
David Cant

RMBC Sustaining Competitiveness

6th July, 2012

About Albion (Overseas)

- 🌊 We only work with Russia
- 🌊 Exporter (Distributor)
- 🌊 UK/Russian office, warehouse, staff, etc
- 🌊 “Consultancy” help for other exporters
- 🌊 “Outreach” activity (Conference, Book, training)
- 🌊 We’re not theoreticians. We’re dirty!

“If you want an intelligent person, a Frenchman or a German, to blurt out some nonsense, make him render a judgement on Russia. This is a subject that will intoxicate him and immediately cloud his mental faculties”.

Pushkin’s friend, Prince Vyazemsky circa 1820

Killer Facts

- ▼ GDP per capita: \$16.7 Bn
- ▼ GDP: \$1.791 Bn
- ▼ Forex Reserves : \$513.1 Bn (Dec 2011)
- ▼ Surge in FDI inflows into Russia in last 2 years
- ▼ The 8th largest economy in the world
- ▼ The 3rd largest forex reserves in the world \$498.7 Bn
- ▼ Largest proven natural gas reserves in the world
- ▼ 9 Time Zones (the biggest country in the world)
- ▼ The UK's fastest growing export market

Why Russia?

-  Friendly tax regime
-  Large, growing domestic market
-  Wealth of natural resources
-  Appetite for business with UK
-  Large pockets of wealth
-  99% literacy
-  Skilled, low-cost labour
-  Customs, certification, no problem!
-  Sterling remains week

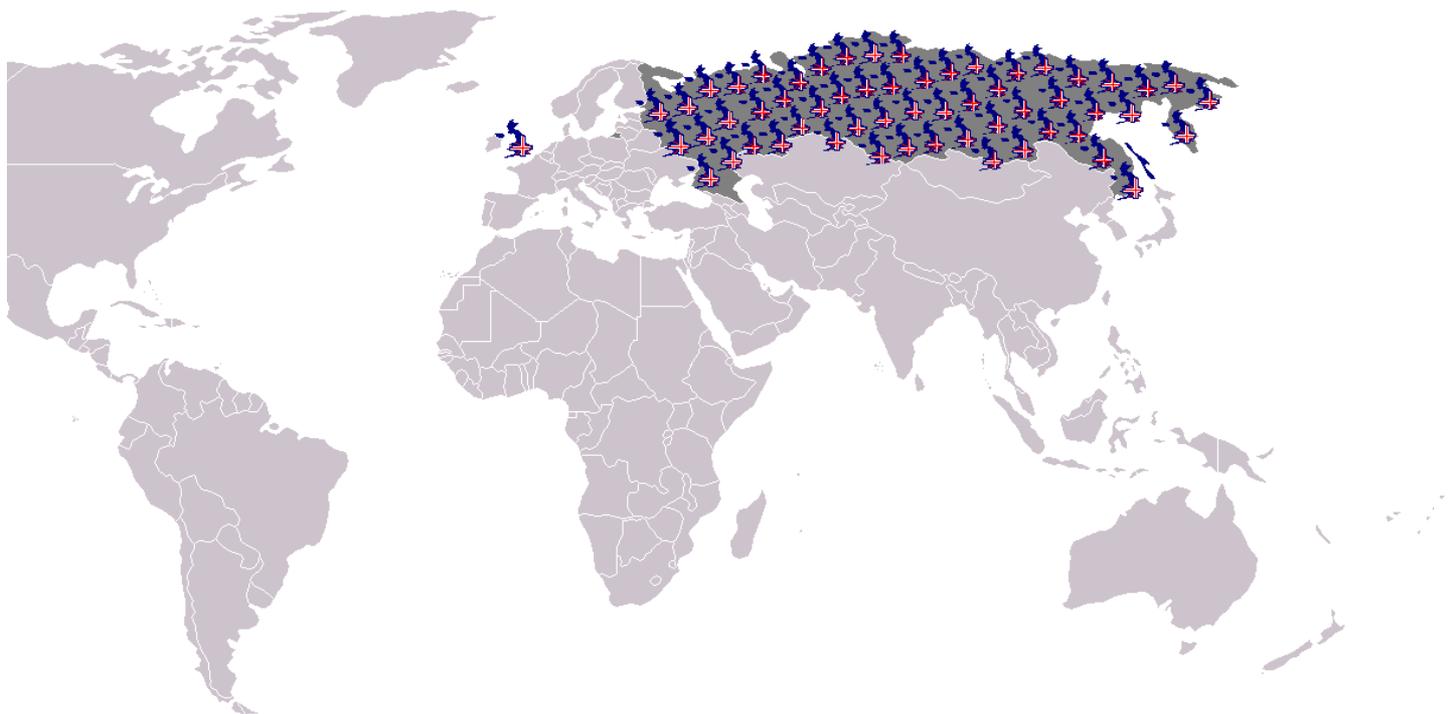


Why Russia? – cont'd

- ▶ Sterling remain weak
- ▶ Increasing number of companies
- ▶ Less expensive than you think
- ▶ Geographical proximity
- ▶ Increasing political stability
- ▶ Here, we are all competing for the same business
- ▶ “Russia is one of the most industrialized of the former Soviet republics. However, years of very low investment have left much of Russian industry antiquated and highly inefficient”.
(Wikipedia)



