion, is it profitable for the foreign businessman to do business in Russia these days?”***

“I won’t assess the whole market but will use our company as an example. The market in our sector is, as regards Russia, in its infancy. It is in full bloom and so presents great opportunities. Do you know the joke about the

travelling salesman who took it into his head to sell shoes in Africa? They tried to talk him out of it: it's hot here, everybody is used to walking around barefoot. To which he replied: which is why there are such opportunities - it is shoes which no-one has got! It is only from one perspective that greenery design doesn't appear to be the most highly sought-after area of services. But if you look at it from the point of view of the system of outsourcing which is now developing in Russia, where services are handed over to outside organisations, then the prospects turn out to be wide-ranging. Modern new sites are cropping up: shopping and business centres which need greenery and proper phytodesign. And by no means is everybody able to offer a high-quality product. Our competition is minimal. As a result of this, our orders are growing. We are in-demand on the market."

***"In that case, Christofer, offer some advice to the foreigner wanting to start their business in Russia or to come here to work in the capacity of an expert."***

"Learn Russian! It's an absolute necessity. I, unfortunately, am still not all the way there yet, although I can understand at least 70% of what people are saying. The point is that it is fairly difficult to convey in English the nuances

of conversations with Russian people, nuances which also help to create that environment of trust. There aren't the nuances: basic English doesn't convey them."

"And, naturally, to make it in Russia, the foreign entrepreneur needs to know the country's particular characteristics, to be familiar with the laws of the land."

***"Do you not regret, all the same, that you didn't choose Switzerland?"***

"Not in the least! My Russian experience is fantastic. Yes, it is a huge test but with it comes a huge array of impressions. I have picked up an extraordinary amount of professional experience. And, although they do say that it doesn't depend on which country you are in, and that you open up possibilities for yourself, personally, for me five years in Russia is the equivalent of 15 years spent somewhere in Europe." ■



Join in a discussion  
of the article  
on facebook.com





**“I’m Like  
the One-Eyed Man  
in the Land  
of the Blind”**

Dutchman **Jeroen KETTING** has introduced hundreds of foreign companies to Russia

*In Russia, **Jeroen Ketting**, Managing Director of the consultancy firm Lighthouse is in clover. He employs the very formula he borrowed from the Russians. He is 41 years old, and looking back over the last 20 years of his life, he senses that fate drew him inexorably to Moscow. Back at the start of the 1990s, quite by chance, Jeroen made the acquaintance of a Russian scientist, and then came to visit him. A decade later, **Jeroen Ketting** built a business in Moscow based on helping Western entrepreneurs establish themselves in Russia.*

---

## AND THEN THE CRISIS STARTED UP

“I first came to Russia in 1994,” Jeroen KETTING recalls. “Then, I was 23, and was studying at the law faculty at the university in Leiden. I decided to take a look at the country, and I spent two months here. And when I returned to Holland, I was immediately offered the job of heading the Moscow office of a certain Dutch consultancy firm. I returned to the Netherlands again in 1996, but I didn’t spend much time there. Just as I failed to get my degree, I was invited to work at the Dutch machine manufacturing holding company Stork. The idea was that I would work on probation at home for a couple of years, and then move to the office in Russia.”

“But fate had its own plans. The tax police turned up unexpectedly in the holding company’s office in Moscow, and the director, at the time, was on safari in Kenya. There was no-one to deal with

the problem. It was suggested that I fly out to Moscow straight away, and they even made me director of the office there. But after two years, I began to find it boring and so, at the beginning of 1998, I had the idea of opening a call-centre. It would have been the first in the country and I was anticipating a profit of 15-20 percent. I found a Russian partner, invested \$140,000 and I was planning in the first year to invest around about another \$350,000. I had already made arrangements with potential clients, had found an office, ordered the equipment, software. And then, the crisis started up. The clients backed out, and I only just managed to cancel the delivery.”

## THE GRAPEVINE

“After the default of August 1998, many foreigners left Russia,” remembers the head of Lighthouse. “But I decided to stay. I had to find some way of earning a living. But what could I sell? Only



## **With my help companies making metal tiles, plastic goods and even rubber boots have come to Russia.**

myself, what I knew. I spoke a little bit of Russian although I had never set out to learn it. I knew a little about the characteristics of business in Russia, while back there in Holland, few had much idea about the market in Russia. Among them, I was, and I still am, the one-eyed man in the country of the blind. What I embarked upon then could hardly be called a consultancy business. I simply sold my time.”

“I started off as a freelancer. I had no office: I worked straight out of my apartment, I was my own secretary, driver, director. I moved around Moscow in my Niva, and every six months set off for Holland, rented a little Renault, and drove around the businesses there. I

would have about twenty meetings in ten days. I told company directors about how quickly the Russian market was growing, about the kind of prospects it had. I was viewed as some kind of crackpot: would you believe it!? A Dutchman, and he lives in Russia! But even that helped me. I was looked upon with curiosity which meant that I was invited in, and people heard me out.”

“I tried to meet with directors or managers because, any further down, and too much time would go by before getting to the nitty-gritty. With some projects, these meetings didn’t always get very far: I was lucky if it was one in twenty. But I didn’t pay any attention to the ones which didn’t succeed, and carried on networking, networking and networking some more. At some point, people started turning up to see me themselves: they had heard about my humble personage through the grapevine. And it worked. In the two years I worked as a freelancer, I managed to deliver around 20 projects. Many of them were successful. For example, with my help companies making metal tiles,



plastic goods and even rubber boots have come to Russia. Sometimes, it's true, as a result of my assistance, my clients decided against their undertaking. For example, I once visited a big company which wanted to set up large-scale printing production in Russia. I arranged a series of meetings with the leading publishers and editors in Russia. I researched the market and the legal framework. And I discovered a curious thing: it is possible to import printed materials into the country without having to pay duty, but importing paper requires paying a handsome sum to customs. Because of this, it seemed pointless equipping a massive print works in Russia: it made more sense to have the magazines and books printed back in Finland, and send them over to Russia. And so my clients decided against that venture."

## I PAY TAX WITH A SMILE ON MY FACE!

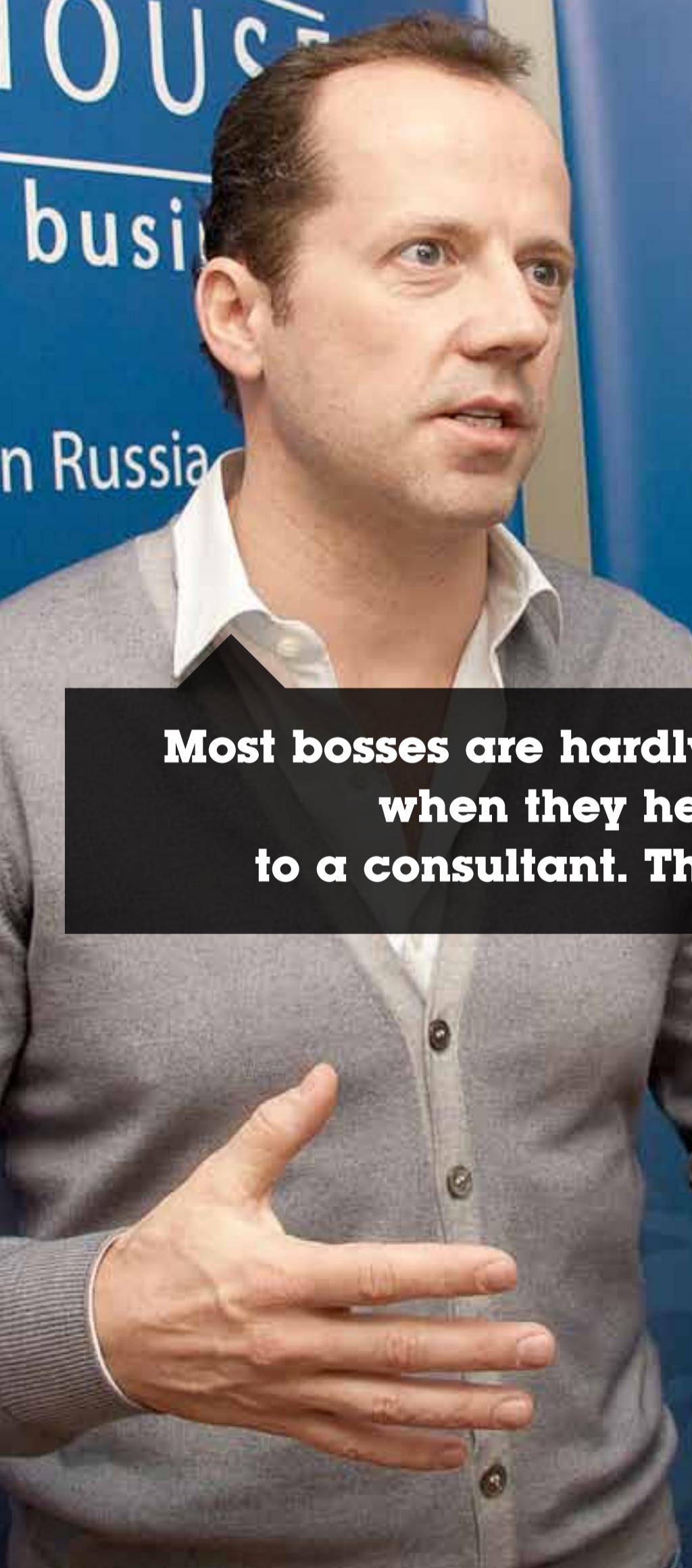
"It's possible to operate fairly successfully as a freelancer," says the Dutch businessman warmly recollecting the initial stage. "But in 2001, I had to make a choice: either to leave things as they were, or to start a company. In principle, I was making a decent living: probably no less than middle-management at a large company. There were no particular outgoings: none on employees, nor on rent. But I was spending a lot of time on all

