

**ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM
JUNE 21–23, 2012**

**Realizing Russia's Potential
RUSSIAN START-UPS: LOCAL AND GLOBAL PLAYERS
Panel Discussion**

JUNE 23, 2012 — 11:00–13:00, Pavilion 3, Amphitheatre

**St. Petersburg, Russia
2012**

Moderators:

Alexander Egorov, Chief Executive Officer, Reksoft

Gaidar Magdanurov, Managing Director, Microsoft Seed Fund

Panelists:

Sergei Andreev, President, Chief Executive Officer, ABBYY

Dmitry Chikhachev, Managing Partner, Runa Capital

Alexander Galitsky, Managing Partner, Almaz Capital Partners

Grigory Povarov, Chief Executive Officer, Acumatica

Igor Taber, Investment Director, Intel Capital

Steve Todd, Distinguished Engineer, EMC

Shahar Waiser, Founder, Chief Executive Officer, GetTaxi, Vigoda.ru

G. Magdanurov:

My name is Gaidar Magdanurov. I am the Managing Director of the Microsoft Seed Fund and one of the moderators of today's discussion. Moderating with me is Alexander Egorov.

A. Egorov:

Good afternoon! We are glad to see you here.

Today's conference, Russian Start-Ups: Local and Global Players, was organized by Microsoft and the Ingria Technopark, of which I am a member of the board of directors, with combined duties as the Chief Executive Officer of Reksoft, which produces software.

Today we want to address a subject that is very important to many of those present: how do you formulate your strategy for moving forward? Should you remain a Russian player or aim for the global market? What are the pros and cons inherent in each decision that can influence your fate and the fate of your projects?

We have assembled a very interesting group to examine this question. We have invited people with extensive experience in international markets. They will help us answer these questions that concern all of us.

G. Magdanurov:

We would like to invite them to the stage. Alexander Galitsky, Almaz Capital Partners.

A. Egorov:

Igor Taber, Intel Capital.

G. Magdanurov:

Dmitry Chikhachev, Runa Capital.

A. Egorov:

Igor Agamirzian, RVC.

G. Magdanurov:

Steve Todd, EMC.

We have an English-speaker. I hope you have been given special devices so you can hear the translation of what Steve will say.

A. Egorov:

And our first piece of advice: if you need to use this device, that is very bad; you need to learn English.

Last, but not least, Sergei Andreev, General Director of ABBYY.

G. Magdanurov:

In fact, there are more participants. In addition to representatives of the investor community, there are those who have begun successful start-ups. Grigory Povarov, Acumatica.

A. Egorov:

Shahar Waiser, GetTaxi and Vigoda.ru.

G. Magdanurov:

Great; everyone has gathered. Next, we will separate: Alexander will be on stage and I will be in the audience, closer to the people.

A. Egorov:

Participants were selected in such a way as to present both theory and practice. We have representatives from the investment community. Our first participants – Alexander, Igor Taber, Dmitry, and Igor Agamirzian – are from organizations that help businesses grow, including helping them enter foreign markets. We have a

representative of the major international corporation EMC: Steve heads the department called Innovation Networks, which is responsible for innovation.

Then we have three significant market players. Sergei Andreev, ABBYY: a well-known success story, one of the best-known Russian projects. The company operates in the international market. And two start-ups: Grigory and Shahar, who are now involved in introducing their companies into international markets. We hope that the debate will be interesting and useful for you.

G. Magdanurov:

I think we should start by addressing questions to our experts. Here, perhaps, is the main question: what strategy should be adopted – a local strategy or a global one? What do you need to do, and is it necessary to do it at all? Is it worthwhile to develop a product in the local market, and then think about the global market, or first think about entering the global market?

A. Egorov:

There are several points of view on this issue, and there are differences between countries. In some countries, the local market is so small that there is no choice: we must first develop technical ideas with a view toward the global market. Russia does not belong to this category, because we have a very large domestic market. When working with technology parks, with new projects, and with me and my colleagues, discussions related to strategies about how to enter the market arise. Is it necessary to prepare to enter the international market or not?

