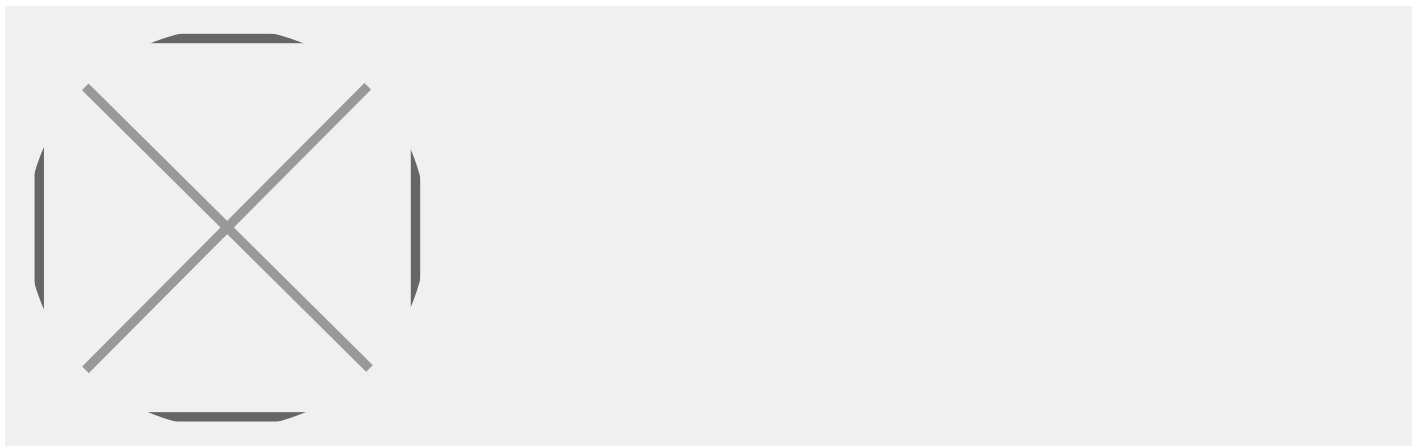


Interview with Bruno de Labarre, General Manager, Reckitt Benckiser Russia & CIS



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Many expat managers have used Russia as a stepping-stone, but you have headed this business for an astounding 9 years. What is it about this country and about Reckitt Benckiser's affiliate here that has prompted you to stay for so long?

That is a good question—because in our company, we usually stay in one position for a maximum of three to four years. When I came to Russia in 2002 the affiliate was quite small but we decided in 2003 to open a factory for our household division. I was asked to stay on and to oversee the successful launch of operations at this factory, as it was a difficult project and required stable management. Then, in 2006, we decided to acquire BHI—which is when we entered the healthcare market in Russia. Similarly, I was asked to stay on, because it is a complex task to integrate a new business. Finally, in November, we purchased a company called SSL—our Durex and Scholl business—and for the time being, I have again been asked to stay for a bit longer!

From a business point of view, my tenure in Russia makes sense, because bringing a new manager into a business in the midst of significant change is very difficult—especially here, where it is quite challenging to understand the dynamics of the market.

From a personal point of view, I must say that I enjoy the Russian business. It is quite demanding and very interesting. Everything moves quickly. It does not always move in the manner that we forecasted, but that only makes it more interesting! There is no place where I can enjoy myself more. In a Western European country, you might oscillate between -2 and +2 percent growth, and perhaps you are a hero if you grow the business by 2.5

percent—what is the fun in that?

In 2002, when I joined Reckitt Benckiser, there were 32 people. Now, if we consider both Russia and CIS, we have a total of 2700 colleagues.

Russia is certainly a fascinating, and rather unique market. As the man that built this company over the last years, do you find that the Russian Reckitt Benckiser has grown “Russian-ized?”

Actually, all of our countries are roughly similar from a business management perspective. We have the same fundamental principles at work everywhere. Before Russia, I was stationed at the Reckitt Benckiser headquarters in London and was in charge of commercial audit in what we called, at that time, our “Rest of World” markets: China, India, Middle East, Africa, etc. So I have been able to oversee the implementation of our business model in quite a number of countries.