manner of trivialities. Making copies, sending faxes, posting things, going to the notary. Also, I was getting tired of always having to explain who I was and what it is that I do. When I went to see potential clients, I couldn't say that I was a lawyer or an auditor. I had to say that I am a consultant. And, you know, most bosses are hardly filled with enthusiasm when they hear that they are talking to a consultant, let alone a self-employed one. They rapidly lose interest and their eyes start to glaze over. To prove that you are worthy of that person's attention is extremely difficult."

"It's also difficult to get out of the situation where you are meeting one customer, and another calls and you can't reply. That is when a secretary is simply indispensable. It was when I was still working out of my apartment that I first hired an assistant, and then another. And then I decided to start my own company."

"Now there are 15 people in it. And now I earn roughly double what I did when I was freelance. And also, there are fewer worries because I can hand over a lot of issues to my colleagues, and deal with what I have to, and what I want to, and not be distracted by each and every tiny detail. I could expand even more but I don't want to. At the moment ours is a friendly team with an almost family feel to it. Everybody knows what they are supposed to be doing, and we solve any problems together. If there were to





**Most bosses are hardly filled with enthusiasm  
when they hear that they are talking  
to a consultant. They rapidly lose interest.**

"Lighthouse delivered important market for our services. We appreciate great knowledge of Russian (business) up with tangible results. It showed

Paul van de Kerkhof, Managing Director

Consultancy & I

"Lighthouse has been a very trusted partner in our business development in Russia. They supported us and transferred us their profound experience. They are one of the most important partners we have. They helped us to put our first steps on Russian market. Without them we would have never been able to do it."

Dago Van Balberghe, Export Manager



be 30-40 people working here, it would spell the end of my personal liberty. I'd have to be here all the time, organising meetings, keeping track of everything. And that's not for me."

"The work of a small company in Moscow has its own unique features. First of all, there is a particular attitude towards small and medium-sized businesses here. In the Netherlands, Lighthouse would be regarded as a medium-sized business. But here, people say "Jeroen, what kind of nonsense is this you are engaged in? Find yourself a job in a bank or something."

"Finding a small office in the centre of Moscow is very difficult, and it doesn't come cheap either. Let's take as an example a "Class B" office within the Garden Ring, some former apartment of 150 square metres. For that, you'd have to pay from 400 to 500 euros per square metre a year. And that would be a good price. When I tell people that in Holland, they look at me wide-eyed. They don't have such expensive offices

there. There, for 300 euros, you'd be sitting surrounded by gold and marble on the 20th floor of the most expensive business centre."

"Employees' wages in Moscow are no lower than in Europe, and are higher in certain circumstances. And finding a qualified expert is rather difficult. The only thing that you can save money on in Moscow, and in Russia, is on income tax. I have been a Russian taxpayer since 1995. And here, no doubt, I'm the only person who pays income tax with a smile on their face. Because in Russia it is 13%, whereas in Holland I would be paying 55-60%."

## UNIVERSAL BUSINESS-SOLDIER

"For European companies, their markets aren't big enough," reckons Jeroen KETTING. "Let's say you set up a company in the Netherlands. If the business is a success, then in three to four years you will be starting to think about what new markets there are to conquer. But Russia is the nearest

**I had already made arrangements with potential clients, had found an office, ordered the equipment, software. And then, the crisis started up.**



country where consumption is growing at a rapid rate. Even in crisis conditions you wouldn't find such growth in Europe any more, only in Brazil, perhaps. There are particularly good prospects now for e-commerce and energy-saving technology."

"Many foreigners who come here are shocked. The reality here differs greatly from what they are used to seeing. And it needs somebody like me and our company, otherwise they would

scene from the nineteenth century: all the workers were walking around covered in flour, dust was hanging in the air, the equipment, the machinery was 60 years old! My compatriots were taken aback and assumed that there was no way anything would work. But we decided to keep going and installed some equipment in a small workshop, launched a production line, and turned the workshop into "Little Holland". And, guess what? Literally within a few years,

**Even in crisis conditions you wouldn't find such growth in Europe any more. There are particularly good prospects now for e-commerce and energy-saving technology.**

immediately turn round and go back home. We help them, show them what the possibilities are here. Eventually, they realise that coming here wasn't a waste of time."

"I often remember one particular instance. Six years ago we were participating in a project to supply machinery for a bread-making factory in Chelyabinsk. When we went with the Dutch experts to the factory, they were horrified. It was pretty much a

the company which owned this "Little Holland" (which belonged to a Russian) had grown larger and had become worth more than the one which had supplied it with the equipment!"

"Quite often large companies which have decided to set up representation in Moscow turn to us. Premises have to be found, repairs made, equipment installed, staff hired, accounting arranged. Generally, the office is made ready-to-use. And we take all that on



## WORDS OF ADVICE FROM JEROEN KETTING TO THOSE WANTING TO START A BUSINESS IN RUSSIA



### **LEARN RUSSIAN.**

You will need to, even at a basic level. Communication problems are the ones which cause the greatest problems for business here.

ourselves. Before, we used to call in subcontractors. But we decided against this due to the poor level of service. For the last couple of years we have been monitoring each stage of the process ourselves. We are that universal soldier who can do everything. Not long ago we created an office for a hotel booking company, “booking.com”. We did it in three months. It cost them about \$75,000.”

“Overall, clients come to us from all over the world: Turkey, Belgium, Luxembourg, Brazil, USA, Malta. We provide services to many international financial organisations, like the European Bank for Development and Reconstruction. As well as that, we receive orders from government

organisations in Europe. For example, Dutch and Belgian ministries, a Brazilian export agency. Even the Irish government is hiring us to promote their companies on the Russian market. All these last few years we have been turning a profit and have brought dozens of companies to Russia. There was growth throughout 2001 to 2008. Then the crisis came about, it was rather hard, but we carried on making a profit. Over the last three years, it’s true, the structure of the business has changed somewhat. We have started to get more customers, but the scale of the projects is smaller. Many are now afraid of a new wave of crisis and are trying not to undertake anything on too large a scale.” ■



Join in a discussion  
of the article  
on facebook.com





# Everything Rolled Into One!

*There is every chance of making it big on Russia's e-commerce market. So believes project leader of Shopium.ru, **Veniamin BAKALINSKY.***

BY: DMITRY SEMENOV | PHOTO: SHOPIUM.RU | TRANSLATION: JASON SHAW

*On Shopium.ru, in test mode, over 800 shops with more than 2.7m goods are open for business. Telling us about this unique project is the man running it, **Veniamin BAKALINSKY**.*

The idea for the Shopium.ru was conceived at the beginning of 2010 by the well-known Russian entrepreneur Alexander KIM. He invited me to take charge of the project and, basically, fine-tune the idea and roll it out. Similar ideas have existed around the world for a while which is why they are more developed than in Russia. This is down to a much higher level of development in e-commerce and logistics. A large part of such a functionality has been put into practice by, in particular, amazon.com, buy.com, rakuten.com.

