Brands make a dash into Russia
Jenny Wiggins

When the men who are sent to Russia by consumer goods companies headquartered in the US and Europe are asked about the political risks of working in the country, they smile and request that their comments be kept off the record.

It is not that they have horror stories of government or official interference: the people who sell toothpaste and chocolate do not threaten Russia's control over its natural resources in the same way as those who sell oil and gas. And the authorities have not interfered in any of the foreign acquisitions of Russian consumer goods companies that have taken place in the past 18 months.

"Russia needs business," points out Tony Maher, the Irishman who was hired from Coca-Cola two years ago to run Russia's biggest food company, Wimm-Bill-Dann.

Nor have foreign companies been scared off by Russia's invasion of Georgia. Paul Walsh, the chief executive of distiller Diageo, describes the military incursion as "short-term".

But in their rush to grab a share of a consumer market that is expanding at breakneck speed, the multinationals are instead concerned with issues that potentially are far more damaging to their immediate interests: Russia's pervasive corruption and bureaucracy.

"Corruption has got worse and worse," says one chief executive, adding that this makes working in Russia far more complicated than working in other countries.

Businesspeople remain wary of discussing politics in public, and stress how important it is to stay on the right side of the law. As another chief executive points out: "There's always a risk when you have absolute power."

Companies are also frustrated by the difficulties of conforming with Russia's myriad regulations. Pierre Pringuet, chief executive of Pernod Ricard, explains how the French spirits and wine group had to destroy all its Russian stock a few years ago when the government botched the introduction of a new system for labelling alcohol. "Unfortunately the information system was unable to read them . . . everything became a nightmare," he says.

SABMiller, the London-based brewer, has had similar problems. Government regulations define beer - which, when canned, typically has a shelf life of up to a year - as "perishable", forcing companies to refrigerate it when transporting it and thereby pushing up costs.

Jamie Wilson, the Scotsman who has been running SABMiller's Russian business for the past two years (and who is currently moving his fast-expanding team into a larger Moscow office), says the brewer is trying to get the regulations changed. He believes the government is making "all the right moves" to try to help companies work more effectively in Russia, but progress is slow. "This is a huge machine so trying to change it doesn't happen overnight."

Other companies say they cannot expand as quickly as they would like. "One of the challenges we face is the tightening labour market here," says John O'Keeffe, the Irishman who was sent to Russia by Diageo after it realised sales were rising too fast to leave them in the care of external distributors. "Everybody is looking for Englishspeaking educated Russians." Over the past two years, the number of people Diageo employs in Russia has risen from 30 to 430 but the buoyancy of the job market nonetheless makes it difficult for the company to retain staff. Wage inflation is nearly double overall inflation levels, running at about 28 per cent year on year.

Meanwhile, Russia's population is shrinking. It is expected to fall by about 5m people over the next decade to about 137m. This is partly due to declining birth rates, but life expectancy is also low due to alcohol abuse and poor healthcare. Russian men live to 59 years of age, on average, while their Polish neighbours live to 71.

But most companies believe the opportunities in Russia are worth the risks. Incomes have been rising as the Russian economy has steadily expanded. "There is an emerging middle class," insists Bernard Meunier, chief executive of Nestle Rossiya.

In 2002, Russians earned about $160 per month, according to Lehman Brothers, the investment bank. Today they earn $540, while the proportion of people earning less than $100 per month has dropped from 40 per cent of the population to just 4 per cent over the same period.

People can afford to buy imported brands because most own their own homes, and basic utilities like electricity, gas and water are cheap. Levels of household debt are low and Russia has a flat income tax rate of 13 per cent. Given negative real interest rates, many people also prefer to spend what they earn rather than put it into a bank savings account, adds Irene Shvakman, director at the Moscow office of McKinsey & Co.

For some companies, the most stressful aspect of working in Russia is keeping consumers satisfied.

Mars, the US pet food and confectionery group, says Russia will soon be its third-biggest chocolate market after the US and UK. Mars already sells more cat food in Russia than anywhere else in the world. ("Russians live in flats and there are a lot of cats," explains Richard Smyth, the Englishman in charge of the group's Russian business.) This means the company needs to build more factories. It already has four in the country, but is spending $250m building three more.

One sign that companies' faith in the Russian market is not misplaced is that Russians who left the country when times were tough in the 1990s are coming back. Dmitry Rukhlov, a former musician who now makes a living selling Spanish holiday homes to Russians, returned to Moscow in 2003 after nearly a decade in Spain. Although he finds it easier to do business in Spain and keeps an apartment there, it is no longer the country in which he wants to live.

Speaking from his office in Moscow's World Trade Center complex, north-west of the city centre, he says that more possibilities are now opening up for him in his native land. "Every day there are more Russians who can buy a property." He also has enough confidence in its future to put down roots. "It's a new country. It's a new life."

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