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Selling Advice

Interview by Boris Sorokoumov

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Russia's Rapid Growth Prospects in Retail Attract Western Consulting Companies

When Art Vartanian visited Moscow for the first time, it didn't take long for him to understand that the country had potential, especially for his business. In 2002, Vartanian founded Retail Solutions, with the goal of providing professional consulting and advisory services in key areas of retail. Having realized that his services are in high demand, Vartanian decided to shift Retail Solutions' main focus to Russian clients.

The idea dawned on Art Vartanian when he visited a store around the corner from Kamergersky Pereulok. He went to buy a soft drink, some milk and a snack. "I

had to memorize the list of products and their prices, then walk over to the cashier and give her the list of items that I wanted to purchase, pay for the products and get the receipt, then visit yet another woman who would either give me the products or give me access to the products I was purchasing," described the American businessman with over 20 years of experience in retail. "This was making things as difficult as possible, instead of as easy as possible for the customer. From then on, I was sure that there were plenty of opportunities in Russia for helping the retail segment." Presently, his company specializes in pre-due diligence, multiples and valuations, store expansion, revenue enhancement, cost controls, store operations, merchandising, and a broad range of other services for retailers and retail investors.

R.P.: Why did you choose Russia for your business?

A.V.: Like for so many expats, I suppose, it was not planned. It was Russia's geographical size and potential that inspired us to move our services eastward. We are especially inspired by the country's culture and rapid growth prospects. When we first entered Russia five years ago, we recognized that businesses here were at various levels of sophistication, but most of them were just starting to understand the benefits of modern retailing, management and technologies. While there are many talented managers throughout the country, the in-depth modern retail expertise across the board is rather limited.

R.P.: What was it like to expand your business to Russia? What do you do to "keep it moving"?

A.V.: In the beginning it was difficult, because we had no history or references in Russia, though we did have a strong background in former CIS economies. I recall our first project here for the number one retailer in Russia at the time. After making numerous calls and firing off emails in an attempt to reach the owner of the company for six months, we sent a fax as a last attempt. Thanks to that, we were asked to meet with the company's owner the following day. He was shocked to hear that I had been trying to reach him for so long. When a company does not have a proper support infrastructure, such problems are commonplace.

We keep our company going in Russia by staying current with trends, and more importantly, delivering on what we promise. Based on my experience, I can say that Russian business owners are no nonsense managers; if you don't deliver, you are out in no time.

R.P.: Your company advised various retailers and investors in retail outside of Moscow, in places such as Vladivostok, Chelyabinsk and Nizhniy Novgorod. How are the Russian regions different from Moscow in terms of business practices and openness to consultants?

A.V.: This is a difficult question to answer in black and white terms, because there are some 83 Russian regions, and we have only worked in a handful of these. That said, in the regions we did get the sense of things being more laid back and frugal, and not as intense as we had experienced in Moscow. We found those



working in the regions to be as open as in Moscow, but they definitely are interested in knowing, in detail, the consultant's credentials, background and expertise, which is fair enough.

Interestingly, we noticed that in the Far East (Vladivostok and Khabarovsk), the heads of companies take their lead from not only Moscow and the West, but also from Japan and even South Korea, and we noticed a structured approach to their business practices. They are generally very open to improving their businesses any way possible and are quite accommodating.

In summary, if one thinks that because a city is three, five, or seven time-zones away from Moscow, the businessmen there are running nothing but chicken coups, then it is time to get on a plane.

R.P.: How would you characterize the state of Russian retail business? How has it changed since you started working in Russia? Where do you see it moving?

A.V.: I think that Russian retail has come a long way and is improving monthly. Small-time operators and independents are slowly fading in favor of the multi-store and multi-national retailers. If one has been exposed to high-performance retail chains in terms of strategy, management analysis, profitability, and above all, value to the customer, the answer to this is apparent.

Currently in Russia, customer service, assortment, in stock position, store and executive management, merchandizing, and systems are nowhere near where they will be in five or ten years. Competition is heating up, and there are a lot of retail successes as well as retail failures, which we expect to increase with competition. At the moment, real estate and transparency play a much larger role in multi-store retail as compared to other countries. AT Kearney recently rated Russia as number three worldwide in terms of retail opportunities.

New products, services, companies, and choices are entering the market. Companies such as Auchan and Metro have lowered pricing structures with their buying power and expertise, and there is growing apparel supply and demand in places like the Evropeysky shopping mall. The present food/non-food split in Russia is about 50/50, with nonfood likely to grow at a more rapid pace.