Perhaps this should be asked first of all of those who have already made this decision or are in the process of making this decision. I will ask Sergei to speak as a representative of a company that developed in the Russian market, and then entered the international market. Why did ABBYY decide to do this?

S. Andreev:

Indeed, at first, our company only worked on the local market. But once we controlled about 80% of the local market, it became clear that there was no place to grow and that it would be necessary to put our life on the line for the remaining 20%. That is not worth it. We looked at what is happening on the international market, and found great opportunities for us there. But the question of where to go and where not to go has different answers: it depends on the type of business and the ideas that have been proposed.

Of course, the international market is much larger than the domestic market. If you won even a very small fraction of it, it might turn out to be so large that it would be worth it. And even if you became very successful in the local market, it might not be worth the effort, because the market is very small.

You have to understand that entering the international market with discretionary goods is difficult, because you must be present in specific countries. For example, corporations are not buying products, solutions, or technologies: corporations are buying trust. And if you begin to sell products in the corporate market of another country from abroad, you will not succeed. You need a full-scale, well-organized local presence, which is very expensive, requires huge investments, and despite all this, it is possible that nothing will come of it.

If you go there with fast-moving consumer goods, then there is another serious problem. People are different everywhere, and fast-moving consumer goods in other countries are different than in Russia. To have success with fast-moving consumer goods abroad, it is necessary to have a kind of expertise that is rare in our companies. You have to understand the customer's requirements. Even international companies often make mistakes when releasing products for the mass market. And if you have a Russian company with Russian developers, there is a very high risk of misunderstanding the customer's needs and of producing something too unusual for, or perhaps even useless to, the customer.

It turns out that entering foreign markets with fast-moving consumer goods is difficult because of a lack of knowledge about the customer. And it is difficult to enter with B2B solutions, since that is very expensive and requires a local presence.

A. Egorov:

So everything is difficult, but possible.

We have two representatives from start-ups. Grigory represents a company that develops cloud computing technologies, which are very difficult to develop and to sell. Shahar represents a company that is working for the mass consumer.

Colleagues, can you comment on what Sergei said? What paths do you have for entering the international market? How did you make the decision to enter this market?

S. Waiser:

GetTaxi now operates in four markets: the US, the UK, Israel, and Russia, so I am speaking from the experience we have gained in these markets.

There is probably no single correct decision for all companies. For some, it is best to remain in the local market, if it is large enough. But there are solutions that are in demand in other countries, and if you delay, you will lose a potential market.

We started GetTaxi in Israel. This is a very small market, and we had no choice but to enter markets where there is a maximum demand for such a service: Russia, the UK, and America. At the same time, many companies starting a business in Russia often underestimate the size and opportunities of the local market and start to think about international expansion before they have exhausted these opportunities.

Based on the company we created earlier, Vigoda.ru, it was clear how large the market for Internet sales was in Russia and how good an idea it was to take the decision to develop here. Over two years, we achieved a turnover of more than a USD 100 million, and we are now present in 90 cities. This suggests that the Russian market has reached maturity. If you have the right product and the ability to get started with it, the choice of the local market will be the better one.

Today, many US companies, even those with adequate investment funds and expertise to enter foreign markets, remain in America because they have not exhausted the full potential of the local market. I think we must first ask: have you

satisfied the demand on the local market, and it is large enough for your product? If the answer is 'yes', we can consider the possibility of expansion abroad.

For us, this decision, as I said, was obvious: Israel's market was too small, unlike the Russian one. But the costs of entering the international market have been enormous in terms of the burden on the company, its resources, and its management. If we had had the opportunity to work initially in a market like Russia, we probably would have stayed there for a long time.

A. Egorov:

So the rumours that the Russian market is set up badly – that the infrastructure, payment systems, delivery services, and so on are inadequate – are exaggerated? Tell us about this based on the example of Vigoda.ru.

S. Waiser:

No, they are not exaggerated. But there is a positive side to these difficulties. It is very difficult for IT companies to work on the Russian market today. But if it works out, then you have a huge competitive advantage, because this market is as difficult to enter as is, for example, the Chinese market. If you have not already worked there, then it almost impossible to do so. It is the same here.

