



CONSULTANT: Alex Mironov has launched a company called Jump2Russia Ltd, which aims to guide UK businesses through the often bewildering complexities of doing business in Russia

Investing is no Russian roulette

Business development expert Alex Mironov talks to **Marie Carter** about the benefits of doing business in Russia

WHILE Russia is no longer shrouded in the mystique and economic malaise of its Iron Curtain days, it can still be a complex and bewildering country or a "riddle wrapped in a mystery inside an enigma", as Winston Churchill once famously described it.

And this has led many smaller UK companies to think that Russia is too different a country, both economically and culturally, to risk investing in.

One of the major misconceptions is that Russia is still all about oil, but there is so much more to it than black gold – and many more markets still to be broken into and substantial profits to be made by foreign investors.

Despite recent highly publicised moves by Moscow to seize the assets of foreign energy companies, firms investing in Russian markets have much to gain, at least if they know what they are doing. Many overseas businesses are making the move with total inward investments in the first quarter of this year more than two- and-a-half times higher than in the same period last year.

In the midst of fears over a diplomatic meltdown, British investment company Lion Capital LLP has just announced that it is to take over Russia's third largest producer, Nidan Juices, producers of Russia's most popular soft drink, Moya Semiya.

Although details at the time of going to press had not been finalised, Nidan's board chairman, Igor Shilov, was quoted as saying "we are seeking a partnership with Lion".

Mr Shilov said that higher incomes in Russia and growth in demand for health drinks had opened up strong potential in the market.

Perhaps as a further indicator of the continuing buoyancy of the Russian market, influential US investment bank Goldman Sachs acted as an advisor in the deal and also provided financing.

Russia is still going through major but largely positive economic changes, which are making her people gradually more Westernised and its markets increasingly sound for overseas business investment. One look at recent statistics paints an increasingly positive picture of how much the Russian economy is taking off.

Real wages rose by ten per cent last year while the country's RTS Index (an index of 50 companies trading on Russia's stock exchange) rose by 70 per cent. Along with his or her increasing spending power, the average Russian is also for the first time securing credit to finance his or her ever-improving standard of living with retail loans growing at 80 per cent a year while mortgage applications are shooting up by 300 per cent.

There is still scope for developing this market, said Alex Mironov, an experienced and fiercely enthusiastic Russian business development consultant, as loans stand at only five per cent of GDP, compared to 98 per cent in the UK.

From his base in Newcastle, Mr Mironov, along with his seven-strong team, has launched a company called Jump2Russia Ltd, which aims to guide UK businesses through the sometimes bewildering complexities of doing business in Russia while demonstrating the huge rewards.

He said: "Any company which has reached a certain stage in the development of its local market will be tempted to explore beyond those limits.

In Europe, Russia is one of the biggest and most rapidly developing potential markets, which is attractive to British businesses large, medium and small. Whilst penetrating the Russian market has its complexities, it is by no means an impossible challenge."

Instead it is more like a game that can be won like any other, as long as you learn the rules of engagement and are willing to play by them.

"For all players in the Russian economy, the size of the market determines the potential profit, while the number and type of competitors vying for that profit underlines the critical need for reliable and up-to-date information," said Mr Mironov.

Outside investors in the Russian market often face the choice of either creating a new company or buying into an existing business as the Austrian Raiffeisen bank did when it acquired the Russian Impexbank for \$555m. While the price tag was a shock to many, the Austrians' move actually made shrewd business sense. They gained immediate access to 200 branches, which would have otherwise taken them about three to four years to build up from scratch.

Only recently, two leading UK banks, Barclays and HSBC, which already have a presence in Russia as investment banks, announced plans to expand into the private banking market with a full range of banking facilities for both businesses and individuals.

While there may be a growing question mark over continuing free banking facilities in the UK, Mr Mironov believes the banks will want to build their client bases quickly by offering free current accounts and credit and debit card facilities to Russian consumers.