70 UK's would fit into Russia.
That's a lot of opportunity....



Perceived Problems:

-
- ▼ Mafia
 - ▼ Finding people who understand your product
 - ▼ Corruption
 - ▼ Non-Payment
 - ▼ IPR
 - ▼ Corp. Governance
 - ▼ FDI slow
 - ▼ Accountancy Stds
 - ▼ Entrepreneurship
 - ▼ Legislative & political issues
 - ▼ High cost of market entry (time and money)
 - ▼ Demographic Crisis
 - ▼ Weak Military
 - ▼ Inflation
 - ▼ Brain Drain
 - ▼ Capital Flight
 - ▼ Weak Banks
 - ▼ Climate/Size
 - ▼ Lack of infrastructure
 - ▼ Language difficulty
 - ▼ Cultural barriers
 - ▼ Economic instability
 - ▼ Security issues

Real Problems:

- Difficulty in finding reliable and tested distributors
- Expense
- Lack of knowledge of what the distributor is doing
- Difficulty in making forecasts or sticking to targets
- Export Documentation
- Corp. Governance
- Lengthy sales cycles
- Poor Communication
- Language Barriers
- Complicated Customs procedures
- Difficult to recruit / administer / retain / replace staff
- Missing opportunities in the regions
- Stifling bureaucracy
- Lack of time to develop full potential

Where companies go wrong:

- Too many companies seek an easy way in Increasing number of companies
- It is bad to try to develop any market with zero expenditure.
- You are not pioneers; the Board should be proactive
- Take advice and help wisely.
- Don't just replicate what your company does elsewhere
- Don't appoint a distributor, then go home and wait
- Don't appoint your Warsaw office "to do Russia"
- Don't expect to do business by email
- Don't leave export documentation to Brian who works downstairs
- Don't assume your product is too technical to be understood

Routes to Market:

It is important to spend money wisely:

– Yes:

OMIS Report

Product Certification

Literature and website in Russian

Planned trips

Building a sales pipeline

Planned exhibition participation

– No:

“Fact-finding” trips (unplanned trips)

“Market Research” (procrastination)

Sending samples, emails, etc to unknown distributors

Routes to Market

Agent

Distributor

But:

They are no longer queuing up to represent you.
You must find them and put your case.

Russia is moving fast. Choose them wisely, or you lose control, time and money.

Routemap (Reactive: Zero Cost)

- Desk Research:
- Internet, databases, libraries eg; IOD
- Register with www.ukti.gov.uk
- Meet your ITA (quiz them on their experience!)
- Review options (Distributor, DIY, Footprint, etc)
- Identify a good freight forwarder
- Talk to your bank
- Learn about the country, ie not just the market
- Consider OMIS:

Routemap

Reactive (ie zero cost)

- A report to establish the market for your product and to list potential buyers
- Do you really *need* a report?
- Plan what you will do with it.
- OMIS v Commercial report
- The advantages and disadvantages of each?
- There should be nothing in the report that you can c
Google!

Routemap

Reactive (ie zero cost)

- Question the Board on their commitment
- How much time can be devoted to this?
- Remember the concept of EMEA.....
- Now consider Product certification, Travel, Reports, Samples, Translation, Interpreting, Couriers, Trade Fair participation
- Consider how to deal with currency risk
- And prepare a budget!

Routemap

What about the price?

- Halifax 0, Ipswich 1
Find out the margin, *then* compile the pricelist!
- To offer a price landed in Moscow, build:
(Cost + Freight) + Duty + VAT @18%
- Duty is calculated on cost delivered to Moscow
E.g: 9001 is cables, lenses, prisms etc
so 9006 30 000 0 is surveillance cameras
so Import Duty is 5%
- Then of course remember the buyer's margin...
- Deconstruct competitors' costs in the same way
- Then put EXW into CIF, then put that into DDP
- Then offer the product for Roubles as well

Routemap

The Spending Zone

- ❏ Don't meet anybody if you're not going to follow up
- ❏ Consider how you will follow up
(ie not just by email and not just in English)
- ❏ Deal with language issues, then:
- ❏ Translate your home page (at least)
- ❏ Literature and cards into Russian
- ❏ Produce a Russian brochure or leaflet
- ❏ Meetings may be difficult to arrange
- ❏ If you believe you have a market, then:
- ❏ You should be certified!

