



From Russia With Love...

Doing business in Russia is not the daunting prospect it once used to be, but there are still plenty of potential pitfalls and cultural differences to be aware of, particularly for new entrants into the country. Mike Oliver, director at specialist supply chain consultancy Total Logistics, highlights some key areas where Western businesses should focus their attention.

“Having completed a number of successful supply chain projects in Russia, there are certain aspects of doing business there that we tend to take for granted. These are often viewed very differently by clients who are considering entering into the Russian market for the first time. Rather than attempting to implement Western cultures and processes, we find that a sympathetic understanding of the culture, the infrastructure and the local economics are vital in ensuring a smooth and successful entry into that market.

Property in Russia can be some of the most expensive real estate in the world. Warehouse property that would usually cost around \$20-\$30 per m² in the west can be as expensive as \$150 per m². These are often linked to annual inflationary rate increases, where one might normally expect a review in 3, 5 or 10 years elsewhere. Considering inflation is running at around 11%, this can create some costly infrastructure assets. The leasing arrangements themselves are usually considerably shorter than those agreed in Western Europe. Clients expecting to sign up to 5, 10 or 15 year leases might well be surprised to learn that in some circumstances, leases of less than a year are often the norm. Despite the considerable land mass of the country, the availability of quality space has been at a premium. This situation has improved recently, but space in general is not as freely available as one might expect. One final consideration for property developing in Russia is the length of time required for new builds. Construction lead times and the prevailing bureaucracy can stretch building schedules to way beyond what is considered acceptable in, say, the UK.

Transport and the local infrastructure is also not without its parochial issues. The sheer size of the country and the travel times to major conurbations are obvious, and lead to challenges in providing domestic delivery networks. Congestion within the major cities is considerable at peak times, and often far worse than even large western cities like London and Paris. Shrinkage and security issues are prevalent in all countries, and Russia is no exception. This is a major issue for high value shipments and for time sensitive or refrigerated/frozen loads. Using a reputable 3PL is often the default position for many clients, but this does not necessarily guarantee western style delivery performance and KPI measurement. Western 3PLs are as susceptible to transport issues as local companies. In fact, in a number of situations, we have found local Russian 3PLs to be as reliable, robust, resilient and professional as well known and trusted western companies. Clearly, knowledge of who these companies are, what value they can bring and how to contact and negotiate with them is essential.

So as well as property and transport considerations, there are other significant issues to be aware of. Supply chain and consumer data is essential for the modelling of any new venture. Yet we have found that the availability, reliability and consistency of data is often an issue. Knowing what to ask for, who to ask for it and how to assess it, is often as important as the data itself. Clients often expect to be able to implement their standard western KPIs or process improvement principles to their operations. Measuring the effectiveness of your Russian supply chain can be difficult to implement and careful consideration should be given to what you measure and how.

Despite all these potential issues, the one message we are always keen to reinforce, is to never underestimate your Russian counterparts. Through the issues we have highlighted, we are never disappointed by the capability, resilience and determination of the Russian supply chain professionals we deal with. The contacts we have developed over the years have become trusted members of our wider team, and we always look forward to creating new opportunities for our clients in Russia.”