

WELCOME TO THE NEW RUSSIA

A psychological 'iron curtain' left over from Soviet times, and the fact that this part of the world was almost entirely off-limits until the mid-1990s, may be unintentionally limiting mindsets among Irish business leaders. In this issue, Enterprise Ireland's new man in Moscow Gerard MacCarthy and the Russia office staff highlight the opportunities.

PICTURED, ONE OF CAFÉ MANIA'S 13 HIGH-END MOSCOW OUTLETS, WHICH USE EQUIPMENT FROM MARCO BEVERAGES.

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ONE OF THE LARGEST UNTAPPED CONSUMER MARKETS IN THE WORLD

Marco Beverages' leading Moscow customer is a touchstone for the new Russia. The Dublin beverage-making equipment designer and manufacturer supplies Coffee Mania, one of Moscow's upscale cafes, where a 300 ml pot of French Press coffee will set you back about €10 and the average bill is €20-35.

Ranked in a Lonely Planet review as 135 out of 579 things to do in Moscow, a visit to the coffeehouse chain is a chance to meet Russia's rich and famous – and its wannabes – “those who are on top of social hierarchy already and those who are eager to get there,” as Ekaterina Arkhipova, Coffee Mania's PR Director put it. “Going to Coffee Mania for many people means that they have some prestigious social status,” she says.

Marco's European sales director met Coffee Mania at a trade show four years ago and the Sandyford company's involvement with the Baristas World Champions plus its emphasis on design aesthetics helped swing the deal with Coffee Mania.

The coffee shop chain operates 13 high-end outlets in the Russian capital, including three at Moscow's international airports. And further expansion is planned for the year ahead, as Muscovites' thirst for café culture shows no signs of drying up. The coffee shop sector there is growing by 30-40 per cent annually.

And that's just one aspect of what must be among the largest untapped consumer markets in the world. “The middle class has almost tripled in the last five years in Russia”, according to Kirill Dmitriev, General Director, Russian Direct Investment Fund. Literacy is 98 per cent. On average, there are 7.5 million students in Russia every year.

There are over 2.6m cars in Moscow alone. Volkswagen, Skoda, BMW, Ford, Renault, Toyota and Chevrolet all have manufacturing plants in Russia. Indeed, Russia is forecast to be Europe's largest car market by 2014.

The luxury goods sector is growing at an average 5-10 per cent pa, with 2010 showing a 30 per cent leap, reflecting increased sales for brands ranging from Louis Vuitton and Chopard to Rolex and Dior.

Russia's largest 400,000 sq m shopping mall opened last year costing €375m, housing hundreds of international retail outlets (Gap, H&M, Zara, Marks & Spencer, Next, Aldo, Auchan, Ikea), which have entered the Russian market steadily for the last five years, proving that dealing with lease agreements and customs is possible. And yet Russia still has only 41 sq.m of retail space per 1,000 people, ten times less than the average in Ireland, indicating the enormous potential the retail market – a benchmark for the consumer sector – alone has.

All the major hotels (Marriot, Hilton, Holiday Inn, Ritz Carlton, Kempinsky etc.) have been around for some time, and Moscow alone has over 3,000 bars, restaurants, and cafes, offering everything from fish and chips to sashimi, with 40 per cent growth in a sector that's worth over €1bn annually.

With cinema tickets costing 1.8 per cent of the statistical monthly wage, Russian cinema box offices somehow broke the \$1bn mark for the first time in 2010, revealing not just a growth in the entertainment and recreation sector, but also the large amount of undeclared disposable income available.

“THE MIDDLE CLASS HAS ALMOST TRIPLED IN THE LAST FIVE YEARS IN RUSSIA”



THE ONWARD MARCH OF RUSSIAN INDUSTRY



RUSSIA IS AIMING TO LEVERAGE ITS TECHNICAL PROWESS BY CREATING A SILICON VALLEY-INSPIRED ECOSYSTEM, WHERE RESEARCHERS RUB SHOULDERS WITH BUSINESS AND VENTURE CAPITALISTS IN A GREEN FIELD 'TECHNOLOGY TOWN'.

Russian industry grew nearly 6 per cent in 2010, turning in the second-best performance in the G8, behind only Japan. And while the Asian powerhouse is set to face its very specific challenges in the year ahead, Russia's solid performance is likely to be spurred on by the Kremlin's drive for the 'modernisation' of Russia on all levels.

