

# **Belgian SMEs in the Russian crisis**

**How to deal with the new reality!**

**“The future belongs to those who knows how to wait”**

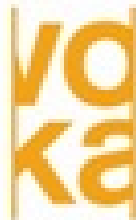
**23 November 2009**

**Rusland Evenement ter gelegenheid van de  
Week Internationaal ondernemen: 'Ondernemen op z'n Russisch'  
Voka - Kamer van Koophandel Limburg**

**By: Jeroen Ketting, Managing Director of Lighthouse Russia BV**



**LARIVE**  
GROUP



**Kamer van  
Koophandel  
Limburg**



Flanders Investment & Trade

## Contents of the presentation:

1. Reality of the crisis.
2. Undeniable truths.
3. Crisis advice.
4. Cultural differences and do's and don'ts.
5. Conclusions and Questions.

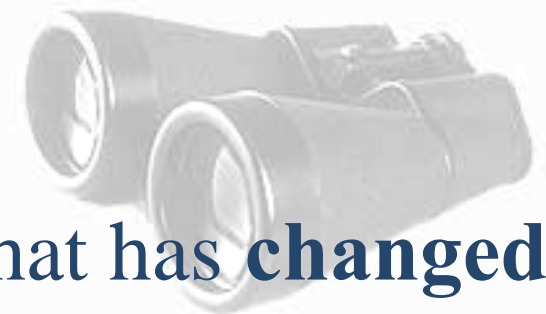


## Reality of the crisis:

1. There is **less money** in the market.
2. The **shock** of poor results.
3. **Inefficiencies** become apparent.
4. **Purchasing power** significantly reduced.
5. Activity on a number of markets has decreased.
6. **No** readiness for experiments.

but

7. Labour and office/retail/warehouse space have become more available and **less costly**.
8. Russians are **crisis resistant**.
9. **Belgian SMEs** will find a market that has **changed**.



## Effects of the Crisis:

1. Russian companies are adapting to a **new reality** that the crisis has brought about:
  1. Drop in demand.
  2. Lower margins.
  3. Weaker Rouble.
  4. Uncertainty about the exact effects of the crisis.
2. In reaction to this new reality, companies are:
  1. Cutting **costs** (e.g. laying off staff).
  2. Reluctant to expand business activities → focus on **optimizing existing activities**.
  3. Switching from Contracts Ex Works / foreign currency → **DDP Russia** (thus: Rouble).



**"Russia is never as strong or as weak as it appears to be"**

**German Chancellor Otto von Bismarck**



# Always that will happen what you least expect.

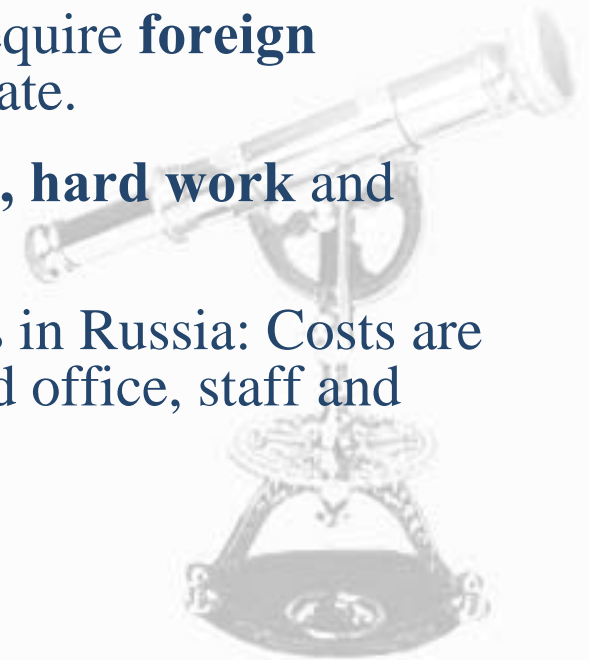
## Russia still has:

1. **Size** of economy / country.
2. Natural Resources (**oil price**).
3. **Government** support.
4. Need and potential to **add value** inside Russia.
5. Need and potential to **reduce import dependency** and to **diversify** economy.
6. Land, water, space.



## Opportunities

1. The Russian market still has **similar opportunities** as before the crisis:
  - a. Local production continues to be **insufficient** to meet local demand for consumer goods and equipment.
  - b. Shift to (cheaper) products will occur, but Russians will continue to **consume**.
  - c. Companies in many sectors will continue to require **foreign** equipment, technology and know-how to operate.
2. Difference is it will require more **time, flexibility, hard work and commitment** to be successful.
3. In some ways, it has become easier to do business in Russia: Costs are **falling** (office rents, wages, land) → easier to find office, staff and production sites.



## Understand that Russia requires:

1. Twice the **time** to manage.
2. Continuous **attention**.
3. A **personal** hands-on approach.
4. More investment of time, money and effort.
5. A **medium- to long-term** strategy.