Initially, we were planning a project along similar lines to the Japanese one, Rakuten.com. But as we were working on it, the idea became more “fleshed out”, and it mutated slightly. One of the most substantial modifications compared to the original idea was the monetisation model. We had originally planned to earn money from commission on sales, like in similar projects. But fairly soon we realised that, given Russian realities with regard to delivery and payment, this model wouldn't work properly. So we decided to change the model from a “commission-based” one, to that of a system based on the stores subscribing

to various packages of services from us. There were quite a few other modifications as well.

I would say that, overall, our project really is unique. There is nothing quite like it in Russia, although there are internet-store integrators: the most well-known being Vikimart. But Shopium.ru operates on a much wider scale than simply gathering goods from various internet-stores together on the one platform. It's true that certain elements of the functionality we have developed can be found in other projects. But to put them all together in the one system: no-one else has anything like that!

Today, the platform for the system itself has been developed and launched. On it, in test mode, there are over 800 shops operating with over 2.7m items for sale. The whole basic functionality has been launched, there are real sales going on. The investor who put money



*About Shopium.ru*



**Similar ideas around the world are more developed than in Russia. This is down to a much higher level of development in e-commerce and logistics.**

## **Shopium.ru operates on a much wider scale than simply gathering goods from various internet-stores together on the one platform.**

into us is also happy. I should say that the only money which has gone into our project is from foreign investment. The target which we set ourselves in the initial period has not only been met, but exceeded.

Nevertheless, we are still at the start of the journey. We are still only 20% of the way there. We are certain that the project has enormous potential and is

capable of becoming one of the market leaders in e-commerce in Russia. And considering the unique functions we are pouring into it (which I don't want to say any more about, for the time being), the success of Shopium is assured. ■



***Interview with Shopium.ru investor and Managing Partner of United Managers Japan Inc., Russia, Yusuke OTSUBO***



Join in a discussion  
of the article  
on facebook.com





# A Synergetic Effect

***Yusuke OTSUBO, Managing Partner of United Managers Japan Inc., Russia, the fund which has invested \$1m in Shopium.ru, knows how to blend Japanese experience with Russian potential.***

*How do you find interesting start-ups on the Russian market? Which area is the most attractive for investment? How quickly can money invested produce real results? With the answers to these questions is Yusuke OTSUBO, Managing Partner of the venture fund United Managers Japan Inc., Russia.*

---

**“Yusuke, where do you start looking for interesting start-ups in Russia these days? What do you need to make a success of such a search?”**

“On the one hand, what is important is experience. For example, I have been working on the Russian market for almost ten years. I am on top of the issues, I know the lie of the land. And, in my view, the most important criteria these days is having a good investor here, in Russia. Put simply, if there are already people willing to put money into a project, then it means that it has potential.”

“It is also important to attend open events dedicated to developing technology and investment activity. And it’s not just a case of Moscow. Today, important messages are coming out of America, out of Silicon Valley. You need to talk with IT market professionals:

that way you can pick up valuable information on which projects are being prioritised and on those trends with good prospects in which you can invest funds.”

**“Which areas at the moment can be of genuine interest to the investor?”**

“I cannot speak for the market as a whole, I can only talk about that sphere of activity in which I am engaged myself. At this moment in time we are concentrating on TMT (Technology, Media and Telecommunications) in the consumer sector. This area slowed down somewhat after the 2008 crisis but is now being redeveloped. The Shopium.ru project, which we are presently working on, puts special emphasis on technological innovations in internet service provision. I am certain that this area has fine prospects in Russia.”



***“How did you find out about Veniamin BAKALINSKY and his start-up? What made you decide to invest in Shopium.ru?”***

“My partner Alex KIM has long-standing business ties with Veniamin-san. Alex rated very highly Veniamin’s abilities in organising project launches. Which is precisely why, in 2010, when we were thinking about starting an e-commerce project in

it is premature to speak like that. On the contrary, this area has great potential for growth. We are thinking about bringing the latest know-how in Japanese e-commerce to Shopium.ru which, to a certain extent, would make our service in Russia stand out. At the moment, the main criterion for customers in Russian e-commerce is the price. It is assumed that the purchaser will be happy if he manages

**If there are already people willing to put money into a project, then it means that it has potential.**

Russia, we decided to bring Veniamin BAKALINSKY’s ideas and, naturally, he himself, to work together with us.”

***“Why did you see this project as having good prospects when, surely, the area of e-commerce is now developing steadily enough in Russia, and so competing here won’t be that straightforward? What was the potential you saw in Shopium.ru?”***

“I don’t agree with you that the e-commerce market in Russia is sufficiently developed. In our view,

to acquire something for the lowest price. But in the real world, purchases are not only made because goods are offered at the lowest price. Other factors are taken into consideration, such as the reputation of the vendor, positive feedback on them, consumer experience of buying from that outlet. I hope that Shopium.ru will receive just those kinds of recommendations, and become the best trading site for customers and vendors alike.”

***“Why did you choose exactly \$1m to invest in the project?”***



“According to the business plan which we drew up, we thought that we could start off with \$1m. To us, that was the perfect amount to invest in it.”

***“In what other kinds of start-up in Russia, and around the world, does United Managers Japan Inc. elect to invest in? Which projects will you be supporting in the near future?”***

“There are at least ten internet-based projects with potential which we are interested in. For example, there is Teamo.ru (a Russian introduction site for marriage and serious relationships), which we are investing in along with Fast Lane Ventures. The most recent thing we invested in was MirVracha.ru, the biggest resource base for doctors and medical students (BIGMOSCOW reported on this project in the previous edition). It is a portal for doctors which contains not only specialised information, but also a platform through which people in that profession can communicate. I’m in no

doubt that our company has already received recognition from Japanese entrepreneurs working in Moscow.”

***“Which of United Managers Japan Inc., Russia’s projects do you personally consider to be the most successful and in-demand?”***

“It is still too early to say. Let’s wait and see how our projects develop. I think that we will be better able to answer that question in the next few years.”

***“How do you find projects in Russia to invest in?”***

“We select a project which, in our opinion, will possess synergy. In other words, when the experience of Japanese companies, or even branches of companies, will be augmented when coupled with Russian potential. It is precisely this kind of thing which we are aiming to achieve as we consider that to have the best prospects.”

**It is premature to say that the e-commerce market in Russia is sufficiently developed.**



**“Which trends in media and technology in Russia, in your view, are the most worthwhile investing in?”**

“I am certain that the sector which will receive the most development in the near future will be the provision of internet services. There is a global tendency towards developing this area: it is a trend which today is being followed all over the world. Also, internet services-based projects are succeeding. I am sure that they will continue to do so in the near future.”

**“How do you rate the situation with the Russian start-up market in general? The founders of Russian start-ups – what kind of people are they? What are their strong points and weak points?”**

“Founders of Russian start-ups put most emphasis on their technology and its development process rather than its subsequent implementation or the practical aspect of delivering projects. This is their weak point. After all, the ultimate aim of a business is to make

profit. That is axiomatic. Therefore Russian start-ups should be thinking, in the first place, about how they are going to receive eventual returns from their project, about how to implement it effectively on the market, and what concrete profit it is possible to derive from its implementation.”

**“What, for you, are the main difficulties with working with Russia start-ups (problems with supervisory bodies, business partners, competitors)?”**

“I will keep my answer brief: in Russia, in my view, everything is difficult. Even simple activities like opening a bank account give rise to a whole host of problems. But you have to learn to overcome these problems, look for a way round them, find a solution.”

**“What are the main differences in investing in start-ups in Russia as compared with the practice in Japan, or Europe or America?”**

**We select a project when the experience of Japanese companies will be augmented when coupled with Russian potential.**



“If you put to one side the administrative difficulties in Russia, then there is virtually no difference at all. Launching any kind of project from scratch is, in principle, difficult anywhere in the world. And launching a start-up, an investment, is riskier still. You should also bear this in mind.”

