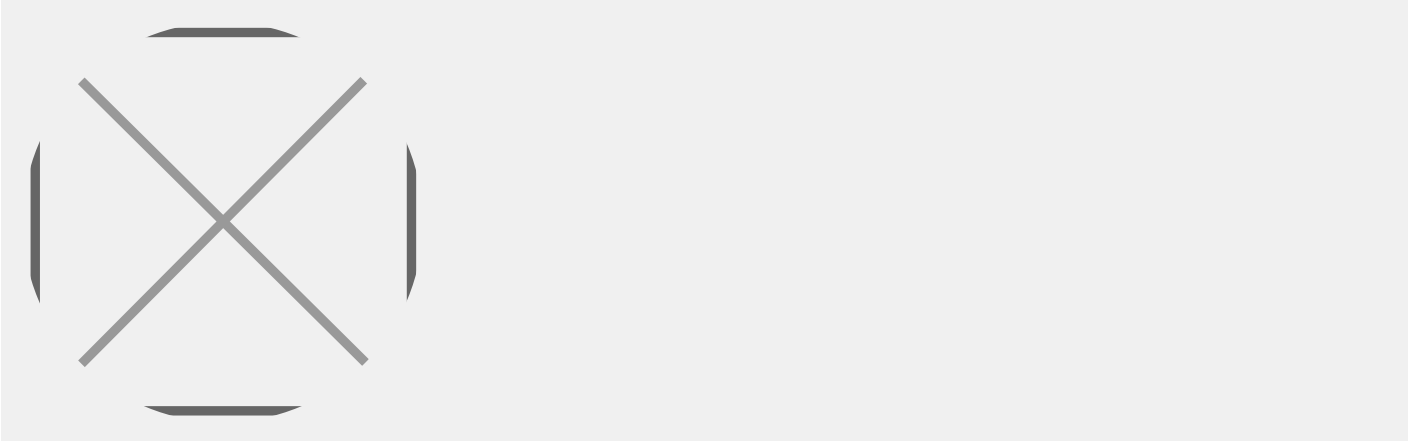
Interview with Ulf Schneider, Managing Partner, RUSSIA CONSULTING



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You founded this business in 2003, and it has since grown to encompass five offices and over 250 experts. Can you tell our readers a bit about the history behind the creation of Russia Consulting, and the main growth drivers contributing to its development?

When I was a student, I by chance had some neighbors in my dormitory who were Russian. I found their culture quite interesting. I took an adventure trip by train to Russia from Germany, and it was indeed quite an adventure! The country fascinated me.

After graduation, I took a job with Procter & Gamble, and, again by chance, had some contact with colleagues in Moscow. At the end of each week, these colleagues had great success stories. In Germany, we tried to achieve one or two percentage points of growth, but in Russia, they had truly fascinating activities! I wanted to experience this kind of dynamic market.

However, Procter & Gamble had no interesting position for me in Russia. I looked around, and a German insurance company called Allianz made me an attractive offer. I decided to go to Russia for a maximum of two years. Of course, I would end up staying quite a bit longer.
In my time as a finance director at Allianz, I saw that there were many mid-size companies from Germany and other Western countries, which entered the Russian market and were experiencing major challenges in their business. I thought that, after my two years of experience at Allianz, perhaps I could translate my qualifications into useful advice for such companies.

This was the idea behind RUSSIA CONSULTING. 8 years ago, I wanted to assist small and mid-size Western business to successfully set up in Russia. Large companies have their expats, their large staff and their own resources, and they are able to solve many problems on their own. Therefore, when we opened operations, our focus was on the smaller players. We started with market analysis and advising organizations on the best legal form to set up business. We performed registration for them, tax and statutory accounting and helped with everyday problems. When we opened our doors, we were three people – one secretary, one project manager and myself. Many people have asked me about our growth drivers and the success factors in our development. The answer is perhaps disappointing! It is that we worked very hard.