## Understand that:

1. Russia will always stay Russia.
2. A Russian will always stay Russian like a Belgian will stay Belgian.
3. The market will not come to you anymore but you will have to come to the market.



## Crisis advice:

1. Understand Russia and its cultural characteristics.
2. Study and **know** your market more than ever before (volume, segments, regions, sales channels, price levels).
3. Clarify your **transaction costs** (travel, brochures, certification, exhibitions, logistics, management time).
4. Cost – benefit.
5. Know your **opportunity cost**.
6. Prepare yourself (travel, brochures, certification, exhibitions, logistics, management time and present added value / USP, references).
7. Prepare yourself for the medium- to long-term.
8. Financing is an issue again (back to the nineties!).
9. Move towards the market.

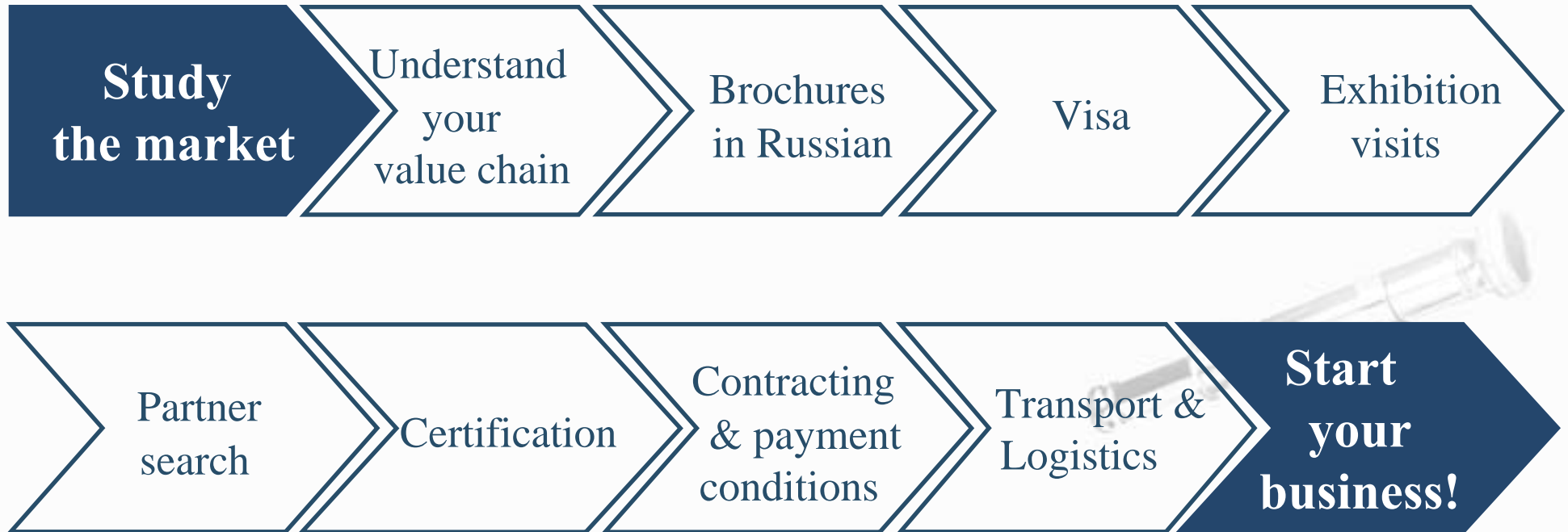


## Crisis advice:

1. Test the water **step by step**:
  1. Exhibition / mission.
  2. Understanding of Russia and its market.
  3. Strategy.
  4. Partner search.
2. Come with a **full cycle** approach / a total solution.
3. Think of **localization**.
4. Take and keep the **initiative**.
5. Help in **implementing**.



## Steps to take for a successful market entry:



## Crisis advice:

1. Russian companies might be **reluctant** to start (or expand) their business activities, but the present period can be used to build up or expand your business network.
2. Be **flexible** in order to adjust to the new reality on the Russian market → Russian companies expect a commitment in order to get through these tough times together (e.g.: minimize time to market for their product in order to reduce the credit period).
3. **Presence:** Crucial to remain present on the Russian market and invest in brand awareness and the relationship with your business partners. By doing so, you will be ready to seize the opportunities as soon as the crisis ends.
4. Loyalty and resilience in times of crisis will be **rewarded** as the previous crisis in 1998 has proven.



## The main cultural differences between Russia and EU:

1. Building of **trust** and personal relationships is **vs. formal relations** in EU.
2. **Informal** communication **networks vs. formal (official) networks** in EU.
3. The **Micro Cosmos** (almost clan) **vs. low interpersonal cohesion** in EU.
4. **Testing** the rules **vs. abiding** by the rules.
5. Responsibility for close ones only **vs. responsibility for society**.
6. **Pride and Power vs. modesty**; Extreme vs. Average; Emotions vs. Ratio.
7. Surprising vs. predictability.
8. **Practical vs. formalistic** approach of things.
9. **Short term** (positively fatalistic) vision **vs. long term vision**.
10. Separating **business** and **personal**.
11. Single-focus thinking – holistic thinking.