***“Incidentally, when is the return on the investment in Shopium.ru expected?”***

“It is extremely hard to say at the moment. Of course, we hope to receive some kind of income as soon as possible. That is the justifiable and understandable desire of any investor. As it is, we are hoping to see the first revenue in a year or two, no earlier. I’m hoping that there will be some real returns by the time the fund mandate expires. We have another five years yet. That is the deadline we are working towards.” ■

**Founders of Russian start-ups put most emphasis on their technology rather than the practical aspect of delivering projects.**



Join in a discussion  
of the article  
on facebook.com





*American **Cameron SAWYER** takes his own example to show how Western managers are initially fearful of Russia, only later to beg to be allowed to stay here.*

# A Huge Area of Operation

**Cameron SAWYER** graduated from Vanderbilt University with distinction. Later, he received a doctorate in jurisprudence from the University of Michigan. For a long time he taught at the Faculty of Law at the Ludwig Maximilian University in Germany. Until he arrived in Moscow in 1991, at the behest of Mikhail GORBACHEV, where he was "held up" for 21 years.

**Cameron SAWYER** is currently Chairman of the Board of Directors of the company he established, GVA Sawyer, and knows very well how to make profit from new property sites, how to find investors, and how to estimate the potential risks. He agreed to tell BIGMOSCOW how he built his business in Russia.

**About GVA Sawyer**



## HOW “PERESTROIKA” STARTED

“Before I came to Moscow, I worked as a lawyer in the US at a large American law firm specialising in property. Amongst my clients were all kinds of property development companies and banks. When the large banking and mortgage crisis began in the West, and work dried up, I decided to go on leave and do business in Russia. To me it was little more than a crazy adventure. My reasoning was thus: I’d work for a year or two at most until the market situation stabilised; it would add to my experience, and then I’d return to my former life.”

“That was in 1991, when the Soviet Union still existed, but the power from the KPSS had passed to the Congress of People’s Deputies: the first parliament in Soviet history. I arrived in Moscow from the warm Atlantic in October when, in the Russian capital, it had already started snowing. I had to get used to a different climate, a different country. I immediately threw myself into my work, became Deputy Director General of



the “Perestroika” joint enterprise. That was the kind of business permitted by president Mikhail Gorbachev. It was the Soviet Union’s first development company in commercial property. We were building the first modern office blocks. The possibilities for us were endless. And it was very interesting!”

***“Apart from your native English language, you are fluent in German. But how did you get on with Russian?”***

**My reasoning was thus: I’d work for a year or two until the market situation stabilised and then I’d return to my former life.**

“I didn’t know Russian, and that was a big problem. Because, in the 1990s, not so many Russians knew English. Communicating was difficult. I had no choice: I started to learn Russian from day one. I have to admit that I still don’t know all the rules. It is a very difficult language. You can’t learn it by ear.”

***“What kind of problems did you have to overcome?”***

“I encountered problems every step of the way. For example, you weren’t allowed to simply go and buy stone. There was no market, no business culture, nothing. Very few people in Russia then knew what “property developer” meant. I had to explain that it is an entrepreneur whose business involves making profit from building new property sites. I remember we tried to buy a plot of land and start building, and people quoted prices they simply plucked from the air. We tried to explain what, in principle, land prices are based on, and the reply went: “None of this interests us. It is all the same what kind of income you

can receive later on. Isn’t it important to you that what you build is in a prestigious location? What do you need profit for?”

“Carrying out construction work wasn’t straightforward either. Hardest of all was understanding a system which included all manner of permits and restrictions. It was the Soviet system, based on a centralised, planned economy, and it had its own rules of the game distinct from those in the West.”

“A lot of foreigners who come to Russia consider it to be a third-world country. That the rules in existence are nothing serious and, to put it crudely, are only there to enable bribes to be extorted. This is not the case! It is a real system, and the laws are indeed laws, and they have to be kept. And that doesn’t mean having to pay bribes. Here, certain officials would gladly accept money, but they would still make you come back and do the work, and in a way which meets legal requirements.”

“It is a profound, and in no way stupid system, many of the rules of which are in effect to this day. To understand how

**There was no market, no business culture. Very few people in Russia then knew what “property developer” meant.**



**Officials would gladly accept money, but they would still make you come back and do the work, and in a way which meets legal requirements.**

it operates is a huge task on which you could spend many years. But it does have its failings. The whole world lives in a market economy: there has to be a balance between how much something costs and what the result of it will be. We are not going to spend a million dollars on each building so that they have, for example, the capability of detecting a fire five seconds before we can with the usual technology. It's not feasible. We are counting this money. The Soviet system didn't count: it simply didn't know how to. The present Russian system is the heir to that. I remember being surprised by the requirement for hotel kitchens to be three times bigger than necessary. But this is all down to specific health and safety

regulations. And the route along which the rubbish is taken out shouldn't cross the route by which food is delivered. Designing such a kitchen requires a large area. This is irrational, in my opinion. Overall, architects in Russia don't have the same kind of freedom as they do in the West. Although in most cases, it isn't too bad."

**EVERYBODY WANTS TO MAKE MONEY FOR TODAY**  
**"When did you set up your own company?"**

"In January 1993, I, and three Russian partners, left "Perestroika" and established GVA Sawyer."

**"Was it difficult renting premises?"**

"In those days you couldn't just go and rent an office. Office buildings, as such, were virtually non-existent. There were administrative buildings filled with the vestiges of the

WHAT IS  
A "KICKBACK"?



Soviet Union. And it was possible to bribe some organisation and rent a room illegally. But we didn't need one room, we needed a normal office to receive business partners in. So we negotiated with another company whose partners owned a mansion building on Novinsky Boulevard. It had more space than they needed. We split all of the costs fifty-fifty. We had an all-purpose secretary, and one interpreter. It was a rational solution."

"Later on, the possibility of renting premises arose. Companies and firms were paying \$800-1,200 per square metre per year. After the default in 1998, prices fell to \$400-450. Now the average rate has gone back up to 1991-levels: \$800 per square metre."

***"What can you say about the mentality of Russians?"***

"The business culture in Russia still leaves a lot to be desired. Everybody wants to earn a living for today, and what they will do for this doesn't matter, and what tomorrow will bring, similarly doesn't matter. Many want to make money very quickly.

Unfortunately, such is the business philosophy in Russia. But we are waiting. A middle class, a management class has already started to appear in Russia. There are already quite a lot of large companies engaging in retail, in big business, on a professional level, who know how to manage people, who understand management ethics."

"The problem of internal corruption in companies persists. For example, in the building trade individual suppliers and contractors arrange "kickbacks"

**Architects in Russia don't have the same kind of freedom as they do in the West. Although, in most cases, it isn't too bad.**





amongst themselves. They steal and are prepared to risk their careers purely to make money now. That is a question of mentality. Before it was possible to say: look, I'm being paid peanuts. Now, wages in construction are at a normal level, but people brought up in those old circumstances carry on stealing anyway.”

***“Have you ever been let down by Russian partners?”***

“You bet. It is the same here as it is in any other country in the world. There are those who value their reputation highly, and then there are others who see no shame in deceiving people in order to make more money.

That’s why you have to negotiate with any new partners very carefully, and to cover your back. But the Russian businessmen I work with today are very reliable partners.”

**THERE IS STILL SO MUCH YET TO BE BUILT HERE.**

***“Do you succeed in attracting Western investors to your projects?”***

“Our business very much depends on attracting Western investment. I frequently go on business trips. I fly to London practically every month. I’m constantly in meetings with foreign investors, persuading them to put money into projects on Russian territory. And,

each time, I am amazed what a poor grasp they have of what is actually going on in this country. Sometimes I'm asked if private property exists in Russia! Or if people have the legal right to own land. I have to tell them that the consumer boom in Russia has been going on for the last 12 years. But they still see Russia as a very poor country. It happens that I'm asked the question: Do Russians have mobile phones? And I have to explain that, even in 2000, there were more mobile phones than people. There is no end to the surprise that evokes."

***"How would your business be different if you were working in the States today?"***

"I would have less work. There would be fewer headaches. But life would be very boring. One would think that after two years of working in Russia I should have returned to America and carried on working as a lawyer. But the years I spent in Russia were so interesting that I couldn't force myself to go back, and so I have been held up here for 20 years."

***"They say that Russians and Americans are very similar."***

"Yes, and it is purely down to geography. It is the mentality of the big country. People behave differently when they are surrounded by wide, open spaces, huge areas of land, big possibilities; different from someone who lives in a small country where they have

to be more closed, more guarded. And people who live in massive territories are friendlier and more open."