The country is also moving toward new store concepts with startup retailers such as "Vit-o-min" (health supplements), branded clothing wholesaler "International Apparel" and discounter "Fashion Mart," which are setting a new standard in presentation and value to customers while offering low prices and outstanding service. There is even a dollar store now in Moscow and made-to-order men's tailored suits from Italy at Henderson's Tverskaya store.

R.P.: In addition to Russia, your company does business in other countries like the Czech Republic and Ukraine. How does Russia compare with these countries?

A.V.: Just go to any shopping center or store in Moscow and the head count of customers says it all. Russia is in a retail boom and in a frenzy of consumption from branded apparel, to high end electronics, luxury goods, gourmet foods and beyond. Countries like the Czech Republic may be slightly more developed in retail value to the customer, but still lack the management talent, product assortment, and service.

Ukraine seems on track now, but lacks transparency and disposable income. Also, property has skyrocketed in Kiev in recent years, making it prohibitive for large-format Western players. There are radical differences in gross margins, shopping patterns, and assortment from country to country and by retail segment.

Overall, I can say that Russian company leaders are quite open to collaboration and professional advice from the outside, more so than many former CIS states.

R.P.: How does being a consultant in Russia compare to being a consultant in the West?

A.V.: That's an interesting question. It is important to understand when Western concepts apply, and when they don't. For instance, the return policy in the United States and the UK is extremely liberal, while in Russia it is a "buy it and it's yours policy," or "Caveat Emptor; let the buyer beware." As a retailer or consultant to retail, you cannot apply all Western principles in Russia. On the other hand, no one likes to shop for their groceries in a store which has poor hygiene or refrigeration issues; or an apparel chain where you can't find your size or

access a dressing room. It's important to understand the underlying reasons for how the business is operated within the environment, and act accordingly. We find that 90 percent of Best Practice principles apply, and the other 10 percent, well, let's just say that it's cultural.

As far as the business culture, we have found that top management has been focused on the visual, or what we call the "Front Office." But lately, it is taking a much bigger interest in the operations and "Back Office" of the business.

R.P.: You work a lot with Russian heads of companies. First, you need to convince them that they need to hire a consultant. What are some of the common reactions that you get? How do you "convince" Russian owners and CEOs that they need help from an outsider, especially an American?

A.V.: If we have the opportunity to present our expertise and offer, the reaction is usually positive. Owners and supervisory boards in Russia as elsewhere want to minimize their risk and have a company that looks to grow. It is in fact important that we communicate with owners, board members, or CEOs as they are most affected by the company's profitability and can make the necessary decisions.


The initial reaction is sometimes, "we have all that" or "our sales/profit is up x percent." We begin by explaining that we are retailers more than we are consultants. Many companies are not big on soft theory, but more interested in straight facts and concrete direction that impact their businesses. Next, we outline the pent-up opportunity that is present with virtually every company regardless of how well they think they are doing, to increase the top and bottom lines. These initial opportunities are often visible to us by walking through their stores. Lastly we also discuss some facts such as 12 percent official inflation and various benchmarks so as to help them look at their business with a comparable norm. When the business improves, it ends up as a win-win for the business owner as well as for the consumer.

R.P.: What do you think will be the future of retailing in Russia?

A.V.: Assuming the market will continue to liberalize, competition will drive the level of retail higher. This can already be seen across the country.

As far as trends and innovation, there are a number of areas that are presently being explored, primarily utilizing technology to make the shopping experience more enjoyable for the customers and beneficial for the retailers. Biometric fingerprint payment, smart shopping carts, holographic sales assistants, self checkouts, 3D body scanning and mobile phone shopping are all in the cards. These innovations are already being tested and in use in markets worldwide and will find their way to Russia as customer demand rises, wages rise and global retail takes its hold.

R.P.: Do you expect that multi-national retailers will enter the Russian market?

A.V.: Some are already here with their own operations, partnerships, or via franchise licensing, which is the case for many apparel retailers. Carrefour is the latest classic style hypermarket and major market entrant. Wal-Mart is rumored to be doing a deal in St. Petersburg. Notwithstanding the present conflict, if country risk improves, the market is stable economically and politically, and capital investment is secure and transparent, the likes of Tesco and high-powered specialty retailers would surely be sending their site research teams to Russia. 

Captured map shows Georgia planned
to invade Abkhazia

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