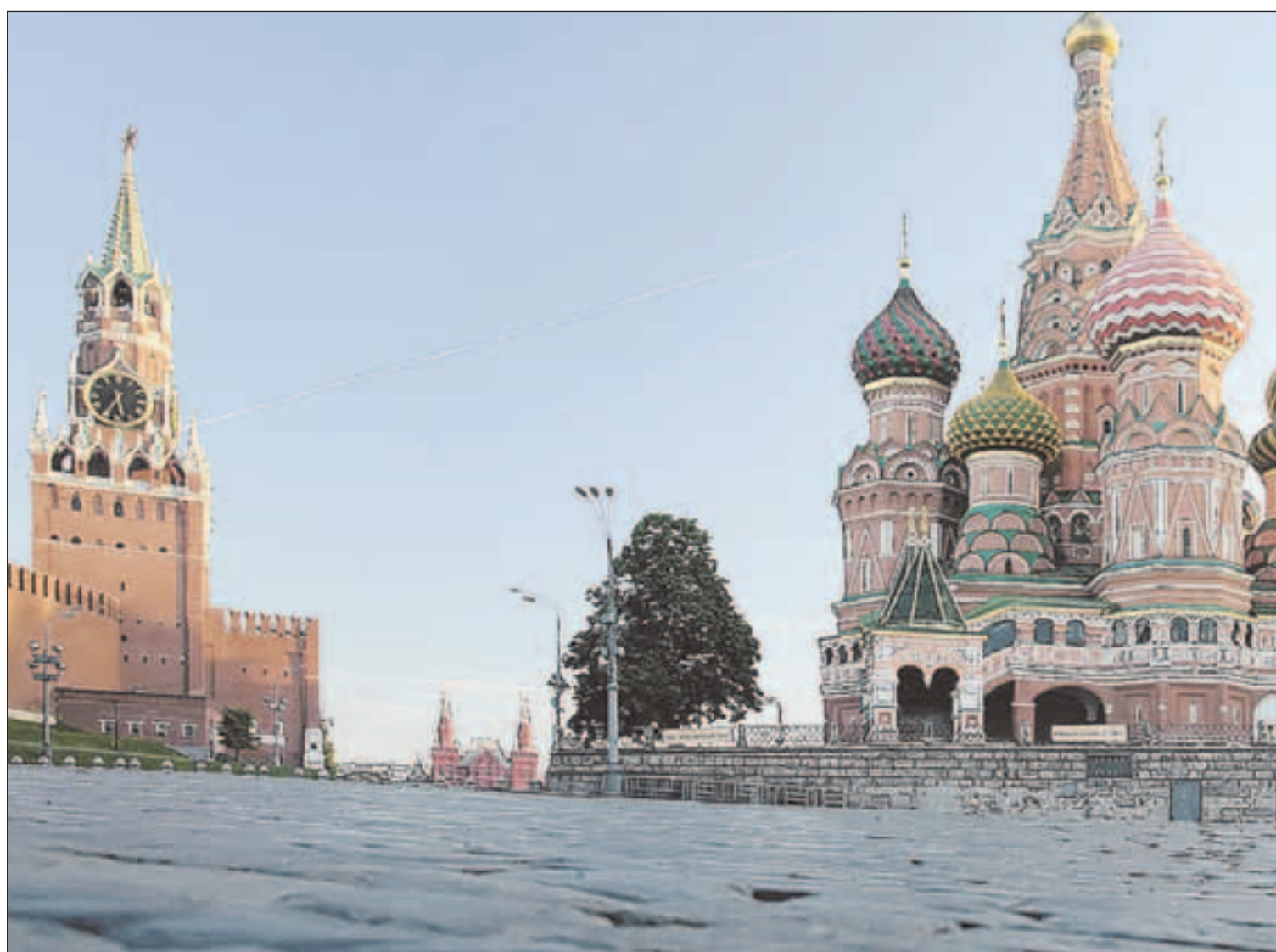
British Telecom, which recently entered the Russian market, has adopted a different approach by expanding its services to international companies based in Russia. BT is also starting to work in partnership with Russian telecoms companies to improve standards of service and has already received data transmission licences in 38 regions of the Russian Federation.

Tesco is another large UK company that looks likely to expand its operations into Russia following successful trading results in Eastern Europe. And if it adjusts its offering to suit Russian tastes, as it has done in China by offering live turtles for sale, then it has every chance of success.

Smaller companies without the resources to develop bases, satellite offices or employ freelance workers in Russia might misunderstand those rules and mistakenly believe that they can simply "import" UK business practices.