Of course, there is a bit more to it than that. First of all, I would like to point out the biggest mistake that a company can make when first doing business in Russia. Many managers decide that they are the boss and in dealing with Russians they can delegate by giving them certain weekly tasks on Monday, and expecting them to be complete on Friday. The manager then expects to be able to relay the success to his headquarters.
This never works. Russia is more difficult than other countries. Russian people do not like to simply receive instructions and report their results on Friday. As a manager, you have to be ready to dig into these kinds of details.

Russia has a bureaucracy that is not only quite tough, but is very different from that of other countries. As a German citizen, I find that I have a bit of an advantage, because Germany is also bureaucratic. However, Russia is nonetheless different. For example, when you approach bureaucrats, they will never explain to you how the system works. If you have a problem with registering a company and you go to the authorities to ask about the process, you will not get an answer that will enable you to actually complete the registration procedure.
In a country like Germany, the bureaucracy is at least more supportive. Here, you have to understand everything yourself, and in detail. When you understand it, you can discuss it with others, share your understanding, listen to their own understanding and finally come to a common solution. Then you have to control each and every step. This kind of mindset is important particularly in critical company development periods, starting with registration. Otherwise, you cannot succeed.

Another big mistake that many companies make when they come to Russia is in communicating deadlines to others. In the way, this is a common mistake among both Germans and Americans. Say you come to Russia and have a big deal coming up. Perhaps you have a potential client here. You fly in and have a travel schedule—you land at two o’clock and have your first meeting at four o’clock. You believe this is reasonable, but it is not; you are two hours late. If you are lucky, the Russians are just as late, or later. In any case, your travel schedule is already off. Eventually, the meeting takes place and one of the first questions that your potential client asks you pertains to

scheduling; they inquire when you will depart the country. You tell them that you have a plane the day after tomorrow that will take you back to your country. To say so is a huge mistake! Now, your potential client knows when to put you under time pressure. If you tell them how limited your time is, right away this will be used as an instrument against you. The best answer is, “I will stay until we finish the deal. I have an open ticket, and will only fly back when everything is settled.”

The next step is the following. Say you orally agree on a large contract and you believe that everything is fine. There is a handshake and you, as a Western manager, now believe you can leave the country and book your flight to do so. Indeed, perhaps the agreement was more or less concluded. However, the Russian manager is very disappointed—he will think to himself that the Western manager only came for business and is not interested on a personal or cultural level! The Russian manager had planned to invite the Westerner to theater and the next day to meet his family. This is a gesture that one really must honour here. In the end, despite the fact that the Russian agreed orally, the contract will never be signed. To do business in Russia, you must demonstrate that you value your business partner and the history of the country and find the country interesting. Business takes time here.

We have heard often that understanding the Russian environment is quite difficult. Even with the right consultant, can Western companies ever truly integrate into this market?

The question is of course to what degree you wish to integrate. I think you have to accept certain Russian habits, but you also have to clearly delineate your corporate limits. This is a question of compliance.

Five years ago, too many Western companies adapted a Russian style of non-compliance. This is the fastest way to put a stop to your business. Once you commit to corruption, it is the end of the story. In the short term it might speed up some processes, but eventually, and very quickly, everyone understands that you are willing to pay cash. I think that more and more companies understand that this is a one-way route and it will not bring any success.

Still, we see that too many companies either refrain from starting operations in the first place, or close down soon after establishing a presence. Either they believe that with their internal standards they cannot reach their targets—because of corruption—or, as I have mentioned, they unfortunately commit to corruption themselves.

I will give you an illustration that demonstrates that if you are eloquent, and take your time, you can reach greater success than most companies believe is possible. Although times have now changed, in the past, the Russian customs and tax authorities were famous for corruption. I will share an example from ten years ago, an example from five years ago, and a final example from today.

