

“The ordinary person is still scared. After the oligarchs, they think that you have to have political influence with the government to run your business. As soon as we lose this attitude the growth of the economy will be double.”



Despite professing to be a ‘lousy’ businessman, **Sergei Vykhodtsev**, CEO, Velle, has successfully built and sold INVITE ‘just add water’ and Bistroff. Now he is ready to unleash his latest venture, Velle, on Russian consumers to capitalise on Russians’ love of oats

Which businesses were you involved in before ‘98?

When I was released from the military, I had a three year old daughter which meant that I couldn’t just stay at university and get paid peanuts. It was 1989 and I was selling military watches to international travellers.

I had been dreaming about Africa since I was a kid, so I saw it as an opportunity. It was the first time in history that Russians could travel, so let’s go! I couldn’t speak a word of English and arrived in Harare with \$50 in my pocket. My partner and I worked in the backpacking business in Zimbabwe, South Africa and Malawi. We had tremendous success. I was hoping to get \$100 a month. By the time we left we had \$10,000 a month in

income for the company.

Returning to Russia in 1995, we introduced a completely new concept to the country – INVITE ‘just add water’ – a product similar to Kool-Aid. From 1995 to 1998 we had \$30m in sales. There was a merger and acquisition with a major company, I sold the business and was happy. Immediately after, I invested in a new business.

And then ‘98 hit...

1998 was a huge crisis but not something that had a major impact. We had huge credit lines with international banks who were playing hardball with us. We had to restructure and sell a lot of equity and find a way to survive. After spending five years

in Africa, you can survive anywhere. In fact it was a challenge and a big advantage because all of a sudden our local ingredients became competitive. Plus, the multinationals left a large number of highly skilled people who we immediately employed.

I capitalised on my existing network of distribution and on the success of the brand INVITE to create Bistroff. I had the trademark and a distribution network, but what I lacked was capital.

Also, the idea was not popular among my partners and senior staff. Kasha has always been such a big thing in Russia, but after the whole nation lost the middle class, and the population became incredibly poor, they thought that there was no market for our product. Because the majority

of my partners weren't interested, we split the business into various parts.

None of the investment banks, venture capital or private equity funds inside Russia were interested in raising the capital. However, I was introduced by my law firm to various investors in Asia – mostly from Hong Kong and Taiwan who were extremely interested in Russia at that time because of the low cost of entry.

A year and half later we had already increased our sales plan by two and a half times. In two years we made 300% extra sales. The investors from Hong Kong were totally satisfied. The return for their investments in a three year period was more than 150%.

Are you still involved with Bistroff? What new projects do you have?

I sold my stake at Bistroff but I am still on the board of directors and will be for the next three years. I am responsible for the strategy and have to double revenue in three years.

I thought that I was a specialist in oats but it turns out that I am not an expert. We were spending time in Karelia – hunting, fishing. Most Karelians are former Finns and oats are a big thing for them. One morning, I woke up after drinking a lot of the homebrew liquor. I was sick like a dog and couldn't move. The old lady who we were renting the house from said: "Here is a cure for you". It was very tasty – sweet and made out of berries and something. Half an hour later I was no longer nauseous. I asked what it was and she said that it was oats. I couldn't believe it. By a miracle we found a product nobody knows about, but which has existed for 300 years.

I have been trying to copy the product in R&D for three years. We couldn't. We failed because the micro-organism used by the village is authentic. I had to go back to Finland and employ a professor in cereal as a consultant and I had to buy the former state owned institute in St Petersburg, which has focused on micro-organisms for 70 years, and combine them together. They worked for 16 months to get me the industrial scale technology to produce the product.

How will the company be marketed and developed?

It is the same story as Bistroff: I have invested seed capital of my own, but to grow we need a substantial amount – about \$5m in investment.

It is a huge opportunity. It is not a dairy product but has all the benefits of yogurt. It is very tasty and has incredible health properties.

Dairy production in Russia is not in good shape at the moment. Production of milk has declined by three per cent each year for the last five years. The amount of dairy products is growing by over seven per cent so the difference is being made up by imports of dry milk. People are prepared to pay more for healthy products, and people also suffer from lactose intolerance. I am hoping to capitalise on the Russians love of oats.

With the Bistroff branding, we had a very good partnership with Mildberry and they are doing an excellent job on Velle. Velle will be done on an e-business basis. From day one we will have a huge portal, with access from internet and any media and all the business will be done in e-business form.

I tried to do it with Bistroff. It didn't work because it was too early. With Velle I have time to educate people. The whole business will be remarkable.

What is your analysis of the state of agricultural production in Russia?

It is still at an infant stage, but a lot of money will be earned in this field. For example, I have a 1m hectare farm by Lake Baikal. 30,000 hectares were used in Soviet times; today it is less than 5000 hectares. And this is a topical current scenario.

I can see the trend towards producing agriculture produced locally. At the moment, ironically, most of the oats that we use in our products are grown in Scandinavian countries. In Soviet times, Russia was the largest oat producing country in the world. Now, we have even less than Finland. It is crazy.

How great do you consider the problem of corruption to be in Russia?

Problems exist and will do for the next ten years. I am a founding member of the Young Entrepreneurs Organisation, however, which is an international

body that has its headquarters in New York. We share our problems, and I hear stories from colleagues all over the world. An entrepreneur is a person who finds a way to overcome problems. The problems in Russia may be bad but it is not a problem that will stop the growth of entrepreneurs. What we lack in this country is information.

Earlier this year Putin said that people deserve a medal for entrepreneurialism. In China they are developing entrepreneurship from the governmental level. Here the ordinary person is still scared. After the oligarchs, they think that you have to have political influence with the government to run your business. As soon as we lose this attitude, the growth of the economy will be double.

We need publicity. Three of my kids want to become entrepreneurs. Who else in my suburb wants to become an entrepreneur? No one. I am living in an area with high-ranking politicians and businessmen from the oligarch side who took part in privatisation. Hardly anyone wants to be an entrepreneur. Sportsmen and bankers are very popular.

Five years ago, everyone wanted to be a racketeer – an easy life just driving a Mercedes and collecting cash from businessmen. The number of kids interested in that has decreased but the number of kids interested in working as bankers or in the heavy industries which are connected to the state is still high. The numbers wanting to be entrepreneurs is very low in contrast to the rest of Europe where people want to be their own boss. This is something we have to work on and develop.

Do you enjoy being an entrepreneur?

I have to admit, I am lousy businessman. By which I mean that the day to day operations in the office are not interesting to me. I can't do it. That is why I have a full team that takes care of the business. I am only interested in strategy and business development.

But I have found an excuse for myself. I am studying at MIT, and the main expert in entrepreneurship said, "Sergei, this is fine – the main business of entrepreneurship is creating businesses in which you will never work". 