Aiming to move away from dependence on the oil and gas sector, State funding is being channelled into agricultural technologies, international education, IT and software development, R&D and financial services. Not only is Russia aiming to achieve the highest possible standards in manufacturing equipment and soft and hard systems to increase productivity and efficiency, it is investing in environmentally-friendly technologies for food production, construction and energy, with a strong emphasis on sustainability.

SILICON VALLEY RUSSIAN STYLE Known for its scientific and engineering brains, Russia is aiming to leverage its technical prowess by creating a Silicon Valley-inspired ecosystem where researchers rub shoulders with business and venture capitalists in a green field 'technology town'. Construction started earlier this year in the suburbs of Moscow, off the Sholkovskoe highway 20 km from Moscow city centre, and an ambitious timetable has Skolkovo innovation technopark opening its doors in 2014.

Initially, the technopark will host five distinct scientific

communities – each of strategic interest to Russia: energy, IT, telecommunications, biomedicine and nuclear technologies. The carrot for businesses locating there will include special tax incentives, joint-use centres for companies to access expensive and hi-spec scientific equipment and an assistance fund for hi-tech or science focused small businesses.

The development will also include housing for an anticipated 25,000 to 30,000 permanent residents as well as restaurants, sports grounds and school, kindergarten and hospital facilities – with the accent on environmentally-friendly energy, waste, water and intra-urban logistics solutions. To date, €2.2 billion has been allocated for infrastructure – about half the anticipated price-tag up to 2015 of €4.3b.

The brainchild of President Dmitry Medvedev, Skolkovo has some friends in high places. The founders include Craig Barrett, former Chairman and CEO of Intel, and companies with representatives on the board of directors include Lukoil, Nokia, Bouygues, Almaz Capital Partners, Siemens, Siberian Coal Energy Company, Tata Sons (Tata Group), Cisco Systems, Rusnano and Google.

The project will be run by a foundation including representatives from the Russian Academy of Sciences, Rusnano, Vneshekonombank, the Russian Venture Company, a fund for Assistance to Small Innovative Enterprises in the scientific and technical area, the owner of the land (a State-sponsored housing association), as well as an association formed by universities.

OTHER SECTORS TO WATCH:

Construction: With Russia hosting the Winter Olympics in 2014 and World Cup in 2018, and at long last its entry into the WTO being all but secured, the path to modernisation is being laid open. Nearly €24 billion is being invested in the preparation of Sochi for the Winter Olympic Games in 2014.

But huge investment is also taking place not only in one-off events, but also in the restructuring

and modernisation of the entire national infrastructure. Russia is the largest country in the world: 870,000 km of roads and 87,000 km of rail interconnect its vast territory. There are a total of 329 airports in Russia, 65 of which are actively used by commercial or business airlines, and the number of active airports is expected to double by 2020.

Aviation: There are 169 active airlines in Russia and the total current value of the aviation