Because of infrastructure problems in Russia, it is very difficult to create a company like Vigoda.ru with a turnover of more than USD 100 million. But having created it, you get a competitive advantage over global players for whom it is difficult to come to Russia. They would rather buy a local company and cooperate with it.

A. Egorov:

I know that Acumatica has a completely different strategy: initially the company aimed at international markets, considering Russia important but not paramount. This situation is the reverse of what Shahar described in connection with Vigoda.ru. Grigory, can you say a few words about that?

G. Povarov:

Yes, that is indeed true. Acumatica is a cloud ERP and an enterprise management system. You cannot create a universal system that will work round the world. You should always understand what market you are working for. It so happened that Acumatica initially focused on the markets of North America and Southeast Asia.

There were three reasons for that. First, in the aggregate, it is a very large market, and much of the world's IT business is concentrated there. Second, it is highly fragmented, and it seemed to us that we could go there with our solutions. Third, we knew which of our partners would sell our products there. Acumatica is a product that was developed by a Russian team and is now sold in North America and Southeast Asia.

Once the process started, we realized that the world is not limited to these regions and that there are many wonderful countries. But the scenario we described in the previous case does not work there. In the countries of Northern Europe and Latin America, as well as in Russia, there are unique features that we do not understand; they have their own challenging market situations, and there are large companies that hold a dominant position. So we – for example, in Northern Europe – present our platform to leaders of local markets so that they can develop their own products based on that platform and sell them under their own brands.

There is no universal scenario. Different countries have different needs, partners, and market situations. We need to act rationally and seek solutions.

G. Magdanurov:

Let us ask our panelists who are here representing the interests of investors. Does anybody want to speak?

At breakfast we had a heated discussion, and we spent a long time trying to convince each other of our own points of view. It would be interesting to try debating with those present in the audience.

Igor wants to say something.

I. Agamirzian:

From my point of view, the question of how to penetrate the global market was not posed correctly. It is a matter of a company's ambition. If a start-up company sees itself as a provider of local solutions, is aware of its limitations for growth, and so on, it may well work on the local market: on the national, regional, even city or district market. It is impossible to imagine a bakery that caters to the whole world or even to an entire city. But if a company intends to become a major market player, it has no choice but to be a presence on the global market. Any national market – even one as big as the United States market – is still limited.

Of course, the global market has its limits as well, but they are quite different. The history of companies working in high technology in recent decades demonstrates this. All of today's multinationals began as companies focused on the national market, and sooner or later, they took the decision to enter the global market. The most famous of them took this decision shortly after its inception. For example, Microsoft, founded in 1975, began global expansion in the early 80s while still a small company. Incidentally, it did so via Japan, and not through Europe. Entering the European market became the second step. Focusing on the global market is a matter of ambition: it is a question of how it wants to see itself a certain number of years after its founding.

There is another problem. Allow me to disagree with what Sergei Andreev said about consumer products. In contrast to the economy of the industrial period, the modern economy is, in a sense, consumer-driven. Demand for innovation in high technology products and services is now generated by the end user. High-tech products are not valuable in themselves, but in their ability to meet the needs of people. Even products that seem to be focused on businesses satisfy our own personal needs for, say, organizing workflow.

It is very important to take into account cultural differences, especially those related to language. There are differences in the structures of national legal systems and business environments, in the rules of conduct and so forth. But they almost all fall within the statistical margin of error. The basic needs of people around the world are

the same, be they in China, in India, in Russia, and in America. People essentially need the same things for a productive and comfortable life. Therefore, it would be folly, for example, to create a mobile phone that focuses on a specific national market: mobile phones worldwide serve the same need.

This leads to the fact that the most successful start-ups that appear in the emerging markets, and are oriented toward the domestic consumer, tend to satisfy the niche needs of a specific market. These requirements relate either to language (as in the case of ABBYY in Russia), or to the unique features of a domestic accounting system.