Ten years ago, I experienced my first tax audit in Russia. The tax inspectors came, performed some work in our office for two days, and then abruptly left. On the third day, a ‘consultant’ came, and remarked that he had heard we had a tax audit. He explained that he was specialized to bring the audit to an end. He provided an invoice for USD 50,000, and said that if we pay the sum, we will receive all official documents, confirming our positive standing and indicating that we work within the framework of the law. Provided we pay, the ‘consultant’ promised that the audit would finish the very next day. Very obviously, this was the cousin, or the brother, etc., of the tax inspector!

I explained to this gentleman that there is no need for such services. He came three more times, we again declined, and he gave up.
After that, the tax inspectors came again to continue the tax audit. They sent us a huge bill for additional taxes; we went to court, and we won. So, already ten years ago, it was possible to fight corruption by using the court system. The judges were rather neutral, some people say this was because in any case the tax inspection did not have the money to bribe the judge. It of course cost us quite a lot of money to go to court, with lawyer fees, and so on. However, we stood our ground.

The next example is from five years ago. The tax inspection service had withdrawn a certain amount of money from our bank account without any reason. We spoke with the bank, and the bank confirmed that this was illegal; unfortunately, they said that they could do nothing against it. They said to speak with the tax service. We did so and an inspector told our accountant five times not to worry—that they would repay the sum. However, we never received it.

Hence, I personally went to the inspection office and talked to the head of the department. I said that that very day, I wanted to see my money. I made myself familiar with the process: it was a five-department procedure. I understood what he had to do in order to eventually push the ‘enter’ button on his computer. I received many excuses regarding why this was not possible—say, in one room, there is no electricity; in the other room, the staff is smoking; in the third room, the staff is on vacation; and in the fourth room, the staff is unwell. I told the tax inspector that this was not a problem: I would stay in his room until we could come to a resolution. I had my notebook with me, and proceeded to work on his desk.

He thought it was a joke, but after an hour, he understood that I was not leaving. Suddenly, he told me that in my tax return, he could see how much I earned. I said yes, of course. He asked me if I knew how much he himself earned. I replied that I had a certain idea; he asked if I found this fair. I replied that it was not a question of fairness, but if he wanted to discuss it further, we could have a drink in the evening! I said that now, there was another issue at hand. He told me that he heard that in other countries, payers return ten percent of their money to the tax inspector. I reminded him that he was talking about other tax inspectors, and other countries—not Russia.

I understood that this was the beginning of an attempt to receive a bribe. I explained to the inspector that in two days, I had a seminar in Germany, and that there would be 50 German businessmen attending. I said that I would tell them this story and about corruption in the tax authority in Russia. The inspector became a bit flustered, and spoke with his boss. They returned to the room, and told me that they would perform the operation—I could leave. I again said that I would stay until it was done! It took us five hours in total, and finally, they pushed the 'enter' button. In two days, we received our money at the bank.

This example, as I mentioned, shows that you need to take your time and you have to be eloquent. Furthermore, you cannot give up when you are challenged.

Today, corruption is still a problem in Russia, but in my opinion, it is very much on the downturn. Very often, in the press and the media in the West, one reads the opposite. However, this is really not true for ordinary business. For large global players in particular industries, perhaps the situation is still precarious. Nonetheless, for small and mid-size companies, much has improved. Today, we even have situations where the tax authorities, without much hassle, repay taxes that were overpaid before—with no major audit and with no court case. This is an extremely positive development.

To investors, I would say this: it was possible ten years ago to do good business in Russia; it was possible five years ago to do good business in Russia; and it is possible today, will be possible next year, and more so in five years. The investment climate has absolutely improved.
Certainly, this climate is a different one than in Western Europe and the U.S.

Organizations are still faced with much more bureaucratic burdens. For this, you have consultants—and you really need strong consultation, especially in the beginning. However, if you develop the right strategy, and invest well, — Russia is not a bargain—but with time, you can be very profitable.

Who is the typical Russia Consulting client today, and what are their main needs?