***"Is it worth it for the foreigner to go to Russia to do business?"***

"Of course. This is the centre of the world as regards business. The very best place! Everything here is growing, there is so much of everything that still needs to be built. In the West there is standstill and stagnation: everything has already been built there. All the niches have been filled. All that needs doing, perhaps, is to replace one or two old buildings. But, in Russia, there is a huge area of operation. That is why there are so many of us here: somewhere in the region of 50-60,000 Americans alone work here."

"I often come across a certain phenomenon. Large foreign firms with offices in Moscow complain that it is very difficult to transfer their employees here. They have a system of rotation whereby their managers have to move to a new place every three years: from one office to another. They do this specifically to distribute their technology, experience and knowledge. A sales manager works, for example, in London, then he's moved over to Berlin etc. Nobody, at first, wants to go to Moscow. Sometimes, to persuade a manager, they have to offer him more money. Everyone is scared of this "wild country". Then, once they have worked in Russia for the designated period, when they are about to be moved to another



country, they beg to be allowed to stay in Russia. It really is like that. Living here is very interesting. The “hard times” of the 1990s have been left in the past. Don’t think that here it is worse than in some New York ghetto, and that you have to go everywhere with a bodyguard. Moscow is a very civilised city: it’s clean, with a relatively low level of crime. You can walk around here until the early hours.

And Moscow’s cultural life is of a high quality. Here, for example, there are over a hundred functioning professional theatres. For me, each new play is source of amazing pleasure. And if you get fed up with Moscow, you can sit on the high-speed Sapsan train, and in 3.5 hours you are in St. Petersburg. And to see every corner of Russia would take more than a lifetime.” ■

**In the West there is standstill and stagnation:  
everything has already been built there.  
All the niches have been filled. But, in Russia,  
there is a huge area of operation.**



Join in a discussion  
of the article  
on facebook.com





# A Little Bridge from East to West

*Chairman of the Board of the Business  
Council of Russian Compatriots  
in Japan, **Yury BULAKH**, is Opening  
Japanese Eyes to the Russian Market*



*Today there are Russian Compatriots organisations in many countries around the world. But is it worth foreign businessmen, those local inhabitants, turning to Russian expatriates for help in setting up business in Moscow or in other Russian cities? Telling us how, and with what, Russian Compatriots are helping local entrepreneurs, is Chairman of the Board of the Business Council of Russian Compatriots in Japan, **Yury BULAKH**.*

Instances where Japanese businessmen come to us seeking to enter the Russian market are not particularly frequent (most do it directly) but they do occur with enviable regularity. For example, we are currently conducting negotiations for the merger of two companies operating in the Information Technology field in Russia and in Japan. A large IT company from Tokyo was looking for a way into the Russian market, they turned to us, and we found them potential partners in Moscow. The Japanese want to invest several million dollars in this project. The first round of negotiations is complete, and now the auditing is being carried out. Thus, now that the documents

have been signed off, another round of partnership relations between Tokyo and Moscow is in the process of being wrapped up.

Here's another example. In 2008, a large tourism company, H.I.S., decided to set up a representation in Moscow. They turned to us. The difficulty lay as much in putting together the formidable set of documents, as explaining to those Japanese businessmen, what the company representative could expect – to stand in line, in person, in order to register with the tax authorities. Other peculiarities of our Russian procedures also evoked surprise amongst them. We found the lawyers to help the company President, a Japanese citizen who wanted to make sure of everything personally, in obtaining a visa and permission to employ

ABOUT  
YURY BULAKH



foreign workers. Naturally, all of these issues were dealt with.

But, casting my mind back to these negotiations with the Japanese, I still smile. Formalities are formalities, but trying to explain to them that neither I, nor a lawyer, thought them up, that they may be bureaucratic, but they are the rules, turned out to be the most difficult thing about that project. By the way, H.I.S. now operates successfully in Moscow, and carries Russians not only

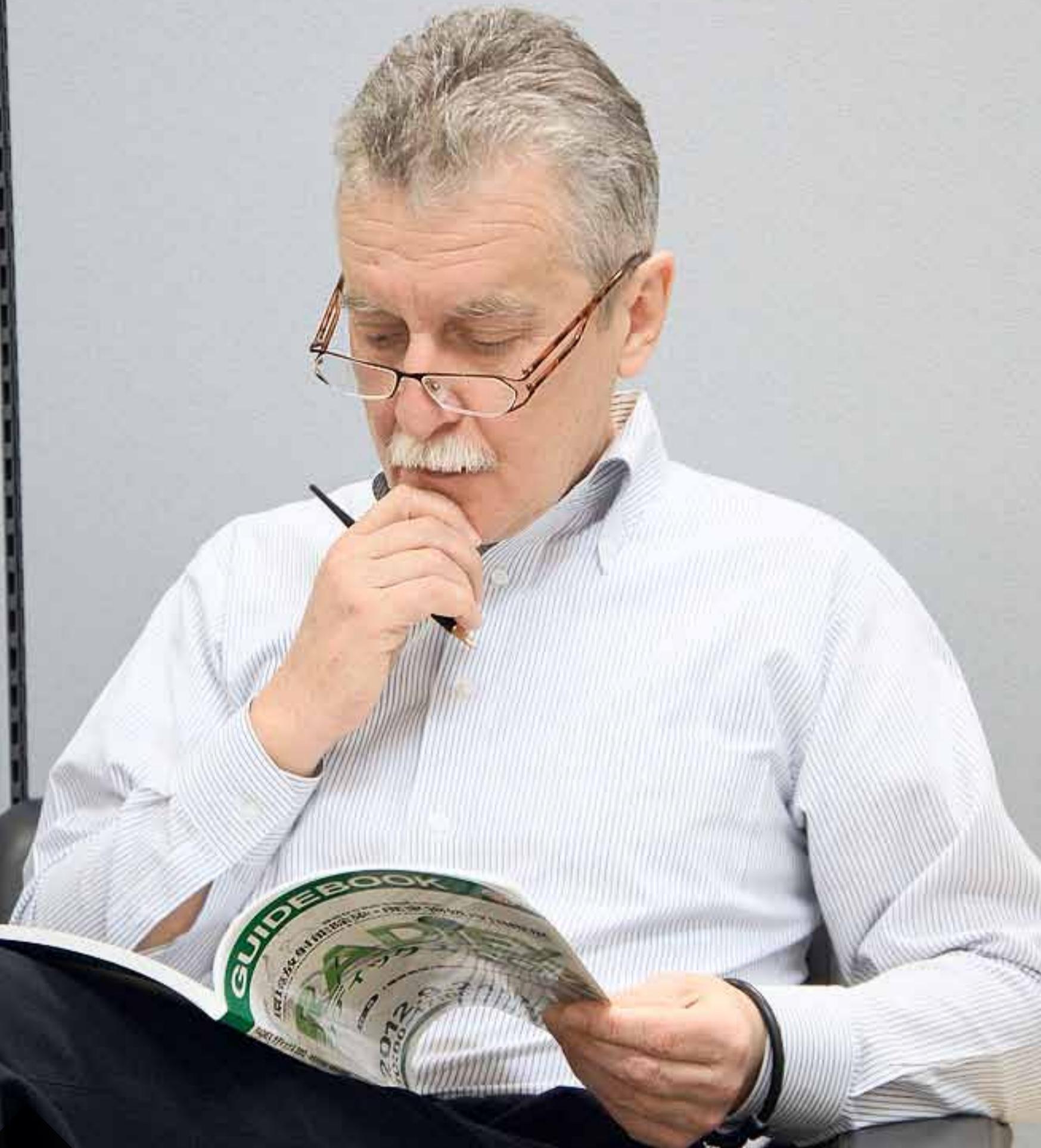
exploited. At this moment in time, our organisation is striving to establish wide-ranging cooperation with companies which provide consultancy services or actively promote the idea of developing relations between Japan and Russia. Amongst them are: consultant.ru, REAL JAPAN, and several non-profit organisations. What we consider to be yet another important aim of our work is to further the development of ties between the

**Quite often people come to us via the Union of Russian Compatriots in Japan where I am the Chairman of the Board of the Business Council.**

to Japan, but to third countries as well. The Business Council of Russian Compatriots in Japan is the first officially registered Russian organisation in the Land of the Rising Sun. Not everything is straightforward in Russo-Japanese state-to-state relations. Our two countries are the closest of neighbours. However the potential for establishing relations, especially in the area of business and trade, is, as yet, still very much under-

regions of Russia and Japan. At the moment, it is mainly representatives of Japanese local government bodies, interested in developing links with Russia, who get in touch with us. So, for example, I and other members of our organisation provided active assistance to the governorship of Tottori prefecture when the newly-elected governor expressed an interest in cooperation with the Russian Far East. And, since 2009, we have been





**A large IT company from Tokyo was  
looking for a way into the Russian market  
and we found them potential partners  
in Moscow.**

assisting the prefecture in developing a strategy for entering the Russian market. The prefecture is renowned in Japan for its high-quality agricultural produce and for its fish. And the first thing that was done was to arrange the supply of fruit and vegetables to Russia's Far East. Representatives of the prefecture also helped with the opening of the Tottori restaurant in Vladivostok. And now, in Vladivostok, the prefecture's official representative

Of course, all of the above-mentioned instances of promoting Japanese business in Russia could have come about without our involvement. It would simply have taken a little longer, and would have been a little more difficult, and, perhaps, not everything would have worked out so well. We are a unique little bridge between the two countries. We try to put Russian realities into a format which the Japanese are more familiar with.