One of our principles is to understand the country, the people, and the environment. Forecasting is the most difficult task you have. As soon as you understand what is going on, and try to understand what will come, then you can apply the broader business model of your company. It is a matter of appraising a given market’s stage of development and readiness for the application of the model.

But all models are the same. Every time I flew to our various affiliates, I made note of this. For example, if I flew to China, our colleagues spent the first hour explaining to me how China is different; then I spent the next three hours explaining how it was similar to our other regions. There is always a balance: yes, you need to understand what is different, but then you can implement the global paradigm. It is only a question of timing, speed, and your understanding of people’s ability to implement it.

Since 2006, the company has doubled its turnover, and you mentioned prior to our interview that you have had a minimum of 30% growth each year for the last three years. You were also the best performing affiliate in 2010! What has driven your success?

My answer may be interesting in this context of a pharmaceutical report. We work in the OTC business, and we view this business as the FMCG (Fast Moving Consumer Goods) business of pharmacies. That means that relative to other healthcare companies, we invest a lot in media: in advertising on TV, for example. I believe that Nurofen was, at one point in time, the most advertised RB brand on television. From the point of view of sales and marketing, OTC is much closer to FMCG than to prescription pharmaceutical products.

As any healthcare company, we provide a high-quality product, and we spend a lot of money on research. But we have a different business structure.

To support growth, a local manufacturing base is an invaluable asset. Reckitt Benckiser has a Moscow-based production site that employs 550 people. With the government instituting the Pharma 2020 initiative and asking multinationals to localize production, are you considering expanding your facility to manufacture for your healthcare division as well?

We do not consider to expand today. But of course, we are closely watching events as they unfold—especially developments stemming from the Pharma 2020 plan.

From a local point of view it always simplifies things to have a domestic factory, but a factory is a huge investment and this is a decision that must be taken by the central board. Like many companies, we have a European network of production, and a given market needs to be large enough to warrant a local investment.

What would be your recommendation to headquarters about the best way to proceed?

As a local manager my recommendation would be to have the factory in Russia. But this is only a personal recommendation.

Of course we need to understand exactly how Pharma 2020 will work; we must understand exactly the incentives that the authorities will provide for localization; we must understand the prospective barriers to importation. The government is considering such barriers, but it will have to find a balance. If you inhibit the importation of products, but have not incentivized local production to a degree where a given company commits to a local site, then those who are truly penalized are the consumers—the people of Russia. We have seen this in Ukraine. An impulsive decision may have adverse consequences.

Building a pharmaceutical factory, and producing within the country, is a complex undertaking—even if the government is exerting a lot of effort to develop an attractive framework and the necessary competencies. I had the experience of building our household factory, and this was relatively simple, compared to the effort it would take to construct a pharmaceutical site.

Reckitt Benckiser is a very brand-oriented organization. This is perhaps even more important in Russia, where consumers seem positively brand-obsessed. What is the key to establishing brand penetration in this market?

In the pharmaceutical market, the idea of a brand is a bit different than in FMCG. Trust is the key word in pharmaceutical branding—because a person puts this product inside of their body.

You cannot build a brand in the pharmaceutical industry in Russia, or in any other country, in the same way that you would in the FMCG sphere. I mentioned earlier that we invest quite a bit of money into media, but you can invest in media only after this trust has been built in the early links of the pharmaceutical chain. You must start with doctors, and with pharmacists; then you may

reach the consumer. If you have not built a foundation upon medical professionals' knowledge of your brands, then you will fail.

We have launched two new brands on the Russian market over the past four years. We started our marketing efforts with doctors: we explained our brands and their purpose and mechanism of action. Then we spoke with consumers. Consumers are actually the final step.

Reckitt Benckiser is mainly known for its household brands and yet it is one of the top 25 leading companies in the pharmaceutical sector. Is this typical of the global company?

It is typical now. First of all, for a long time, we have been a very strong healthcare company in the UK, where our base of operations is. We had healthcare brands in the UK before our acquisition of BHI. But now our strength in healthcare is not limited to the UK region and the healthcare business represents approximately one third of our worldwide revenues. As a unit, it is our largest, because we separate our household products into disparate divisions.

What is your development plan over the coming years for your healthcare business?

We view the Russian market in a very positive light, because we know that the consumption per capita of pharmaceutical products is quite low compared to developed markets. There is ample opportunity for growth, as the Russian people begin to take care of themselves more and more. They will also certainly acquire greater purchasing power in coming years.

