



15 years in Ukraine Observations and Lessons Learnt

February 23rd, 2018

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Summary: the message in short

- *There are good reasons for investing in Ukraine*
 - *Ukraine has unique assets, low labor costs and is a big market for B2C and B2B*
 - *It is in Europe and one of the most accessible emerging markets from Luxembourg*
- *Challenges are real, and you need to prepare*
 - *Customer needs, buyer behavior, distribution structure, human resource pool, business culture will have specifics that need to be taken account of*
 - *Corruption, administrative complexity, weak infrastructure, language barriers, political and economic volatility*
- *Companies and entrepreneurs who have gone for it and have been intelligent in preparation and flexible in execution, have achieved great things*
 - *Your competitors face the same challenges you face*
 - *No business venture is easy, but investments in Ukraine do not stand out as particularly prone to failure*

15 years in Kiev, working with Ukrainian Gvt, MNCs, local companies, and my own

- Worked in Russia and Ukraine between 1993 and 1997
 - Privatization advice to both Ukrainian and Russian State Property Funds
 - Led Mass Privatization project in Ukraine (14M jobs, 5600 companies)
 - Market entry for Western players in tobacco, spirits, aerospace, cement, etc.
- Returned to Ukraine and Russia in 2003, stayed until 2014
 - Own investment banking and consulting “boutique”, then rejoined Bain & Company to build Russian operation
 - Worked with local oligarchs, private equity funds and Western multinationals in retail, telco, oil and gas, consumer goods, steel, banking, etc. in Ukraine
 - Developed Ukrainian and Russian operation for Bain from 2007 – working both for Western FMCG/retail and for local state-owned and private companies
- Returned to Luxembourg in 2014
 - Still on the Board and advisor for large Ukrainian heavy industry group
 - Now CEO of medium-sized company in energy sector, Kleinbettingen (L)
- Luxembourgish, engineer (ETH), economist (HSG); married, three girls; skiing, piloting (PPL), diving (PADI), sports shooting, reading, hiking

Some truths about Ukraine ...

- Life quality in Kiev can be good – high quality housing is available, the city center is pretty and safe, so is much of the countryside, there are many cool places to go, schools are OK and not worse than in Luxembourg, and foreigners are welcome.
- The distance to Luxembourg (Maydan to Knuedler) is about 6-7 hours (same as Lausanne by car or Biarritz by plane) – costs you a long evening.
- You can get by in English, but it does limit interactions – to be truly effective (and e.g. drive your car yourself), you should at least be able to read Cyrillic (easy) and speak a little bit Russian or Ukrainian (more difficult).
- Salaries for senior jobs in management are higher than here, life is more expensive as well. Household help is available and affordable. On balance, it evens out.
- It is worth the experience!

... and some other truths about Ukraine.

- Corruption is a major issue – in many public institutions and administrations, much less in private businesses. But coming from the West, you can avoid most of it.
- Economic crises come and go, inflation rises and falls, the currency goes up and down and there is little financial hedging, revolutions happen occasionally. But a robust business model survives and thrives.
- Contracts are mostly a statement of intention and understanding, what counts is trust and respect. Don't use contracts to trick your partners – you will pay for that. Honesty wins.
- Roads are dangerous, and travel within Ukraine (outside large cities) is tiring. Life in the provinces can be boring and difficult (reliability of electricity, medical coverage, infrastructure, etc.).
- There is a low-level war going on, and people are dying at the hand of Russian mercenaries. That being said, it has had only very moderate impact outside the Donbass.

Three reasons to do business in Ukraine

Local Demand

- 50M consumers, emerging middle class, quite some very rich people.
- Except for the most affluent segment of the population and for differentiated/niche products, success will probably require local operations.
- Could be consumer goods, technology & infrastructure (B2B), etc.


Unique Assets

- Gas, oil, uranium, steel, but also wood, paper, wheat, chicken meat, equipment, IT coding, etc.
- Mined raw materials will typically be controlled by oligarchs or by the State – a challenge to deal with.
- Agricultural goods or processed products will require to build your suppliers (quality, productivity, processes).

Low labour costs

- Labor costs are still very low in Ukraine (a third of Poland, a tenth of Greece).
- Costs of doing business however are high (expats!), and productivity is low – you will have to invest money, time and sweat to get a Ukrainian plant up to standards.
- E.g. automotive components, textiles, agriculture, services.

Lesson learnt 1: don't save on due diligence

- What is true anywhere will be true in Ukraine - with (sometimes important) twists:
 - General culture (bring a gift, take off your shoes)
 - Business culture (show respect, don't interrupt, manage hierarchies)
 - Industry structure (monopolies, vertical integration)
 - Consumer and purchaser behavior (occasions, taste, distribution)
 - Success rules (access)
 - Cost structures (labor costs, transport, capital)
 - Volatility is everywhere: exchange rates, inflation, the economy, politics
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- Invest the time to understand the business: consumers/customers, suppliers, partners, etc. Meet lawyers, consultants, retailers, buyers, civil servants, competitors, ... and walk the shops or visit plants.
 - Make a good business plan – be more stringent than at home and plan for volatility (scenarios!). Don't trust your instincts, but do your research!

Lesson learnt 2: trust is crucial

- Courts and administrations are unreliable, and contracts are not always enforceable.
- Licenses can be given, and taken away; rules can stay, or or be amended; and laws and regulations are ambiguous (tax code!).
- On the other hand: partners help each other, and rules can be adapted, regulations improved, exceptions made. Goodwill is everything.



- Get to know the people you are dealing with – professionally and personally. If you don't feel comfortable with them, walk away!
- Be clear (with yourself and with your partner) on your motives, intentions and goals - then keep the purpose of the venture in mind at all times.
- Be transparent versus your partner – ensure a "win-win". The contract is "memorandum of understanding", no more, but importantly: no less.

Lesson learnt 3: invest time and passion, and build a team

- Formalities (administrative, logistic, etc.) and networking (partners, suppliers, customers, administrations) will eat over half of your time.
- As an expat, you will be lost – and you will need a local team that you trust and that will support you.
- Experienced resources are rare and expensive, and competent employees are impatient, expect fast careers and move on quickly to the next job.
- You will find plenty of women and men that are intelligent, hard-working, eager to learn. They will need coaching.



- The environment requires entrepreneurs, not managers. You need to be a bit of a cowboy – or send a cowboy.
- Keep in mind when building a team: commitment and talent beat experience and knowledge in the long run ... if you build loyalty. Get the "raw diamonds" and invest in developing them; then create a great place to work, inspire them and keep them.

Lesson learnt 4: never bribe

- Corruption is deeply engrained in culture. People with institutional power are (mostly) expecting to complement their (sometimes meager) salaries with (sometimes lavish) side-payments and gifts.
- On the other hand, corruption is illegal, perceived as immoral, and known to be the exception in the West.



- Never bribe. If asked a bribe, play dumb, or if this does not work, be clear that you are part of a group, company or culture where this is not done. You can get away with this. I did!
- Stay away from businesses where bribing is required – i.e. where authorizations are needed and given at will (e.g. airport slots, telecom networks, etc.).
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