



“There is not a finite time limit. We want to be in business, in Russia, in perpetuity”

In Spring 2005, WPP announced a partnership with Video International, Russia's leading communications services group. Sir Martin Sorrell, CEO, WPP, describes how Russia is important to his company's global strategy and why it is only a matter of time before there are successful Russian companies with international positions

How do you look at Russia?

In advertising, Russia and the CIS countries probably represent the fastest growing market in the world, and so Russia is clearly very important. We talk about the 'two-speed world'. We see parts of the world, both geographically and functionally, which are moving faster and slower. Eastern Europe, Russia and the CIS are critically important in the context of that. Asia, Africa, Latin America, the Middle East and Eastern Europe are 20 to 25% of our business, depending on which measurement you use. We want it to be a third and Russia is a vital part of that. Therefore, in the BRIC countries – Brazil, Russia, India and China - we have market-leading positions and we think that there are major opportunities.

While targeting the BRIC countries in theory, the approach of many multinationals in practice is to enter China,

then India and then move onto Russia. It that true of WPP?

No it is not true; the danger is that you become too specific. It has to be broader than that. When we were in India, everyone asked: "Is China more important than India?" And the answer is: "You don't make that decision". If you are running a multinational company, you want to be in all of the above. Particularly if France, Germany, Italy and the UK are all growing slowly, then you want to be in faster-growing markets. That means, India, China, Brazil, Russia – and all the others. In Asia, we are looking at Vietnam, where we already have a presence, at Indonesia where our presence is growing very rapidly, at Bangladesh, and at Pakistan, which is becoming a very important country economically.

As free trade has blossomed, and on the assumption that it will continue to blossom and that there isn't protection-

ism, all these markets are important. It isn't 'either/or'. It is 'all' and you would be very ill advised to ignore these countries.

There are entrepreneurs across Russia, notably in the consumer goods sector, who are building up their companies and their Russian brands. How does WPP plan to work with these new businesses?

There are two things. This is not simply about multinationals coming to Russia but about multinationals coming into Russia and Russian companies expanding globally. In the wider context, you have the growth not just of Japanese multinationals, but the Chinese, the Indian and the South Korean companies. In Russia it is exactly the same. There will be some fabulously successful Russian companies which develop global positions. It is only a matter of time.

WPP has a diversified structure containing many different competing brands. How, specifically, will this structure be applied in the Russian market?

Our chosen partner in Russia is Video International. We take the same approach: it is not just advertising, it is media investment management, media planning and buying, consultancy and market research, public relations and public affairs, branding and identity, healthcare communications, and also specialist communication like direct interaction and the internet.

The reason for the competing brands, which form WPP, is that there are very few economies of scale in our business. Just like on a newspaper, the bigger the editorial department gets, the harder it is to manage: so if it doubles in size, it triples in complexity to manage. Our business is like that – with the exception of media buying, where we need clout and leverage for our clients. By and large, the bigger something gets in the professional services business, the perception (I am not saying the reality) is the worse it gets. This means that keeping things on a proper scale is very important.

Over the last few years, headlines in the western media have suggested that the Kremlin is reasserting its power - including into the domain of business. Video International has a reputation for being very close to the state. When you were looking at opportunities in Russia, did you see this as a potentially valuable connection?

I don't think that we consciously looked at it that way. You always want to try and build relationships with people who are able - and able people are usually well connected – and we thought that Video International were ideal partners for us.

Choosing a very good partner in Russia was critically important. It is not an easy market: from a language point of view, from a customer point of view and corruption is an issue. What we needed was a strong local partner, which we could rely on. We needed a real partnership, rather than starting from the position: "we are going to buy your business". The structure of our relationship with Video International is what I would call a permanent partnership. There is not a finite time limit. We want to be in business, in Russia, in perpetuity. Russia is a market, like Japan in a certain sense, where you want a strong local partner.

In the late '90s, before the recession,

we looked at doing something with Video International. We made a mistake in that when the recession hit we pulled back. A lot of our clients pulled back and we pulled back too. We made a mistake in Russia and retrenched too much. We haven't done that in Argentina, in Asia too much, nor in Indonesia. We have learnt our lesson.

One of the things we have learnt is that in fast-growth markets, you are going to have speed bumps – and speed bumps are an opportunity. Last year people were talking about China going into a recession, which didn't happen, but we would have liked that because it would have given us an opportunity to go in harder. It is like the internet. It boomed and then there was a bust. People thought that that was the end of it, but that was the time to go in hard.

In business circles, received wisdom often swings between the argument that 'you have to have a Russian partner' to 'don't trust the Russians, go in alone...'

You can never say, 'I am going to go into Russia, don't trust the Russians!' Otherwise, don't bother! Our business has to be both multinational and local because the strong local companies will become the multi-nationals of the future. What you have to do is to have a fundamental belief in the growth prospect of the country and in the resources.

If you try to go alone, you are probably going to bring people in from abroad. In the long term that can't be the right way to do it. Any good group of people locally will not want to work anywhere that the plum jobs go to internationals.

Maybe I haven't spent enough time in Russia, but my view is that you need strong local support, investment, knowledge and talent to succeed. If you come at it from the outside, with a multinational point of view, you will not be successful.

Despite the Yukos case, investors still credit Putin with bringing relative stability to Russia. Looking ahead to the 2008 presidential election and Putin's succession, are you wary of the political instability that this process may bring?

If you said to me, 'where are the strong companies?', they are the companies with strong leadership, strong CEOs, often with strong Chief Marketing Officers. You could apply the same thing to governments: you have strong leaders and you have strong countries. However, there are some fundamentals – oil and

natural resources – in the context of Russia which will continue to drive it forward. The processes which have taken place in the last ten or 15 years in China or Russia are irreversible, I would say. As such, it is not that it doesn't matter who is in control – clearly it does – but the fundamentals, the building blocks, are in place. The benefits are being seen by the population. The benefits are stratified, and like in India wealth has to trickle down, but it is still remarkable.

If you said to yourself five years ago that we would be seeing some of the things we are seeing in Russia, Kazakhstan or Ukraine, we would have said 'no way'. The same applies to India and China. I think it is primarily driven by free trade and a reduction of barriers. One hopes that protectionism doesn't become fashionable again and that we will continue to see the benefits, because that is the single biggest driver to our business.

Do you see a danger of complacency setting in, with Russia becoming less outward looking as a result?

You can draw similar parallels with China. A few years ago people were asking: 'Has China really opened up or is this just a ruse by the government to absorb western technology and know-how, take it and then tell everyone to go away?' In China there were 'exploding joint-ventures', whereby after 14 years the domestic partner could buyout the foreign partner at book value. However, I believe, we have now gone past that point.

There are still difficulties when collecting good qualitative data in Russia, leading to the suggestion that advertising in Russia is 'more of an art than a science?' Does that terrify you or thrill you?

It thrills me. At least we can find one place in the world where what we do will become more important!

No matter how big or complex Russia is, Russia is not one country, just as China is not one country. You have to look at things separately. We have a regional strategy in China and a regional strategy in India. We have 35,000 people in our regional sales force in India. We have a relationship with the Young Communist League in China, with 68m members. We look at these things, not as one country. Russia is not just Moscow but goes beyond into all the regions and provinces of all those countries. 