You probably can guess which leading company I mean. If Russia had introduced the international financial accounting standards in 2001, the company 1C would probably not exist in the form in which it exists now. Today it is a large, diversified software holding company, working in many different areas. But it has grown thanks to the specific demands of serving the Russian accounting system, which was inherited from the Soviet Union.

Therefore, a strategy focused on serving the domestic market is quite acceptable when the market is large enough. An excellent example of this is that in recent years, many copycat online projects such as Groupon have entered the Russian market. This wonderful project, obviously, cannot be a breakthrough project. Its success is limited by the size of the Russian market and, accordingly, the capitalization of the company that was sold also had certain limits.

G. Magdanurov:

I think we should introduce a bit of interactivity to our discussion. We have representatives of start-ups in the audience. Could those who are willing to limit themselves to the local market and not to enter the global market raise their hand?

A. Egorov:

Are there representatives of start-ups in the audience? Raise your hands.

G. Magdanurov:

There are. Who is prepared to stay in the local market? There are a couple. Excellent.

Who thinks first of the global market?

Almost all the rest raised their hands. The ratio is nearly one to six.

A. Galitsky:

Well done. If you have no ambition, you should not begin a start-up. But Igor was right: ambition can be local or global.

Today I began a correspondence with Orlovsky, and he wrote to me: "Ray Bradbury said, 'You've got to jump off the cliff all the time and build your wings on the way down.'" We must take risks; we must move forward. If we take our portfolio, 70% of it consists of companies that seek to enter the global market.

A. Egorov:

And how do investors look at this problem? Maybe Dmitry can say something? When you look at a company's portfolio, what advice do you give?

D. Chikhachev:

The answer to the question whether it makes sense for a start-up to enter the global market is contained in the motto of Runa Capital: 'Globalization of Russian Innovations'. We believe that it is right to think about the global market right away. There are several reasons for that.

The first is the size of the market. Everyone has said that the Russian market is huge, but everything in the world is relative. Russia has 60 million Internet users in a population of 150 million people, which of course is great. But Russia also accounts for less than 1% of the global software market and less than a 3% market share of the consumer Internet. There are two billion Internet users in the world, and in Russia there are a little over 60 million. It is not good to get stuck in such a relatively small space. That is why you should first think about global expansion.

A. Egorov:

And how do you think about it? There are many difficulties.

D. Chikhachev:

I will discuss the difficulties separately.

The second reason is that there are fewer boundaries in the areas of the Internet and software than in the real economy. The Internet was initially born as a space that knows no national boundaries. There are various localized subcultures within it. But Internet users have a lot more in common than real people do, and that is an important fact.

A. Egorov:

I want to comment on what Igor said. If you take the previous generation of software, the legal requirements and translation were colossal problems. Selling any application in Europe, which is divided into a huge number of small countries, was very difficult before the EU and its corresponding legislation. That is why very few European companies from the previous wave attained success on the international market.

Conversely, we know a lot of American companies that built up momentum in the domestic market, with its uniform tax and legal systems, and then entered the global market in very good shape. This did not happen in Europe.

D. Chikhachev:

The American companies have an advantage: the runway is longer. Still, the US market is 35% of the international market.

A. Egorov:

So should we just go ahead and move to America?

D. Chikhachev:

Wait.

The third reason you need to think about the global market is that it is impossible to be a successful player on a local market in the long term. A company that operates on many markets learns and acquires the necessary expertise more quickly. Sooner or later, it will begin to kill off the local players, or buy them; incidentally, it will buy them very cheaply.

Even those companies that originally emerged as purely Russian (1C and Yandex, for example) are now beginning to think seriously about this. They are feeling pressure from international competitors and are working out how to overcome it. I believe that access to the global market after a company has been developing for a long time on one local market is more painful than if the start-up had had a global approach from the beginning.

A. Egorov:

I am sorry; I am interrupting you. Some important commentary is needed here.