**We are a unique little bridge between the two countries. We try to put Russian realities into a format which the Japanese are more familiar with.**

office has already opened its doors. With their support, a factory making wooden chopsticks, all of which are supplied to Japan, has been set up in the town of Olga, Primorsky Krai,. This is but one of the many examples of how inter-regional communication, partnership between local governments, can become a real engine for developing mutually profitable economic cooperation and contacts between businessmen in the two countries.

Large firms, it goes without saying, do not require our assistance or our services. When Toyota, for example, opened their factory in St. Petersburg, they worked directly with the city's administration. Likewise, when Nissan decided to become one of the shareholders in AVTOVAZ OJSC, they went direct to the Russian government and brought the deal to a successful conclusion. But for small and medium-sized businesses in Japan, as well as in other countries, Russia is still a distant



and unfathomable country. How can you do trade there? As the Russian proverb says: “The honey is sweet, but the bees sting”. And straight away, right there, the role of Compatriots organisations are invaluable. Here in Japan, the number of Russian compatriots is substantially lower than in other developed countries, and their experience is not so great at the moment. Nevertheless, we have already sensed that we are able to play a significant role in setting up

contacts and establishing links between small and medium-sized business representatives of both countries. In other words, foreign investors can receive an initial consultation on the business prospects offered by Russia, and conduct their initial search for partners with representatives of local Russian Compatriots organisations, right there, at home, wherever that may be: be it in Japan, France, England, or in any other country. And we can help them to save both time and money. ■



Join in a discussion  
of the article  
on facebook.com





# How to Part Company With an Employee Correctly

*Four legal and relatively simple ways  
of solving this problem in Russia*





*You have created a firm in Russia and taken on staff. But sooner or later (whether in Russia or any other country) all employers find it necessary to dismiss a staff member, sometimes a conscientious one, sometimes one not entirely so. In the first case it is a matter of reducing staff numbers, in the second, absenteeism or a breach of labour discipline. So how can you part company with an employee correctly? How can you avoid excessive cash settlements in the case of doing away with his job and possible reinstatement of the one discharged under legal procedure? In this respect, the Russian system of relations between the owner of the business and an employee hired by him is somewhere half-way between the European and the American. European employers consider it liberal, because it is much harder to dismiss someone in France, Italy or Spain. But the Americans think the opposite, that it is very strict, because it is simpler to part company with hired personnel in the USA than it is in Russia.*

**Nizami FARUKHOV**, Managing Director of the law firm ALBARI, explains how to dismiss a staff member in strict accordance with current Russian laws.

## AT HIS OWN REQUEST

The simplest way for both parties (the employee and the employer) to part from each other is for the employee to leave “at his own request”. For this, the employee has to write an application requesting permission to resign. This is required by Article 77 of the RF Labour Code (the Russian Federation Labour Code is the fundamental legislative act in the RF defining labour relations between employees and employers, and takes priority over any other Federal laws, presidential decrees and the like concerned with labour relations). Strict observation of the requirements of the RF LC guarantees freedom from problems for an employer in Russia.

In such cases, the main thing is not to provoke a conflict situation, otherwise

the subordinate might simply refuse to sign the application. The employer must therefore make it clear to the person concerned that he is genuinely concerned about the future of the subordinate when he is no longer with the company.

If the employee can be persuaded to leave at his own request, he could (and I would say should) be given severance pay. But just don't try to use invented accusations as “incentive” factors. This could cost you dearly.

## REDUCING STAFF NUMBERS

An employee can be dismissed when staff numbers are reduced, regardless of whether such a reduction is necessary or not. The essential point is that it should be a genuine reduction. There are cases in which employers, under the

*One of our  
actual cases*

1

he did not do this, he was threatened that money would be demanded from him for the allegedly stolen goods, and also that he would be sacked on grounds that would discredit him. Our client agreed, but after his dismissal, he could not find a job anywhere. So he came to us and asked for our assistance in getting his job back.

We sent the appropriate declarations to all the state supervisory bodies. As a result of this, on the basis of an objection by the public prosecutor, the order dismissing our client from his job was declared invalid and cancelled. In court, we managed to draw attention to



pretext of a reduction, are trying to get rid of specific employees whom they don't want, and immediately take on a new employee. In such a case, if the dismissed employee appeals to a court, he will most likely be given his job back. The employer will also be required to pay him wages for the period of his enforced absence based on his average wage.

The employee must be warned of the forthcoming reduction in numbers (of staff) in writing at least two months in advance. If the dismissed employee is a member of a trade union, his dismissal must be agreed with the union too. The employee must then be offered some other post in the organisation, and only after he has refused it does the employer have the right to issue an order dismissing him.

And lastly: an employee dismissed due to reduction in staff numbers must be given severance pay in the sum of one month's average earnings. The average monthly earnings must remain the same for the time it takes him to find a job, but not exceeding two months from the date

of his dismissal (taking the severance pay into account).

## **DISMISSAL FOR FAILURE TO OBSERVE LABOUR DISCIPLINE**

In the event of a failure by the employee to observe labour discipline, the most important factor is that the labour contract should include a point in which the time the working day starts and ends is clearly stated. The time sheet should record all the employee's breaches of contract in times of arrival and leaving work. If the poor timekeeping and other breaches of internal procedure are of a systematic nature, it is necessary that an order should be issued for each one of them on the disciplinary measures taken (admonitions, reprimands), then a commission has to be set up and an act compiled of these breaches, after which written explanations from the employee must be required. The commission may include other employees of the company, including the direct superior of the person who has to be dismissed.

---

**STRICT OBSERVATION OF THE REQUIREMENTS OF THE RF  
LC GUARANTEES FREEDOM FROM PROBLEMS FOR AN  
EMPLOYER IN RUSSIA.**

---



The commission also includes three disinterested parties (a secretary, a security guard, etc.).

If the employee refuses to give written explanations, an act of this refusal must be compiled and signed by the members of the commission. Of course, such acts, admonitions and orders may be disputed by the employee if he does not agree with them. Practice has shown that admonitions are not a sufficiently serious measure, whereas reprimands are, and employees hardly ever dispute them.

It is important not to be careless about any such documents, and to have all the relevant documents when dismissing an employee. These documents will help the company in the event of a legal dispute with the employee.

## SACKING FOR A SINGLE SERIOUS BREACH

According to the Russian Labour Code, the following can be considered a single serious breach:

- coming to work under the influence of alcohol or other intoxicant;
- absence for a specific part of the working day without warning;
- disclosing a commercial or state secret;
- theft, embezzlement or destruction of property at the workplace.

The most common reasons for dismissal under this heading are appearing at the workplace in an intoxicated state, and absence for more than four hours without explanation or valid reason. When commencing

*One of our  
actual cases*

2

.....  
that the disciplinary measure of dismissal taken against him was too severe and out of proportion to the seriousness of his misdemeanours. He also pointed out that the dismissal procedure was carried out in breach of the law's requirements.

We submitted documents to the court about the employee's repeated breaches of internal procedures and safety regulations (orders and rulings about deductions, fines and warnings of dismissal, and also the employee's explanatory documents). We also submitted documents confirming that the procedure for dismissing the employee



the dismissal procedure, do not forget to make sure that the employee's job instructions or labour contract really does contain a clause about this, that the employee has been notified where his workplace is and has signed as having read the instructions.

dismissed employee will win.