Routemap

The Spending Zone

- Make it easy for your buyer, not just EXW Sterling!
- What currency should you be selling in?
- Plan your first trip around a trade fair. Don't just visit it and walk around...
- Cost up your trip in advance
- Have a programme of meetings set up in advance
- Visit and visit again! Minimum 4x/Yr if via distributor or agent
- Support your partner with trade fairs, literature, samples.
- It's all about Relationships
- Get above the Power Line

Routemap

The Spending Zone



4-Day Moscow Trip:

Return Flight UK-Russia	£360.00
Subsistence	£300.00
Taxis, UK + Russia	£240.00
Hotel, 3 nights, incl tax	£900.00
Interpreter	£400.00
2-day Follow up	£400.00

	£ 2,600.00
x 4 trips / year	£10,400.00
One Multi visa	£ 600.00
One colleague trip	£ 1,800.00
Colleague's single visa	£ 300.00
2 Regional flights	£ 500.00
	=====
	£13,600.00
	=====
16 Days UK time	£3,200.00
4 Days Colleague's time	£ 800.00
	=====
	£17,600.00

Other Costs:

Report	£3,000.00
Couriers, samples etc	£ 800.00
Translation	£1,500.00
Professional Fees	£2,500.00

	£ 7,800.00
Gost Certification (UK)	£ 7,000.00
	=====
Total	£14,800.00
Add other costs:	£17,600.00
	=====
Total Yr One	£33,800.00

This is the cost, whether you use a distributor or do it yourself. Either way, you must visit the market several times per year. You sell to people, so build relationships.

What is the Footprint Methodology?



-
- Moscow office, warehouse and Russian salesperson.
 - Support (finding Buyers, Duty, Customs, certificates negotiations, Contracts)
 - Troubleshooting currency transfers, freight routes etc
 - Consignee address for samples, literature, stock
 - Communication with Albion UK for fast, clear help.
 - Compliance with Russian law on taxation etc
 - Administration of local expenses in Russia
 - Faster deliveries, item replacement, local supply, etc
 - Control over your Russian business
 - Russians, talking to Russians, in Russia

Footprint users: Remove these costs:



Report, Couriers, Fees, Translation	£7,800.00
Gost Certification (RF)	£4,000.00
2 Trips to Russia	£5,200.00
8 working days not spent in Russia	£1,600.00
	=====
	£18,600.00

Cost of Footprint One Year: £18,700.00

So having a Moscow office and salesman costs the exporter £100.00

And consider the additional wins:

10 days gained: 10/260 working days =	Co. T/O + 1/26
Russian presence = relentless prospecting:	Return + x%
Access to internal Rouble market (where we make our money)	Return + y%
Margin gained by making sales direct to customers:	40%

Albion: (Overseas) Ltd

Footprint (Contd):



Companies that have used the Footprint include:

Asahi Seiko, Linatex (Weir Group), Miller, Tideland Signal, NJO LED's, Spline Gauges, Delmatic, Hubcast, Titan Europe, Coltrad, VisiTech, Sly Filters, CG Europe, Allen Gears, HH Print, Avalon, M&I Materials, BOCM PAULS, Arefco, Juratek, Ken Read & Son, MacAlpine, Verder Pumps, Greenwood, Smart Beauty, Marley, IDS, MacAlpine, Verder, Chesapeake, Lucy Zodion.

Advantages of the Footprint (cont'd)



- Management is freed up to develop other markets
- Zero Bureaucracy (the biggest problem in Russia)
- Objective* intelligence feed from Russia
- Higher margin (usually circa 40% higher)
- Save on interpreters, agents, documentation, professional fees. And time.
- Control over product and pricing
- Access to Rouble Sales (80% of buyers)
- Local presence complements, helps your partners.
- Use for sales, research, analysis, certification, travel arrangements, logistics, web development, visiting trade fairs, prospecting, regional Russian sales, Customs clearance, customer training, etc.

Advantages of the Footprint (cont'd)



- ▶ Rapid entry / exit strategy.
- ▶ No lock-in period. You only pay if it is working!
- ▶ We will not work with your competitors
- ▶ Other benefits, eg free consultations, event entry, etc
- ▶ Albion is known, works closely with UKTI, Embassies and Consulates
- ▶ The Footprint is tried and tested. Users include NJO, Led's, Asahi Seiko, Delmatic, Linatex, Allen Gears, Sly Filters, VisiTech, HH Print, BOCM PAULS, Juratek, CG Europe, Miller, Spline Gauges and Tideland Signal
- ▶ Expanded customer base
- ▶ Increased business in the regions
- ▶ Full compliance with Russian legislation

Some Final Thoughts

-
- Size doesn't matter
 - Russia is for everybody, especially SME's
 - Russia is not usually difficult. Scary stories are exceptional!
 - Understand Russia. Enjoy Russia. And be patient
 - Use specialist help
 - Make no Assumptions. This is not Poland. Or China. Not Europe, not Asia, not Eurasia, not FSU, not CIS. **Russia.**
 - Be Positive
 - Consider your product or service. Need for adaptation?
 - Learn something, just something in Russian!

Useful contacts



<http://www.uktradeinvest.gov.uk/>

RUSSO-BRITISH
CHAMBER OF COMMERCE



<http://www.rbcc.com/>



<http://www.albionoverseas.com/index.htm>

Tel. 01732 769 003

Ellion House

6 Alexandra Road

Tonbridge, Kent



ALBION OVERSEAS LTD
Making Russia Easy

Tel: 01732 783 555
 david@albionoverseas.com

www.albionoverseas.com