A competition called Web Ready is held at the Ingria Technopark; it has already been held three times, and this year will be the fourth. A large number of projects are reviewed in this competition: more than 300 applications a year. It is important for those who are thinking about participating in these kinds of contests or negotiations with investors to note the following. Of all participants, 80%, 85%, or even 90% have never asked themselves the question, "Who are my potential competitors in the international market?"

This shocked me at one point, but then I asked a question myself: "Have you looked on the Internet to see who is doing the same thing?" With the exception of when there are copycats – that is, the model is taken from abroad – the majority of people think that if they have come up with some idea, that is all that is needed. You need to look at what is happening in other countries.

D. Chikhachev:

To date, there is not a single company in our portfolio that would limit itself to just the Russian and CIS markets. All companies have international ambitions, and some, like NGINX, Ecwid, and Jelastic, have already had success in foreign markets.

So, I have set out the three main reasons. Now I will talk about the difficulties.

I totally agree with Igor: entering an international market is associated with more difficulties than working on a local market. You have to solve problems associated with the product, the business model, operations, and marketing. This is a question of ambition. It is probably best not to go straight to the world market, because, as Grigory said, all countries have different requirements. You need to start with test markets. Russia may well be one of them. Perhaps it is not an ideal test market; there are simpler markets. But the head of a start-up should be thinking about global expansion from the beginning.

We are gradually moving on to another important question: what prevents a start-up from entering the global market? We have already talked about some of the limitations. Maybe we will be able to identify the limitations in more detail?

A. Egorov:

Maybe Shahar, as a representative of a start-up, would like to tell us about this?

S. Waiser:

I was lucky. We first had a company in America that we had sold before this. When I was running this company, I made a major mistake that we all make: we underestimate the complexity of running a business in another country. We believe that we can come in and conquer the world.

By "we", I mean people who create companies, ambitious entrepreneurs who are trying to go beyond the local market. We often see people trying to apply their experience of operating on a local market in new markets: this usually leads to disaster. I do not remember a single case where a successful company with

excellent products was able to deploy in the West without hiring an experienced local team that knows and understands the market they intend to enter.

The biggest mistake you can make is to underestimate the complexity of entering another market. Igor said that the difference between the markets is small and is within the statistical margin of error. But foreign markets are usually quite different. The opportunity to create a partnership with people operating on the market you plan to enter is the most important factor that should be considered when making this decision.

A. Egorov:

I would like to confirm this statement with regard to Russian IT service companies, which I know quite well. I can give you eight or nine examples of how our companies are trying to enter other markets, and their failure is not due to product quality, but to the properties of the person or team that was supposed to operate in the new market. One aspect of the problem is people. The other is their cooperation with the start-up in Russia. I urge those who are thinking about the international market to give this matter their full attention.

G. Magdanurov:

There have been difficulties even in large companies. Kaspersky Lab made several attempts to enter the global market. And even it, in spite of its scale, faced problems.

A. Egorov:

What practical help can be provided here? You say you have to find the right people. Where do you get them? How do you look for them? Where to go?

S. Waiser:

Perhaps the investors will give us a tip. If you have strong and, moreover, global investors who are leading the operation on the international scale and have offices

in other countries, they usually help to recruit a local team. If there are no such investors, a team is hard to find, even if you live in that country. And if you are a foreigner, it is doubly difficult.

A. Egorov:

So if you start thinking about attracting investment, does it make sense to think not only and not as much about the money, but more about how an investor can help in finding this kind of team?

S. Waiser:

If global expansion is part of the company's strategy, then yes. For example, today we are present on four very different markets: America, the UK, Israel, and Russia. The process of entering the market unfolded as follows. In various countries, we were looking for people we were interested in, and when found those people, we started the business in this country, and not vice versa.

We did not make decisions about when we were going to America. When we found our current Chief Executive Officer in America, we started a business there, because he is really a unique person: if we had not found him, our chances would have been zero. I advise you to look for a team and then focus on the market, not vice versa.

G. Magdanurov:

We have a representative of the United States here: Steve. Let us ask him a question: how easy it is for a Russian company to find a CEO in the American market?