As for absence and dismissal in respect of it, in such a case it is possible to dismiss an employee even for being absent from the workplace only once. If the employee is absent for more than four hours, he should be given a

---

## **IT IS IMPORTANT TO OBSERVE ALL THE FORMALITIES AND ACT ON THE BASIS OF THE STANDARDS OF CURRENT LEGISLATION.**

---

To prove that the worker was at his workplace in an inebriated condition, you need not only witnesses and their testimony in writing, but also a medical certificate. Only when you have all these evidentiary documents to hand can you proceed with the dismissal. Otherwise, the dismissal could easily be disputed in court, and more often than not the

reprimand and an explanatory note should be demanded of him. If the employee has no adequate explanation, he should be dismissed immediately. It is important to remember that the dismissal of an employee for absence should take place within one month from the moment when the absence was discovered

---

## **WHEN AN EMPLOYEE IS DISMISSED, IT IS IMPORTANT TO HAVE ALL THE DOCUMENTS CONCERNING ALL HIS OFFENCES.**

---



**The dismissal of employees on the employer's initiative is possible on other grounds too. For example, if a firm is liquidated or passes to a different owner, if the employee is not suitable for the post he holds, and so**

**on. However, in any case, it is extremely important to observe all the formalities and act on the basis of the standards of current legislation. ■**

---

**IF THE EMPLOYEE IS ABSENT FOR MORE THAN FOUR HOURS, HE SHOULD BE GIVEN A REPRIMAND AND AN EXPLANATORY NOTE SHOULD BE DEMANDED.**

---



Join in a discussion  
of the article  
on facebook.com



WE SIMULATE SITUATIONS

# How to Deal With Business Problems?



[www.impekalliance.ru](http://www.impekalliance.ru)



*If you can't do it yourself, use a consultancy service, advises **Ivan MEDVEDEV**, managing partner of "**Impek Alliance**"*



*It is not unusual today for a foreign businessman in Russia to need help – with legal, administrative or management matters. **Ivan MEDVEDEV**, managing partner of “Impek Alliance”, is confident that a well-informed and well organised consultancy service can not only help a firm to solve some specific questions, but also, in many cases, can make it possible to save a business by preventing the management of an enterprise making wrong decisions. In confirmation of his words, **Ivan MEDVEDEV** cites a number of examples from his own experience.*

## SITUATION

1

A Belgian company expressed the desire to enter the Russian market by organising the sale of car wheel discs produced in China. However, knowing the lack of trust among Russian customers in goods from that country, the potential supplier decided to change the information about the producer.

is), is considered an administrative offence, and in the event of the fact of contraband being proved, criminal punishment may follow.

The following solution was proposed as a way out of the situation. A subsidiary enterprise should be set up in Belgium, or better still in Germany, which should obtain from the competent authorities the specifications for the production of wheel discs. After that, the enterprise would import the same discs into Russia, but directly from China, declaring in the documentation that they were produced to German specifications. Such a procedure is permissible under Russian customs law.

It would mean that the information that the goods are of Chinese origin would remain on the label. But the information that the discs were produced to German specifications would be given in larger print. This would satisfy the Russian customer, because he is used to the idea that European goods imported from



## SITUATION



An Italian company producing and supplying elevator equipment decided to operate in Moscow, and began keeping its accounts in accordance with international accounting standards. But it did not allow for the incompatibility of the different approaches, or the complexity and confusion of Russian law.

A manufacturing company responded to this proposal. It planned to keep its accounts taking the accepted international approaches – “balance sheet”, “profit and loss” and “cash flow”.

This approach proved to be unacceptable to the Russian tax authorities. As a result, the company came up against a lack of understanding on the part of the state bodies, which threatened to make its prospects in the Russian market uncertain. It also proved difficult for the company to organise its accounting in the new location under a system which differed considerably from what they were used to in their own country. What needs to be done in this situation? A subsidiary company should be set up on Russian territory, where up-to-date compiling and submission of the accounting report and tax return under the Russian rules would be arranged. These are the key points. If it is not possible to set up a Russian subsidiary yourself (due to lack of the relevant skills, knowledge and experience), make use of the services of a reputable consultancy company. Such a company can sort out the legal accompanying documents and the auditing. It is also essential to carry out a legal analysis of all contractual relations, paying particular attention to leasing agreement for equipment and property. It is better to entrust these matters too to the consultancy organisation, which will deal with all the legal support for the business.

---

**IF IT IS NOT POSSIBLE TO SET UP  
A DIRECT AND SUBSIDIARY COMPANY**



## SITUATION

# 3

A company from Germany decided to deliver vegetable storage equipment to one of the regions of Central Russia. But to achieve this, it had to take part in an open tender, from participation in which the company was eliminated on a formal pretext.

was formed as a basis for participation in the tender. Furthermore, to obtain the financial guarantees from the authorities, they produced a technical and economic justification of the project and compiled a business plan, i.e. they observed all the necessary conditions for the possibility of winning the tender. Nevertheless, the company could not gain acceptance as a potential supplier of the equipment. The organisers of the tender refused to allow it to participate in the tender, on the grounds that in preparing the documentation for the tender, a certificate that the participant had no debts for taxes and dues was not included. It turned out that there was an outstanding debt of a mere 300 roubles (a little less than 10 dollars). Thus all its efforts were in vain, and it seemed this major business project would go to one of the competitors. The company planned to wind up its operations in Russia and leave the country. But fortunately it did not do so, after taking advice from a consultancy organisation.

Several things can be advised in this situation. Firstly, more care should be taken over the documents for the tender, and particularly to tax payments and possible claims from the tax authorities, which can often be unfounded. As is known, Russia is a country of red tape. And secondly, Russian law connected with state tenders should be studied more thoroughly. The point is that tenders are deemed to be invalid if there is no more than one participant. In this open tender situation, this was what had happened. There were only two contenders, and with the removal of the foreign company, only one remained. For this reason the tender was deemed invalid and a new tender



## SITUATION



An entrepreneur from one of the European states expressed the intention of supplying building materials to the Russian market. There proved to be a requirement in this field, but the supplier was afraid of legal pitfalls in relation to the clients. Furthermore, he did not manage to cover all the purchasers, and many understandings might not reach the point of concluding a deal.

was concluded on the best possible terms for the supplier. What's more, this contract was compiled in accordance with all the standards of Russian law. Later, an interesting variant was proposed to the entrepreneur: to open a trading house in Russia to represent the interests of the supplier. This enterprise was also set up by specialists of the consultancy firm. As a consequence, the activities of this trading house expanded considerably, and even foreign partners expressed an interest in cooperation. The servicing of the enterprise was completely based on outsourcing: the accounts report and tax return, the auditing of the contracts, and representation of the client's interests at meetings with partners and subcontractors. A financial analysis of the project showed to the cost of hiring the consultancy company was considerably lower than if the owner had had to take on staff himself to do all this. In effect, the firm set up by the foreign entrepreneur in Russia consists of one man – himself. All the others involved are specialists of the consultancy firm, who are immersed in the business processes and manage them within the framework of their authority and functional obligations. The founder runs his enterprise mostly via Skype and the telephone.

---

**IN EFFECT, THE FIRM  
SET UP BY THE FOREIGN  
ENTREPRENEUR IN RUSSIA  
CONSISTED OF ONE MAN**



Join in a discussion  
of the article  
on facebook.com





# Buyer Potential is the Best Recommendation

*If you are not represented at Moscow exhibitions,  
it means that your goods are not  
on the Russian market*



*How can a foreigner promote his goods on the Russian market? Exhibitions are an essential attribute for developing a business. The experts are categorical about this. Not in the exhibition means not on the market! **Tatyana LISANOVA**, of RussCom IT Systems, explains how a European or an American can find his way through the complex system of Russian exhibitions.*

**“Tatyana, you are conducting an audit of Russian exhibitions. That is, you are studying the number of those taking part in them, their qualitative makeup and even purchasing ability. Why is this?”**

“For many years, the organisers of exhibitions only put out what information they thought fit about their activities. For example, an exhibition has been held. In order to attract participants to the next one, the organisers write: there were an estimated 500 participants, 30,000 people came to it, such-and-such contracts were signed. And next year people come, pay considerable sums to take part, but do not find what they were expecting: no new partners, no contracts. And this disillusion extends to the whole field of exhibitions. They no longer trust Russian exhibitions as a tool for promoting business.”