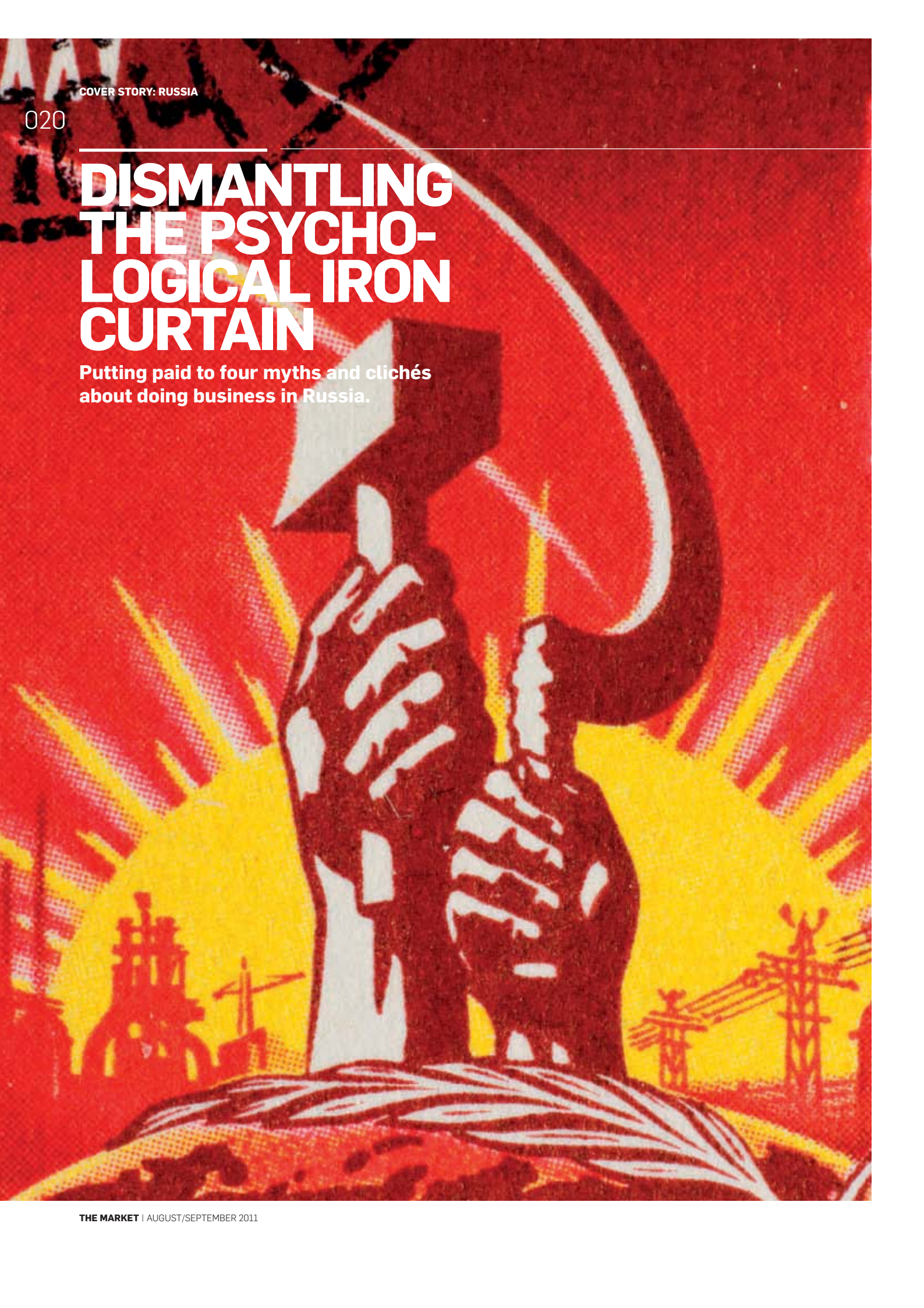
industry is €10 billion. Of the 300 aircraft flying in Russia that are manufactured abroad, 70 are registered in Ireland.

Pharmaceuticals: Here the opportunities lie in the sector's ongoing switch from import to domestic production. The government's 'Pharma 2020' programme envisages that the majority of domestically-consumed medicines will be produced in Russia by the end of this decade.

Mobile telecoms: With a population of 142.9m, mobile phone penetration runs at 148.1 per cent in all of Russia, and at 197.1 per cent in the Moscow region, adding up to a massive 213.9m mobile customers. Now that market penetration has reached its limits, telecom operators are looking to implement cost-efficient and value-added services, as well as expansion in the other countries of the Former Soviet Union (FSU).

DISMANTLING THE PSYCHO- LOGICAL IRON CURTAIN

Putting paid to four myths and clichés
about doing business in Russia.



1. THE DISTANCE

The first myth about Russia is that it's a long, long way from Ireland. Irish business people think nothing of hopping on a flight to New York to take a meeting (or take a weekend shopping break), yet New York is almost *twice* as far from Dublin as Moscow (2,320km further to be exact). We also are happy to take a family holiday in the Canaries (the same distance as Moscow) or Rhodes (466 km further).

S7 (Russia's third largest airline) operates a direct service between Moscow and Dublin twice a week on a seasonal basis; flights take just four under hours. And don't be surprised if the pilots will make their in-flight announcements with a light Drogheda accent. S7 Airlines has, for a number of years, been sending pilots to County Louth to advance their Aviation English at Edgewater College, which has seen success in Russia and other CIS countries due to its targeted approach and openness to local demand.

In addition to S7's direct connection, daily flights to Moscow are available using all the major airlines and hubs. And you can get right into the heart of the city in just 45 minutes with a half-hourly express rail link service from the main international terminals, which costs about €9.

The reason Russia seems so much further might indicate the remains of a psychological 'iron curtain' left over from Soviet times, and the fact that this part of the world was almost entirely off-limits until the mid-1990s. But anyone who has travelled to the European part of Russia, where two-thirds of the Russian population lives, is usually pleasantly surprised by the ease and comfort of the connection and what awaits them at the other end. To get things off to a good start, Moscow's two main international airports both have brand new state-of-the-art terminals with computerised passport control, no extra inward security checks and virtually non-existent customs control to fast-track passengers.

