



Photo: Alexei Kudikov

Why did Rolf create a holding company last year?

Last year, we became a EU-Cypriot holding company owned group, and we reached \$1b turnover for the first time. For January-June 2005 our revenues were \$1.1b – which means that we have already achieved last year's revenue. The money is good. The business is good. We have extended much more into retail, each year we develop more and more in this direction. We have seven construction projects underway and will open another three dealerships. All generating extra revenue.

Last year we also sold the leasing part of our business to Baring Vostok, because it was not a core business. We are car sales people and we were basically accidentally developing a bank, which wasn't a direction we wanted to take.

We sold our taxi and rent-a-car business and the leasing business and we have developed our credit and finance brokerage operations. At the moment we are trying not to open up non-core businesses rather than close down any more businesses. Now everything in our organisation, apart from logistics, is directly involved in selling cars and repairs.

In the past, businesses in general were not able to trust the service suppliers. Now we have third party suppliers who we can trust to the standards that we want. We would like to stick to what we are good at, which is selling.

To what extent has the growth in consumer loans driven your growth?

We did our first credit sale in August 2002. As of June 2005 we had 32% in credit. Largely this is incremental sales as people use credit to upgrade their purchases. People will look at a car which they can buy with cash, and will use credit to upgrade. There are a lot of people who would have bought a second hand car for cash, but who have instead bought an entry level new model with credit.

Credit, however, is still more dominant in the bottom end price range of our portfolio. We still sell most of the expensive cars for

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Russian domestic car manufacturing may not have invested sufficiently in recent years, however, as Matt Donnelly, President and Chief Executive Officer, Rolf Group of Companies, says there is good money to be made in the car industry in Russia

cash – around 96%-97%. Rich people can pay out of their pockets and they don't tend to need credit.

We have a good deal with Gazprombank, whereby we offer a ten per cent deal across Russia. Ten per cent doesn't look that attractive to Muscovites, but in the regions we can undercut the rates which are sometimes as high as 16%.

Once people understand that cars are affordable, it creates an incentive for people to come in and invest again. We have seen that people are much more realistic about their credit applications now. When we first started we had a rejection rate of about 80% because everyone who had a pen would apply. Now our rejection rate is around 12% so people are much more sensible and understanding.

We still have a long way to go, because consumer credit is currently about 2.5% of GDP in Russia. In the US it is 150%. We estimate that Russian consumer credit could reach 12-15% of GDP by 2010. It is not going to skyrocket, because there are still many people who cannot prove their income or who have some kind of strange employment contract. There are many people who could repay the loans but who can't prove it.

Is it fair to say that Russian car manufacturing has been languishing for a long time and foreign manufactures have stolen a march by bringing prices down?

The Russian car industry has not invested enough. The product line-up is not what the Russian consumer wants anymore. It used to be that there was a choice between a second hand foreign car or a new Russian car; now it is third hand foreign car rather than a Russian car. We have seen retail pricing as low as \$4000 for a Russian car, and still their sales are declining in a boom market.

I also think that the Russian consumers are running scared of the cars which are designed for emerging markets – the models that are directly aimed at the Russian market. Also, the Chinese are coming and offering

\$12,000 SUVs, which isn't going to help the survivability of the Russian car industry.

This year, for the first time, overall sales of foreign cars – new ones and used imports – have exceeded sales of Russian cars. What is the future of the Russian car industry?

VAZ particularly seems to be experiencing real problems. All over Moscow they are advertising cars at factory prices. We are having a huge interest from VAZ dealers saying that they want to migrate into anything other than VAZ. The demand just seems to have stopped and their new product, the Kalina, is a disaster. The Lada brand looks very sick, and could easily turn terminal. They have to turn into a component business, which I think they are beginning to understand. We hear more and more that the Russian car manufactures are becoming much more realistic to foreign investors and manufactures. I think the sooner they understand that they should stop designing cars and start componenting and assembling the better.

And there is still potential for cars to be made in Russia?

We are very happy with Ford: they have shown that Russians can make quality automobiles, which gives more faith to the public and gives them more interest in buying cars. We are also excited by Toyota coming, because they drag their component manufactures with them and it will show that Russians can make components as well. It will be a fillip to the national economy.

What do you make of the claim made by some in the West that Russia, increasingly, is a 'normal country'?

Certainly the banks seem to be treating our customers a lot less suspiciously. The bulk of our lending which is not through GazpromBank is through western banks – Raiffeissen, IMBs. They are a lot friendlier to the customers in terms of checking and credit. It is a sign that the Russian economy is perceived as being normalised. **rit**