So there will be organic growth—even if such growth is, from time to time, hindered by some new governmental decision. We simply have to grow our brands along with the market. We also have a number of new brands that we have yet to launch in Russia and these products will begin to fuel our growth in the coming five years. If there is no crisis or intervention that will cause the market to deviate from its current pattern, we will see significant expansion here.

In the next three years, with the addition of our new brands, we should be able to again double our business.

You mentioned Russia's increasing expenditure per capita and rising purchasing power. This points to the evolution of the Russian middle class. As a long-standing expat, do you believe that we are truly seeing the rise of this middle class, and what will it mean for a consumer goods oriented organization like Reckitt Benckiser?

The middle class is indeed rising at an exponential rate and this rise is very palpable. Look at our own company; we have 150 people in this office. Two years ago, we had 80 people. Five years ago, we had 50. So we can see from, shall we say, our "normal life" that the middle class is growing—because it is driving our need to expand operations. Today, this is perhaps more palpable in Moscow and other cosmopolitan centers like St. Petersburg, but all over Russia, we

have recruited 250 people for our sales team only in the past two years. And every other company is doing the same. So we are not simply speaking of economic figures one might read on a piece of paper: it is the reality of business today.

How do you manage to retain these employees? In Russia, it seems that good talent often rotates from company to company: the talent pool is still relatively small, while the opportunities are becoming quite numerous.

That is one of the main difficulties in Russia, but it is also one of the greatest difficulties in all developing markets.

We are quite happy today because we have approximately 15% turnover in our sales organization, which is not too bad. First, you must pay the people at the right level! But this is not enough. We furthermore try to grow a unique culture within this company, which is founded upon very open communication. I believe that communication is the key. We try to ensure that our employees understand where we are, where we are going, our goals, and their role within the organization. If people feel that they are a part of the development of the company, then they enjoy their work at a higher level.

We try to explain that people can, by themselves, bring change to this company. They can challenge the status quo, they can bring new ideas—I am not saying that we will implement 100% of our employees' ideas, but they can freely speak! This is specific within the Russian environment, because in many organizations, you have to do, but you may not speak.

What do you believe is the fundamental difference between the Russia you knew when you arrived in 2002, and the Russia we see now?

In 2002, Russia was really beginning to recover from the crisis of 1998. Growth was quite easy to attain, and quite natural. At that time, there was no difference between the very good and the good, because all organizations in our sphere were growing very quickly, and there is little difference between 40 and 45 percent growth.

The atmosphere in the post-crisis period was very optimistic. People were enjoying the fact that the market was moving very fast, and that it was fairly easy to be successful.

The market was also much less structured than it is now. The pharmaceutical industry has seen a great influx of regulation since 2006. But this is good—because every market needs regulation.

I believe that now, we find ourselves in a much more difficult market. We need to be much more professional and to be much better if we aim to be successful.

But Reckitt Benckiser continues growing much faster than the market.

Yes—always! But it is no longer easy. You really must be very good, nowadays, in every aspect of your marketing mix. You must follow every brand, and every customer, very closely. Before, you could have one or two areas where you were not perfect, but today you must be much more careful.

What is your advice to a new manager entering the Russian market?

Come for two months, and do not speak—listen. Look to the people, look to the market, listen to your customers, and listen to your suppliers. Spend two months just listening! After that, try to put on a piece of paper what you have understood about the market, and then decide what you must do.

Any country where you go, you must observe first—then you can start working. I see too many managers come to Russia and believe that they understand everything after a week. They promptly begin making mistakes.

When we acquired BHI in 2006, I spent two months visiting pharmacies, visiting distributors, suppliers etc. I always asked them the same question: “Tell me what you think of my company, what I need to improve, and what I do well that I should maintain.”

The best advice I can give is that you must understand that you do not know!

I would like to end on the fact that what truly makes a manager successful is his team. You must ensure that everyone is responsible for his or her own area; I am not marketing director, nor sales director, nor finance director. I am a bit of all, but I am not any! So I must ensure that they are responsible for the business. There must be good communication between every department. And everyone must be absolutely clear on what the company means to deliver and how. After that, each department must implement. This is both very simple and our greatest difficulty.

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