2. CRIME (AND PUNISHMENT)

Clichés about crime-ridden Russia were the staple diet for CNN viewers and Hollywood movie-lovers for much of the mid-late Nineties. But that reflected a time in Russia as far back as when Charlie Haughey and Albert Reynolds were still in charge of Ireland.

Today's business environment is far closer to many other countries, where striking a deal or forming a partnership is most likely to be based on successful communications, strategic compatibility and price competitiveness. In any case, companies can turn to any of the major international legal and audit firms, all of which have had bases in Russia for over a decade and work closely with EI's Moscow office, to advise on safe and compliant business relations.

3. THE LANGUAGE BARRIER

In entering the Russian market, many of the misunderstandings are caused not by language or cultural differences, but by lack of preparation by companies. Promotion, advertising and explanatory materials should be supplied in Russian to fully

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explain what a company is offering. This is not just an essential working tool; it also acts as a gesture of respect, showing awareness of Russian culture.

Foreign languages are an issue for any Irish company used to working mostly with English language international partners. Russian has the reputation of being a difficult language to grasp, but, at executive level, most Russians have spent some time being educated abroad and can communicate relatively freely in English. Helped by the deep penetration of the internet (70m users or almost 50 per cent of the population) and numerous online translation tools, establishing initial contact should not prove too daunting.

There are two resources that can ease both initial contact and ongoing commercial activity. EI's Russia team comprises a native Russian market expert, based in East Point, Dublin, and EI's five Moscow-based staff – two Irish, two Russians and one Ukrainian – who are all bilingual and experienced in dealing with both Irish companies and the local market and legislative bodies.

The other resource is the 80,000+ Russian-speakers living in Ireland. Several Irish companies successfully working with Russia have taken on Ireland-based Russian speakers to work as a market interface in a range of roles from managerial to students working on part-time projects.

4. THE CLIMATE

Russia's harsh winters played their part in stopping the advances of both Napoleon and the Third Reich. These days, when temperatures drop and the snow and ice hit in Russia's major cities, the extremely efficient departments responsible for clearing roads and footpaths get to work. In summer, Moscow's restaurant terraces and verandas open out, and the younger population take to their roller blades and mountain bikes. The average annual temperature levels out at 5.8°C (comparable to New York, Boston, Copenhagen) with an average winter-time low of about -7°C. So with the right clothing, the right attitude – and the lack of humidity encountered in Ireland – the cold won't kill you!

PERESTROIKA, MATRYOSHKA, BABUSHKA...

...Or I came, I saw, I stayed. Donal Nugent reports on Irish companies staking their claim in Russia.

MERCURY RISING

Established in Dublin in 1972, Mercury Engineering has developed a global reputation for its expertise in mechanical and electrical engineering and has offices in Ireland, UK, Central Europe, Russia and the Middle East.

Mercury Russia was set up in 2003 and, in its first five years, largely concentrated on a niche it had identified in high-end interior fit-outs. When the global downturn hammered the Moscow real estate market three years ago, the company was left exposed, forced to make around 200 redundancies and implement two rounds of pay cuts. And looking for other areas of opportunity, it identified the data centre business – new to Russia but one which Mercury had a lot of experience in – as a prime opportunity.

“We got involved with one client, an American-Russian company that was planning a data centre, as their general contractor,” explains Mercury Russia’s general manager, Declan O’Sullivan. “This is now two months from completion and we have since started on another very large data centre for a major Russian bank.”

Mercury Russia is certainly in the upper league of Irish companies with presence in Russia. It currently employs some 650 direct employees, with an additional pool of 500 sub-contractors available to it. “It’s a broad mix and, in Russia, we are perceived more as a general contractor than specifically as a mechanical and engineering sub-contractor,” O’Sullivan says.

He joined the Russian operation in 2004 and became general manager four years ago. “When I joined, our turnover was between €15-20m annually. This year, it will be €100m plus. The downturn has refocused us on a line of business that is actually better than the area we were in originally. As far as we are concerned, we came out of it stronger than we went in to it.”

O’Sullivan agrees that strong relationships form the basis of successful business in Russia. “The contract is a basis for payment but, after that, it is generally put in the drawer. Business is very much based on developing high-level relationships with your clients.”