S. Todd:

EMC is a company that makes products that store digital information, protect digital information, and analyse information, and the market for those products is global. From our standpoint, the benefit that we gain from Russian leadership is

mathematical expertise. Indeed, we build products here in Russia that shrink down the amount of information that we need to store, so when we identify a market, which could be Russia or any other country that has a specific expertise that can benefit our company, then we will bring them into the company.

A. Egorov:

I think there was a misunderstanding in the translation. The question was: “how easy it is for Russian companies to find CEOs for their operations in the US?”

S. Todd:

I would not know. I would say that to access the market in the US, you need to move to either the east or west coast and begin networking.

G. Magdanurov:

Then the question for global investors who help companies enter the global marketplace is: how easy it is to find people there?

A. Egorov:

Colleagues, tell me: how do you help?

I. Agamirzian:

The question was posed correctly: this is not a trivial task. But there is a general rule: a venture investor coming into any business project invests not only money, but his connections and his understanding of the market and trends. An investor who provides money and forgets about the start-up is not an investor. Serious funds have a rule that one partner never manages more than five projects at once. There are five work days in a week, and each of them must be devoted to one project. In other words, he should dedicate 20% of his time to each particular project, devoting his full attention to it.

Participation of venture capital funds operating in the global marketplace in a start-up is attractive specifically because of this, not because of the money invested. Money can be found here also. Unfortunately, many funds operating in Russia (not the global ones, but the purely local ones) cannot provide such support. It is almost impossible to work in strong markets without a network of connections or without personal relationship networks. Major innovation centres such as Silicon Valley or New England in the United States are valuable precisely because they can find personnel of almost any skill level, including professional CEOs. But you must have an entry point into these networks, and this is provided by an investor.

G. Magdanurov:

Igor wishes to speak.

I. Taber:

Yes, I want to comment on what has been said.

First, I fully agree with my colleagues about ambition and so on; that is certainly important. But there is something more important than ambition: the realization of ambition. The only advantage a start-up has compared with major competitors is its focus. Focus is always necessary: when the founders of a company are planning the time frame, during the development and optimization of the product, and when building a team focused on a specific goal.

Ambition without focus and without targeting a particular market will not be productive. If you are creating, for example, an Internet sales company in Russia, you are effectively already present in the global market. For example, eBay, which has not yet been very active on the Russian market, annually sells USD 300 million in products here. In any case, you are present on the global market, and we need to understand that.

Let us say that, through your investor, you are looking for a team in the market you are targeting: it is not important whether it is a domestic market. What does the investor give you? First of all, he provides credibility. Imagine that you are trying to

find a local CEO in America for your American company. If he is a good manager, he has a lot of options. And if he has no options, that means that he is a bad manager, and you do not need him. You need to show that your company can become a major player. This is done through two things: credibility, and the personal qualities of the company's founder, such as his ability to persuade, inspire, and so on.

We have had many cases where head-hunters hired to find a local team have said to representatives of the company, "If you were a purely Russian company, it would be hard to do this." But if we can go to people and say that the investors of the company are famous people X, Y, and Z, it is several times easier to do this. This is one of the main things that an investor can do.

A. Egorov:

Thank you. Please, Alexander.

A. Galitsky:

Once I was an entrepreneur who created a company, and now I am an investor. As an entrepreneur, I will first say that we need to create a company in such a way that we can do without an investor. This is the ideal option. It is very difficult, but it is the ideal.

Second, as an entrepreneur, I can tell you that you are not being chosen; you choose. This is a very important point. You choose your destiny, its direction, the place where you want to operate, and the people who will help you. Investors are just like companies providing a service. Do not think they can perform miracles. They do not perform any miracles, and they do not make your company successful. You make your company successful.

Third, I will give one piece of advice. As an entrepreneur, I made a big mistake: I was after a valuation of the company and instead of an investor who offered 12 million; I chose another who gave me 25 million. This returns us to the issue of smart money. And it was a lesson for me not to chase after the initial valuation.

A. Egorov:

Alexander, what happened? There were two options: one was 12 million, and the other was 25.

