

Solving the Russian riddle



Bernard Davies

In the latest of a new series of columns, Bernard Davies, Director at Fleet Force Ltd, ponders on the intricacies of the Russian car market and the problems that global recession has presented.

Russia, as Winston Churchill said, is a riddle wrapped in a mystery inside an enigma.

I'm not sure any of that is true for this month's jottings, but I've always liked the quote and it got your attention!

A country of nine time zones, spanning over six and a half thousand kilometres from west to east and about four and a half thousand kilometres from the tip of its northernmost islands to the south, it presents enormous challenges for any business wishing to seize the commercial opportunity. But for this article I'm just going to look at the car manufacturers.

The new car market in Russia over the last few years more closely resembles a roller coaster than a cohesive business growth plan. From the heady heights of 2.9 million in 2008, through a plunge to 1.5 million in 2009, a slight recovery to 1.9 million in 2010 and a prediction of 2.2ish million for 2011.

In a country with only 20 years of modern capitalism, many middle and senior managers will not have experienced this most recent "strain" of recession, or market volatility – possibly causing some sleepless nights, wondering how to resource the business?

In an unpredictable market such as this, the risk of getting your business plan wrong in different directions (either wildly optimistic or pessimistic) is high. This is sure to lead to "difficult" conversations with HQ; either at the point of planning, or at the point of (non-) delivery...

Away from the two large centres of population, Moscow – with a reported population of

c10.5 million – and St Petersburg with c4.5 million (ignore for a moment the "grey" residents – who probably don't buy cars anyway), the huge scale of the country presents not just the normal logistical problems of new vehicle (and parts) transportation, but also that of maintaining a remote workforce.

This is not like running a business in Europe, with one or two time zones across a number of countries with profit responsibility and economies at various stages of development – this is one country, with one MD or president with a clear remit to manage the whole organisation in its entirety.

The dealer management teams must spend their lives on internal flights, moving between the 30+ cities, with more than half a million inhabitants placing further financial pressure on beleaguered volumes and margins. No wonder then that some importers may be tempted to confine their operations, perhaps until the market shows more stability, to Moscow and St Petersburg.

And as the market plunged in 2009, volume planning for 2010 would almost certainly have been conservative. Factor in the fluctuating exchange rate, causing many importing manufacturers to protect their returns by committing cars to more stable markets and it is entirely likely that, as the market recovered in 2010, stock would be restricted. As it turns out, sales rose by the equivalent of the entire 2010 Belgian or Dutch market, adding yet more strain to the planning process!

Maybe as Mr Churchill said it is a riddle but, thankfully, not one I have to solve!