## Russian vs. EU Business Culture:

1. Vertical **authority vs. consensus.**
2. Staff, partners and distributors require continuous **management.**
3. During first contacts the Russian partner may **promise** more than can be delivered (without bad intent!) - **Intent vs. agreement.**
4. Russian businessmen can be **imposing.** Weakness is not shown and one always negotiates from a position of power.
5. The external **appearance** is very important **vs. substance in EU** / context vs content.
6. Russians have their own way of thinking and reasoning and are **reliable** within their own logic.
7. Russian businessmen think, speak and act **fast!**
8. Quantity vs. Quality / Capacity vs. Efficiency / Purpose vs. Comfort.



## The language barrier:

1. Be critical of **interpreters** as they make mistakes.
2. Be critical of written **translations** (don't use internet).
3. Many Russians know English but are not **comfortable** speaking it.
4. Have your **brochures** in Russian.
5. Have a **business card** in Russian (and check pronunciation).
6. Learn **alphabet** and a few words.



**Do:**

1. Understand and respect each others cultural peculiarities and perspectives!
2. **Enjoy** Russia 😊!
3. Be committed.
4. Do your homework and **know** your market.
5. Gain some knowledge of the Russian language and **culture** (learn (alphabet and) a few words).
6. Be **entrepreneurial, flexible** and **patient** (e.g. bureaucracy, market development).
7. Stay in **control** and keep the **initiative**.
8. Create **win-win** situations in which all parties have a clear added value.
9. Use experienced local (general, tax and legal) **advisors**.
10. Limit your **exposure** and risks.
11. Dedicate and commit sufficient **financial & human resources**.
12. Be open.



## Don't:

1. Be **afraid** of Russia.
2. **Underestimate** the market or your Russian business partner.
3. Stick to your own perspective.
4. Think Russia is **Europe**.
5. Think Russia is **cheap**.
6. Think it is easy to find the right **staff**.
7. Let yourself in with **corruption**.
8. Give immediate **exclusivity** to distributors and put **certificate** on your partner's name.
9. Forget to register your **trademark**.
10. Forget your **visa** and do not forget to have your passport on you.
11. Think **transfer** of goods and money is easy.



## **Problems with Exports:**

1. Customs.
2. Certification (on your company's name).
3. Elaborate and numerous documents and contracts.
4. Need to compete with grey imports.

## **Therefore important:**

1. Good and trustworthy agent/partner/consultant.
2. Good transport company experienced in working with Russia.
3. Solid preparation and uniformity of documents.
4. Conservative payment conditions.



## What is the secret of success of foreign companies in Russia?

1. They are there and they are **committed**.
2. They **like** it 😊.
3. They **understand** Russia's market potential.
4. They are ready to be **flexible**.
5. They are **entrepreneurial**.
6. They **understand** and **respect** Russia's cultural peculiarities and understand the Russian **perspective!**



**Умом Россию не понять,**

Russia can't be understood with the mind,

**Аршином общим не измерить:**

Can't be measured with a common yardstick:

**У ней особенная статья -**

She has a specific characteristic -

**В Россию можно только верить.**

In Russia it's only possible to believe.

1886 Fedor Tiutchev



## Conclusion and Questions

Doing business in Russia is like driving a car:

1. You have to know where you are, where you want to go and how to get there.
2. You need to keep your hands on the steering wheel and your foot on the accelerator (or the brake).
3. You need to stay awake, pay attention at all times and understand when you are lost.
4. It is **not cheap**.
5. But can be a lot of **fun!**

Since 1999 Lighthouse assists Western companies in doing business in Russia. Throughout the years, Lighthouse has successfully assisted hundreds of companies from a wide range of sectors with their business development in Russia. Whether you need to start or increase your sales, set up production or do an acquisition, Lighthouse has the experience, the network and the team to help you reach your goals faster, cheaper and with less business risks. We are always happy to exchange thoughts with you about your business in Russia.

For further information you can contact us by using the coordinates below.

## Contact LIGHTHOUSE

	Director	Jeroen Ketting	<a href="mailto:jeroen@thelighthousegroup.ru">jeroen@thelighthousegroup.ru</a>
	Client Relations and Information	Birgit von Oehsen	<a href="mailto:birgit@thelighthousegroup.ru">birgit@thelighthousegroup.ru</a>
	Finance & administration	Elena Kabko	<a href="mailto:elena@thelighthousegroup.ru">elena@thelighthousegroup.ru</a>
<b>Tel.:</b>	+7 (495) 980 09 77		
<b>Fax:</b>	+7 (495) 502 92 86		
<b>Website:</b>	<a href="http://www.thelighthousegroup.ru">www.thelighthousegroup.ru</a>		
<b>Address:</b>	Mytnaya Ulitsa 3, office 41, Moscow, Russia, 119049		