A. Galitsky:

One was an experienced investor who had created many billion-dollar companies, and the second was an investor who just had a lot of money: in fact, he was not an investor, but a financier. As my partner, Charlie Ryan, who played a significant role in the success of Yandex, says, there is a lot of money in Russia, but little capital. Working with capital is very important.

Now I will speak as an investor. As investors, we choose those with whom we work first. Most of the work of a venture capitalist, oddly enough, is HR work; it is finding people to help develop and cultivate a team of entrepreneurs.

Further, yesterday, Chubais correctly said that 'CEO' should not be understood as 'Chief Executive Officer', but as 'Current Executive Officer'. You have to understand that the people who found a company always remain at its helm. Founding a company also entails a great risk that needs to be correlated with ambitions. And then investors come and give what they can give: credibility, contacts, and connections. Here is an example of this at Jelastix: when James Gosling joined the company, it gave rise to many ambitious plans.

One more thing: now there is no distinction between software and the Internet. Due to cloud technology, it has all become one space. As they say at Google, we must first think about mobility. We must think first about the 'cloud', and then about other high-tech things. If you do not get into this ecosystem, you are doomed to a niche.

And finally, what Igor usually says but did not mention today is that it is necessary to find one's place in the value chain. When you think about whether to remain a local player or become a global one, you must first understand which value chains you belong in. You belong to those that contribute to your progress and help you grow. It all depends on how you align yourself in the system. So, FineReader was a success

thanks to a unique plan to enter the market. Each company must find its place in the value chain.

A. Egorov:

As someone who has been an investor and an entrepreneur, I confirm that Alexander's advice is very useful. The choice of an investor is no less important than the choice of a spouse, although, of course, one chooses an investor for a short period of time, not for life.

The first piece of advice is not to hurry. The second piece of advice is, as Alexander correctly said, that an investor must be chosen for those qualities you specifically need in order to achieve the goals in front of you. This is not only money, but also knowledge and connections that enable raising the level of quality of the products.

Sergey said that he has a “recipe for happiness”, perhaps as a person who has done a lot in this area.

S. Andreev:

Indeed, there is a universal recipe for happiness not associated with confidence in an investor. You can go to any market and try to find a professional team that works in the same area as you. You come to an agreement with it as with an independent company to conduct a joint business. You conclude a lot of contracts in different countries and begin to operate, not wasting your money, relying on the resources and expertise of these local companies.

If they are independent, you can conclude a business agreement stating that they will receive part of the rights or revenues. After two or three years of joint work, it will become clear who is worth what. Some of the partners will be successful, some will be less than successful, and some will prove to be invaluable. When these teams demonstrate their achievements, you can come to an agreement with them, making them part of your team.

This method of recruiting a team is much more reliable than searching through all sorts of head-hunters in the hope someone will be found who can save you. First,

you see who in your area is really successful, and choose to collaborate specifically with these people: this is the first filter. The second filter is the amount of time they have worked in this area. You see who really is worth something and is not just talking. And then you can set up joint ventures with them, have them become shareholders, and appoint them as directors of local offices.

A. Egorov:

Sergey, I will now describe a situation. You have found three partners and concluded an agreement with them, and they have begun to work with you. Two do not work very well, but one works very well. You are pleased, and sales have reached 70% or 80% of your turnover. You have started to write a term sheet to approach him and say, "Join my team", when he says, "You should join my team." What do you do in this case?

S. Andreev:

It is very simple. You have the intellectual property rights.

A. Egorov:

But he says, "Your PR depends on me. I am now going to turn off the faucet, and you, your plan, and your investors will find themselves in the garbage." What can you do?

S. Andreev:

I say that I will turn off the faucet, and he will end up in the garbage.

A. Egorov:

Got it? You have to be tougher in negotiations.

D. Chikhachev:

I want to make a brief comment about whether an investor is needed or not. We always forget about one factor: the competition. You can, of course, do everything gently and slowly, learning from your mistakes for decades, and then it turns out that two or three other teams reached the finish a long time ago.

