

Experience of an SME in the Russian Market

According to surveys conducted by the VDMA, the import of electrically heated industrial equipment to Russia has increased substantially in recent years. In 2003 imports of kilns and furnaces added up to a total value of EUR 18,2 mill. Just one year later a value of EUR 35,1 mill. was registered, which then rose to EUR 62,7 mill. by 2005. In the year 2006 further growth of 8,4 % to EUR 68 mill. was recorded. A similar trend can be observed in the figures for imports specifically from Germany (2005: EUR 17 mill., 2006: EUR 23 bill. – of which mechanical engineering accounts for 23,6 %,

electronics for 10,8 %, electrical engineering for 7,8 % and measurement and control systems for 3 %). Russia's investment attractiveness (FDI Confidence Index) determined in a global analysis has improved from 11th place in the year 2005 to 6th place in the year 2006. Russia is a country boasting a great deal of professional expertise, but with an enormous need for modernization. A bonus for German suppliers is the great affinity to Germany. **Horst Linn (HL)**, founder of Linn High Therm GmbH, gave us a first-hand report on the experience of his company in the Russian market.

cfi: The import of capital goods used to be strictly controlled and ultimately also coordinated by state offices. What did this mean for you as a plant supplier?

HL: In the first decade of our active involvement with Russian business, all contracts went over the six state trade organizations responsible for us. The trade fairs in Russia were much more important then than they are today. The events generally ran over 15 days, and during this time many business deals were closed. We often sold our exhibits there and then. At that stage, we didn't usually know the later operators of the plants, though occasionally we did find out who they were in the following years, either through the supply of spare parts or by chance during visits to the country. The level of service needed was extremely low because the people there were encouraged to help themselves and keep costs low.

cfi: When did you establish a permanent representative office?

HL: In 1987 we recruited two employees from the All-Union Scientific Research Institute of Electrothermal Equipment (VNIIEETO) in Moscow to help us build up our con-

cfi: When did you get involved in the Russian market?

HL: From 1974, I myself regularly visited Russian trade fairs that were relevant to us. Business increased gradually in those days. We started off by selling machines for casting precious metals. Then we went in with high-temperature furnaces, which were used, for example, for tempering corundum or for crystal growing in general. Later came applications in the ferrite and ceramics industry. By intensifying our cultivation of the market, for instance by attending fairs

in Minsk and Kiev, we were also able to establish contacts to powder metallurgy. The nuclear industry in Russia was always a key sales market for us. In the course of the years, we have supplied chamber and rotary tube furnaces and microwave systems and naturally a host of laboratory induction furnaces for the production of melting specimens for spectroscopy. We have supplied several hundred furnaces to Russia over the years. The share of Russian business in our exports was already extremely high in the 1970s and 1980s.

tacts in powder metallurgy, nuclear engineering, ceramic components. We had to close this office, after the staff had grown to five employees, in 1991. After the political upheaval in 1990, we lost around 0,5 mill. German marks as part of a contract with the Academy of Sciences. Years later and we have managed to get back a good half of this sum. In the 1990s we therefore tread carefully. Through the supply of spare parts, which were often free of charge, we maintained our contacts and preserved a good network with extremely friendly business ties. We started selling plants again with new financing conditions (letter of credit or advance payment). A recently completed internal market study with compiled by 15 industrial engineering students confirms to us that the Russian market offers us enormous growth potential providing there is no marked change in the political conditions there. For this reason, from 2008, we shall be operating a Linn Representative Office for sales and service both in Moscow and in Kiev. The representative office is to

ensure the ongoing improvement of sales and service by our representatives and increase the share of our own business to around 50 %.

cfi: How did this decision come about?

HL: We have take a focussed approach to meeting the new market needs. When we sell via a dealer, in return for the commission paid on the sale, the dealer takes responsibility for basic servicing during the guarantee period. For small furnaces with a purchase price of EUR 10 000 to 100 000, we cannot fly in service engineers from Germany. In stark contrast to earlier, however, service expectations easily exceed the standard in the West today. We shall meet this need with service technicians in the new offices. Our technical sales are not only aimed at making greater inroads in the market, but also at boosting the sale of speciality plants. Quality awareness, adherence to delivery dates, price consciousness have all generally increased in Russia.

Financing does not tend to be a problem in Russia today. The preparation just takes more time than in

many other export countries (validity period for quotations).

cfi: What market potential do you see for your business?

HL: For us, it pays off that Putin has increased the research budget – not only for basic research, but also for technology transfer. There is also a string of young entrepreneurs in private holding companies who can easily finance investments. Growing sectors are e.g. aircraft construction and turbine manufacturing, electronic components and the automotive industry in general. We shall stay with Russia in the next few years, especially as there are traditionally "good ties" between German and Russian contract partners. My experience has shown me again and again that it is safe to do deals in Russia.

cfi: What are your other sales focuses?

HL: Besides the domestic market, I should mention China and India, even though, when you get down to detail, completely different rules apply in these countries than in Russia.

cfi: Thank you for the interview. KS