Dimitri Alexandrov is a specialist in doing business in Russia representing several UK companies. He now works for Helena Biosciences Europe, based on the Team Valley, Gateshead, which manufactures clinical diagnostic equipment and has successfully set up a number of distribution channels in Russia and other Commonwealth of Independent States (CIS) countries for the products.

He said: "Doing business in Russia is not as straightforward as it is here, but the rewards can be great. Three things are key: know the market and get your research right; make sure you understand the different product registrations required and get this done properly. Finally try and work with established, reliable partners. A good



MOSCOW MAGIC: One of the major misconceptions is that Russia is still all about oil, but there is much more than black gold – and many more markets to be broken into

partner in territory is the easiest way into the market.

"The CIS economies are all different but they offer enormous potential. It's an exciting place to do business and everyone has big plans. Make sure the enthusiasm and plans are realistic – just as you would in the UK."

The key to success, Mr Mironov added, was to understand the "riddle of the Russian soul".

"Russian companies are often much easier to work with, more understanding, more sympathetic and more aware of the financial considerations," he said.

"It is particularly necessary to be aware of this when choosing a Russian partner to become involved in a joint venture or partnership. Quite apart from their integrity, reliability and business reputation, it will be necessary to trust their understanding of the market. Getting the necessary legal documentation, obtaining patent protection and being granted the necessary licences and certificates can be a complex and time-consuming procedure."

He voiced caution over business fears about the growing tension between the UK and Russian governments over the British Government's decision to expel four Russian diplomats in response to Moscow's refusal to extradite the prime suspect in the murder of Alexander Litvinenko.

However, he said that unless it ended with Moscow or London announcing economic embargoes against each other – at this time still unlikely – then UK businesses have nothing to fear and lots to gain from doing business in Russia.

One of the biggest problems facing foreign businesses at the start of their expansion into Russia is the necessity to make informal payments. For British and

American companies any charge of corruption can lead to business meltdown, even if the crime is committed in Russia.

Like it or not, Russia still has its problems with corruption, but then none of the poor countries that have enjoyed the fastest growth, such as Korea, Taiwan and China, were hugely democratic, at least in the earliest stages of their economic transformations. Next to China and Korea, Russia represents a model of growing democracy.

"Provided you get support from a 'partner' within the appropriate power structure, whether it's via government, a local organisation or a business specialist, from the outset, then those external risks can be managed," Mr Mironov said. "Besides, the rewards of making that jump to Russia can far outweigh the risks as companies like Lion are anticipating."

Mr Mironov is keen to help UK businesses looking to invest in Russia and is willing to speak to any size or type of business thinking of making the move. To find out more, log on to www.jump2russia.com

Offering a wealth of opportunities

RUSSIA offers a myriad of opportunities for businesses across the region and UK Trade and Investment (UKTI) is keen to lend its support to companies wanting to tap into the market.

International trade director David Coppock said: "Russia is enjoying sustained economic growth, an improving financial sector and improving

business ethics – all good reasons for North-East firms to consider this market.

"There are plenty of opportunities for firms across the region and the UK to benefit, with the most promising areas being transport, construction, financial services, oil and gas, engineering, ICT, power, creative industries and the automotive sector.

"Many of these are sectors

in which the North-East has a wealth of expertise, but there are challenges to entering this market, and UK Trade and Investment will be working hard to ensure the region's firms have the knowledge and support they need to succeed."

For more information on the range of support available through UKTI, call 0845-050-5054 or email

THINGS to be aware of when conducting business in Russia:

■ Patience is an extremely important virtue among Russians, but punctuality is not. As a foreigner you are expected to be on time to all business appointments, however, your Russian counterpart may very often be late.

■ Business meetings often end with an invitation to lunch or dinner, which invariably involves vodka. Frequent toasts will be made throughout the meal and it is considered impolite to refuse a drink or to drink less than your host.

■ If you take a gift of flowers for a Russian woman, make sure the number of flowers is uneven – even numbers are for funerals.

FROM RUSSIA WITH LOVE:

Alex Mironov says Russia is one of the biggest and most rapidly-developing potential markets



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It's a fact . . .

■ Russia spans more than 17 million square kilometres and has a population of 143.5 million people.

■ Currency: 1 Rouble = 100 Kopeks

■ Major industries in Russia include oil, gas, timber, metals, machinery and chemicals.

■ UK exports were valued at £1.8bn in 2005.