It is difficult to say who the typical client is. We started with mid-size companies. For them, we offer services from the first step: market analysis, registration, accounting services, tax compliance, some legal services, the entire IT infrastructure and eventually recruiting.

We also work with a number of large global players. Usually, we provide to them only a portion of our spectrum of services. Many large corporations are interested in our tax consulting, particularly because of the recent positive trend making it possible to get overpaid taxes back.

IT services are quite a focus for many Western companies, particularly when it comes to interfacing their systems in the West and in Russia.
Tax consulting and certain IT services are particularly interesting for pharmacutical companies.

When you look at the tax legislation in Russia, certain parts of the tax code are rather simple. For example, personal income tax is a flat rate of 13% for everyone, with almost no exclusions. The corporate income tax, and the VAT system, on the other hand, are considerably more complex. For pharmaceutical companies in particular, the corporate tax system allows for many exemptions and they have to be very carefully examined. Very often, it happens that the taxpayer and the tax authorities have diverging opinions—this can eventually become very expensive. You have to set up a very clear structure in order to benefit from certain tax exemptions from this sector. The VAT requirements often lack clarity, so well structured agreements are very important. These are services of ours that are interesting for pharmaceutical companies.

As a business, you have to make sure that you first work out the structure very well and only then implement your strategy. Once you implement a given structure, modifications are extremely difficult. Simple example: to register a company in Russia takes about three months, on average. To liquidate a company takes a minimum of one year. Therefore, you had better first investigate and receive good consultation. Should you have, in Russia, a subsidiary, or a branch, or just a representative office? Once you register it, it cannot be deregistered easily. You cannot have a representative office, and then decide to transform it into a subsidiary—this is not possible. If you start with a representative office, and then wish to expand your commercial activities and establish a subsidiary, you would have to register the subsidiary anew. Then you move all your employees and all your contracts from the representative office to the subsidiary; then you deregister and liquidate the representative office. As I said, this latter process will then take a year or so.

Let’s take a look at your own structure. Prior to the meeting, we discussed the fact that you have rep offices across the world, from New York over Paris to Tokyo. How do you select the countries where you will establish such representations, and what advantages do you gain from your global network?

First of all, our active offices are in the CIS countries: we communicate to clients that we are experts in Russia and CIS.

Our rep offices are located where the majority our clients come from: London, Paris, Zurich, Vienna, Germany, New York, Tokyo, and Beijing. The clients often ask that we provide introductory consultation at their headquarters and they often want for one of Russia Consulting’s representatives to be able to be present at their headquarters. However, again—the active business is then done in Russia and CIS. I myself travel quite a bit to all these locations. Usually, I visit each representative office once a quarter. I also visit our clients’ headquarters and we organize seminars and business breakfasts in their home countries.

Your consulting business is quite generalized. Other service providers that we have met have touted the importance of industry-focused consulting—especially for larger clients.

Can a firm that offers general consulting claim to be as strong an advisor as a firm that has industry-specific departments?

Yes indeed. Our focus is not so much on industry sectors, but on certain services. For these services, we have quite a broad overview: accounting services, tax consulting, and IT.

Certainly, we look into specific industry sectors. We have several clients in the pharmaceutical industry and we have clients, for example, in the construction industry, in wholesale, in fashion, etc. But because we have this focus on particular areas of business, we can work with quite a number of industry sectors.

What is your development strategy for the next five years? What are your plans for capturing further market share, expanding operations, and attracting new business?

Let us first talk about the next twelve months! Five years in Russia is like twenty years in the West.

We just started a program that we call STAR-S (Standards, Timing, Accuracy, Responsibility, Success). This is a program for the next year, to see increases of 50%. Most people ask right away if this refers to profit or turnover—my answer is that is refers to neither. We are talking about 50% more client focus, 50% more client satisfaction, 50% more employee satisfaction, and 50% more professional knowledge.

Would you not say that these are rather intangible goals?