**“So how great are the differences in figures?”**

It's hard to say, because no-one has specially calculated it. It's just that the participants subjectively – from what they feel, from the return – see that they'll never make 30,000, 10,000 or 15,000 max out of it. And there aren't many contracts, just gawpers wandering from one stand to another. Here is an example. Before the auditing procedure was introduced, the statistics showed something rather strange: Germany sells twice as much exhibition space as Russia.



**[www.it-systems.ru](http://www.it-systems.ru)**



## **Germany sells twice as much exhibition space as Russia, but only has half as many visitors.**

### **Nonsense!**

but only has half as many visitors. But this is nonsense, everyone realised that such figures must be the result of the Russian exhibition organisers cooking the books.”

“We have here the Russian Alliance of Exhibitions and Markets (REAM). This is a highly reputable organisation, which unites the biggest exhibition organisers and the owners of exhibition facilities. According to the REAM, about two thousand exhibitions and markets are held in Russia every year. In 2004, the Alliance decided to introduce the practice of independent auditing of exhibitions. Everywhere else in the world, this is considered normal. An open tender was held, and since then our company is their independent auditor, guaranteeing that the information about one exhibition or another corresponds with reality.”

**“Are all exhibition organisers obliged to provide you with information?”**

“No, of course not. An audit is a

voluntary matter, for which the customer comprises the exhibition organisers themselves. It must be said that not all of them by a long way are willing to show their hand. Up to now, only 14 per cent of the total have submitted to the auditing check. But these 14 per cent cover 60 per cent of all exhibition facilities. That is, the majority of the major exhibitions have been audited. Furthermore, we are being invited to the CIS countries: Ukraine, Moldova, Kazakhstan, Azerbaijan.”

**“So that means that those who are not being audited are probably inflating the figure.”**

“No, I would not put it like that. Who knows for what reason the organisers refuse the auditing process?

THE COST OF PARTICIPATION



You could put it this way: the data from exhibitions which have been audited can be trusted absolutely. Any self-respecting exhibition trying to attract exhibitors orders an audit, thus making its statistical parameters public knowledge. Furthermore, we are not working for ourselves, we are monitored by the REAM. Our people scrupulously calculate the exhibition space, the number of exhibits, the visitors and the

“It all depends on what you are setting out to achieve. Sometimes quite a small exhibition might produce the required effect. But all the same, the probability of success is higher at a major one, aimed at a greater number of visitors. An exhibition should be selected primarily from among those which have reliable statistical information on both the quantitative and qualitative composition of the visitors. Only if you have such data

**An audit is a voluntary matter, and not all of them by a long way are willing to show their hand.**

participating countries. The calculating methods and techniques are produced by the Global Association of the Exhibition Industry (UFI). We are a member of this organisation, and naturally we comply with them. All the data are published on our website, on the REAM website and on the major internet portals devoted to exhibition activities.”

**“How should one choose the exhibition in which it would be most effective to participate?”**

can you be sure that you will not find yourself standing by your exhibit in an empty hall. The “REAM” and Approved by UFI” marks can be used as an initial “cut-off point”. These serve as signs of quality in the exhibition industry. Of all the exhibitions being held in Russia now, 120 have the REAM mark and 78 are “Approved by UFI”.”

“But this in itself is not enough: Exhibitions of 1200 and 50,000 sq.m. may have quality marks. Therefore we are marketing a new product: an All-





The probability of success is higher at a major exhibition, aimed at a greater number of visitors.

Russian exhibition rating, compiled on the basis of exhibition audit data. This initiative came from the REAM and the Chamber of Commerce and Industry of Russia. We are completing the arrangements for the first rating now. It will become available to the public at large in February next year. Any potential exhibitor or visitor will be able to open this rating, find all the exhibitions broken down under 50 themes, and find the most suitable for his purposes."

***"You mentioned the qualitative composition of the visitors. How do you measure this?"***

"It is important for any stand owner to know how many specialists come from companies. These are the ones who have come not just to gawp, they are prepared for actual business contacts. There are special methods. Our researchers poll people at the exhibition itself, and special questionnaires are filled in. They ask the visitors if they are specialists, where they

have come from, if they are looking for anything specific and if they are prepared to conclude contracts. One may draw conclusions about the qualitative composition of the visitors from the results of such a questionnaire."

"By the way, among other things, we are also conducting research into the so-called Buyer Opportunities (purchasing ability) of visitors. There is electronic registration at virtually all the exhibitions in the B2B (business to business) sector in Russia. We use these data for research. Six months after an exhibition, our researchers ring up 500-700 visitors and ask them how useful the exhibition was for them, whether they managed to make new contacts, whether they concluded contracts, and if so, for how much. Of course, not all of them answer. But the number of answers comes within international standards, which gives us the right to draw specific conclusions. A good buyer potential is the best recommendation for any exhibition. For example, we have conducted this sort

**We are marketing a new product:  
an All-Russian exhibition rating,  
compiled on the basis of exhibition  
audits.**



of study for the “Furniture” Exhibition (organiser ZAO Expotsentr, Moscow). It turned out that for a total Russian furniture market of about ten billion dollars, contracts worth one billion had been concluded at the exhibition. That is quite a lot!”

***“For which industries is it most effective to promote products by taking part in exhibitions?”***

“There are no data directly reflecting this. But one can form an idea, for example from the number of exhibitions held concerning one industry or another. Most exhibitions are devoted to construction and finishing materials. After these come engineering, oil and gas, agriculture and power generation, and after them, exhibitions devoted to clothing and footwear, safety and other themes.”

“By the way, foreign companies participate very actively in Russian exhibitions. The Chinese take first place. They traditionally take part in exhibitions devoted to construction, IT and the

food industry. In second place, Italy. Companies from that country prefer the fashion industry, and also construction and interior design. The Germans are in third place. They take an active part in exhibitions on construction and agricultural-industry themes.”

“However, one should not rely only on the number of exhibitions concerning the industry. In some sectors of the economy, there may be only one or two exhibitions, but very effective ones. This will be very well reflected in the rating.”

***“Are there any exhibitions worthy of attention in the Russian regions, or is it better to concentrate on Moscow and St. Petersburg?”***

“Of course, the two capitals are the main centres for the exhibition business. The biggest exhibition sites and European-quality services are found in them. About 25 per cent of all exhibitions are held in Moscow and about 10 per cent in St. Petersburg. There are undoubtedly good exhibitions

**Foreign companies participate very actively in Russian exhibitions. The Chinese take first place.**



in other cities too. For example, in Novokuznetsk (“Russian Coal and Mining”), Ufa (“Gas. Oil. Technologies”), Kazan (“Volgastroyexpo”), Novosibirsk (“Stroysib”) Sochi (“Interjeweller”) and so on. And in making your choice, you must know what you hope to achieve. If you want to cover all Russia, it makes sense to exhibit in Moscow. But if you are aiming at some region in particular, then you have to go right there. However, it must be understood that unfortunately there are very few modern exhibition sites in the regions. So if you select an exhibition somewhere in the provinces, you must gather all possible information about it.”

***“Can the exhibition business itself be considered an attractive field for foreign investments?”***

“It’s hard to say. There are foreign companies who have been operating here successfully for a long time: ITE, Reed Exhibitions, Messe Düsseldorf, Messe Frankfurt and others. They have bought many exhibition halls, both in Moscow and in the provinces. There is still insufficient exhibition space in the regions, and this could be food for thought for a potential investor. But it must be taken into account that prices for leasing stands are lower there, and this means you should not reckon on a quick return on investments. There is no such shortage in the capitals. It can happen that the exhibition centres are overbooked, and it can happen that they are standing idle. This is a seasonal phenomenon, so you can’t really judge the market requirements from it.” ■

**If you want to cover all Russia, it makes sense to exhibit in Moscow. But if you are aiming at some region, then you have to go right there.**



Join in a discussion  
of the article  
on facebook.com



# BIGMOSCOW

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

Published

by **Department for External Economic and International Relations of Moscow**

Joint Editorial Staff

BIGRUSSIA - Business Investment Guide to RUSSIA

**Chief Editor** Nail GAFUTULIN

**Publishing Editors** Vladimir MOKHOV and Valery DROBOT

**Head Designer** Maria LANDERS

**Editors-translators English version**

Jack DOUGHTY, David TUGWELL and Jason 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](http://www.bigrussia.org)

[magazine@bigrussia.org](mailto:magazine@bigrussia.org)

Link in App Store  
German version and Russian version