Conducting business through English is acceptable to the company’s blue chip clients and, in terms of logistics, while it is obviously more complicated than moving materials within Europe, he says the solution is a good customs broker and good transport providers. “We recently had a very large import contract for one of our data centres, which involved 105 articulated truck loads of air handling units, which were built in the Czech Republic by an Irish company, and that delivery went smoothly”.

Mercury keeps a strong mix of Irish ex-pats and locals in its personnel and is currently looking at bringing a number of Irish electricians on board for high-end work, as the equivalent expertise is difficult to find in Russia. “The opportunities for companies like Mercury are excellent,” he says. “There is a real drive for innovation in Russia at the moment, which is leading businesses here to look outside for supplies and contractors. This is where we are positioning ourselves for further growth.”

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RUSSIAN APPETITE FOR IRISH MACHINERY

In a recent announcement, the Russian government has said that it will increase support for agriculture by 10 per cent to €3.25 b in 2012. Initial proposals include a new €50m support for start-up farms and a €87.5 m scrappage scheme for old farm equipment.

This could be good news for Irish engineering companies that have found that while Russia's harsh climate has defeated many invading forces, their road and farm machinery has survived the assault.

Carlow-based Hi-Spec Engineering manufactures agricultural and industrial machinery, including agricultural vacuum tanks, diet feeders, straw blowers and muck spreaders. During the Celtic Tiger years, there was a huge domestic market for its vacuum tanks, but the downturn has now resulted in Irish buyers purchasing on a "need to buy" basis, according to Sales Manager, Brian McArdle.

Joining Hi-Spec early last year, McArdle has brought his overseas experience to bear in redirecting and refocusing the company's sales strategy. "When I joined, the company was already working with our distributor, Dairy Company Agroplemkomplekt, in Moscow, so I developed some ideas on how we could encourage sales and build our profile in Russia."

In terms of size, farms in Russia are more comparable to Australia than Ireland. A typical client is a dairy farm near St Petersburg, approximately 40,000 hectares (100,000 acres) in size, which milks 6,000 cows a year. The farm first purchased some of Hi-Spec's diet feeders and is now looking at other products, including its vacuum tanks.

In spite of being developed for much smaller operations, McArdle says the Irish equipment translates extremely well in the Russian context. "One thing people everywhere acknowledge is the quality of Irish machinery. Grass and silage in Ireland can be very wet and heavy, so we have a tradition of building strong, robust machines to handle that."

Sean O'Riordan, Managing Director of Cork-based Rota, which distributes its sister company MultiSweep's industrial sweeping devices has a strikingly similar story to tell. "Industry in Ireland is known to be a hard users of machinery, and the country is a very tough market for sweepers," he says.

Even in the boom years, when the construction industry was a huge consumer of its products, MultiSweep was exporting over half its output to the UK. And after the initial shock of the construction industry collapse, the company's response was determined, with the realisation that Rota had the capacity to sell on a much larger stage.

"We put a lot of work into thinking for the era we are in," O'Riordan explains. "The days of people looking you up in a hardback directory are over. People will Google you first. Today, if you key in 'sweepers' in English, French, German or Russian, we will be among the first to come up." Using Google Earth to evaluate potential clients and personalised video presentations are other examples of innovative ways the company has been able to get dealers interested without leaving the country.

This commitment to IT paid off handsomely in the Russian market, where the company that would become its agent, Merkator International, made contact on the basis of an internet search. The situation evolved quickly and, within two weeks of first contact, a deal worth €45,000 was put together.

While O'Riordan describes the Russian approach to negotiation as "fairly swift and reasonably blunt", he says the most important learning to date is the huge emphasis put on relationships. "Russians want to meet you and even socialise with you, to see the colour of your eyeballs so to speak, before they will work with your company. In many ways, the quality of the relationship is more important than the price. Our first sale was largely a test run. The attitude is very much 'if it works out then let's progress'."

The company is now close to completing its second order from Russia, expected to be double the size of the first. There were a few useful learnings in the 'test run', O'Riordan explains. "How you classify your products can have an impact on the import duty your customer pays. The way we structured the first invoice ended up costing the client a little more than it should have. This is all part of the learning curve and you work with the distributor to resolve it next time round."

"Probably the most important thing we have learned," he continues, "is there is no point in working with people who are only half interested in your product. Essentially, we are looking for distributors like Merkator all over the world – people who can see the potential, take it on board and run with it."



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