If we reach these goals, the turnover and the profit will develop more or less automatically.

One of the success factors of this company is that we never exclusively focused on targets like turnover or profit. Above all, we always defined the level of quality that we wished to reach. Turnover and profit then followed.

How to measure the 50% increases? We just set up an internal training institute: the STAR-S Academy. We defined 30 different areas where we want to provide training and seminars to our employees. We also offer certain seminars that can help our clients achieve better understanding in our areas of expertise.

This brings me to another success factor for our company, and another huge mistake that companies can make in Russia: misunderstandings. When Western people and Russians talk to each other, it seems that there can be, in each sentence, at least two potential misunderstandings. Coming from taxes and accounting, I will give you a simple example: say the financial controller at a Western company’s headquarters calls the chief accountant in Russia in the beginning of August, and asks for an estimate of the affiliate’s turnover in July. The accountant replies that the turnover is RUB 120 million.

Ten days later, the final numbers are ready, in the management report that is sent to headquarters. Now, the number reads RUB 100 million—quite a difference in a couple of days! What happened? It is quite simple. The accountant looked into the trial balance, and the trial balance is a document where the revenue is shown including VAT. For the Russian chief accountant, it is not clear, when the financial controller from the West calls, whether they are asking for the turnover with or without VAT. Therefore, a small misunderstanding.

The next day, the financial controller calls again, and asks about the salary of Ivan Ivanovich. Ivan is next to the chief accountant, and the accountant asks Ivan to remind him what his salary is. Ivan replies that it is USD 1,500 per month. The accountant relays this amount to the financial controller. Later, it turns out that this was the net salary after taxes. However, the controller wanted the gross number.

Is there logic behind this? The accountant reminds the financial controller that just some days ago, he asked for turnover, and he wanted a net number. Then, he asked for salary, received a net number, payment after personal income tax and social contribution, but wanted a gross number! This is a typical example of how misunderstandings can take place.

A third very typical misunderstanding: in the beginning of April, the financial controller calls and says to the accountant that he needs very urgently the latest financial statement. The accountant says that it is not ready yet, because it is only the 15th of April. The controller says that by that time, it should be ready! The misunderstanding is that the controller is referring to the annual report, but in Russia, statutory financial reports are prepared on a quarterly basis. The controller wanted the report for the period ending in December of the previous year, and accountant thought he meant the statements for the end of March.

These are misunderstandings that you can rather easily avoid, just by providing more information. However, there are other misunderstandings that have a mental background. These are of course more difficult to solve. I mentioned in the very beginning the challenges of concluding a deal in Russia. For Western people, it is very straightforward: you agree on everything, then leave the meeting and everything is done. You would perhaps even consider it impolite to stay for the evening—perhaps you are keeping your business partner from his job. For the Russian person, however, it is very impolite to leave the meeting immediately upon agreement. You have to stay and you have to show interest in the city, in the region, in the country, in the culture, and in the history.

Is this too an aspect of your consulting business—cultural integration?

Certainly, intercultural matters are a part of what we do. Sometimes, we even play role games with our clients and with our employees, acting out stories of the kind I just mentioned.

Looking back at the relatively short period of this company's existence, what do you view as your most significant achievement?

I believe that the most significant achievement is that we not only have 250 people in this company, but we have 250 people who are highly motivated. Very often, the stereotype when you come to Russia is that Russians have to be controlled all the time, or otherwise they will not work. Many Westerns managers read this in books, or hear it from other managers.

I think this company shows that it is possible to work differently. I am very often on business trips and one of our employees once told me that I can be really proud, because when I go on a business trip, the entire staff continues to work very hard. This is not my personal achievement, but an achievement of our entire company.

What is your final message to the international readers of Pharmaceutical Executive?

Foreign investors: do not be afraid of Russia. There are great opportunities, and significant challenges. If you cope with these challenges, you will achieve a lot. Success is more than possible in Russia.

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