A. Galitsky:

That is a fairly common situation for Russia. There are companies with a turnover of up to USD 10 million, but after that, the growth stops for five to six years.

A. Egorov:

But why? What hinders their growth?

A. Galitsky:

The reason is complacency. A man earns five to six million in software, and he thinks that life is good. It is probably a question of ambition.

A. Egorov:

What, he has no ambition?

A. Galitsky:

I think a person should have new ambitions. We must be constantly 'jumping off a cliff'.

A. Egorov:

We must remember that five or six million is not what you need.

A. Galitsky:

Another important point is that people just do not know what to do, and they suffer from their ignorance. They occupy a niche and cannot get out of it. It is easy to start selling in a small niche, but the question is how to get out of this niche.

D. Chikhachev:

Again, this is a question of ambitions, goal-setting.

A. Galitsky:

In today's world it is easy to sell products, for example, through Digital River or any other channel, and to achieve something. But then the problem of structuring the company arises. Structuring the company is very important to its growth. When outside investors or partners begin to audit the company and find a lot of dark, strange things, divestiture begins. IBM is not going to take on a small start-up if it does not understand whether it is structured correctly.

A. Egorov:

Are we talking now about the structure of the company or how its business is conducted?

A. Galitsky:

We are talking about everything, including, for example, the existence of a team. We are talking about an entire set of factors that ensures business growth.

A. Egorov:

On the other hand, if my protégés come into contact with investors who require them to provide financial statements or anything else, I advise them to immediately end the negotiations. If people operating on the Russian market do not understand how companies operate here, then there is no reason for them to be here.

A. Galitsky:

We do not look at the reports at all. It is enough for us to look at ten slides to understand everything.

D. Chikhachev:

I recently met with the head of the London representative office of NASDAQ and asked him what he recommends portfolio companies should do in the early stages of development. What should be done from day one in order to make it onto NASDAQ later with a good margin? He said, "Maintain records well and introduce corporate governance. Nothing more."

A. Egorov:

For a man from NASDAQ, what he said is absolutely correct. But what if a start-up has no money for an accountant and accounts are kept in a box?

A. Galitsky:

What is Ingria for, then? It should do this work.

A. Egorov:

Right.

I. Taber:

The issue is not reporting. In Silicon Valley, there are many founders of companies who have had multi-billion dollar entries into markets and so on; that is, people are rich. When they create a new start-up, they do not need investors; they have a lot of their own money. But they still want to attract investors for one reason, they say: it strengthens discipline. When the people whose money you have taken are sitting next to you, you become more disciplined.

In other words, it is not just about reporting, formats, and so on: it is a matter of discipline and business management. All of this seems like useless work, but it adds discipline to the management of a company. A good company founder is like a perpetual hurricane. And anything that adds to his discipline, as a rule, is useful.

G. Magdanurov:

Let us ask the representatives of the start-ups about discipline. Take, for example, ABBYY. How is your discipline?

A. Egorov:

You call that a start-up? May God bless every start-up like that, as they say.

G. Magdanurov:

We are setting the bar high right away.

A. Egorov:

What could be higher?

S. Andreev:

At one time, when we did not really need money, we engaged one fund in a minority position, with no preferences. The logic was as follows. There is such a thing called corporate governance: it is usually of secondary importance, and there is no time to get to it. But when there is an investor at your back constantly tugging you and saying, “We should be better”, and, “We should do something”, it forces you to perfect a system of internal controls, to deal with making adjustments that you would always rather postpone. In this sense, of course, an investor is beneficial. Without it, movement would be slow.

It is not an everyday need, but at the crucial moment when you need to make a dramatic breakthrough – for example, come to an agreement with some major partner or list an IPO – a lack of governance can derail negotiations with a major partner or client.

At the same time I want to note that one should not expect a miracle from a venture investor. He is good because he possesses business logic and general knowledge about how to and how not to build a business, but he will not solve your specific problems, because he does not understand them as well as you. You know what you do better. In other words, it requires joint expertise.

If you want to find a CEO abroad, you need a fairly strong manager. The business logic and general knowledge of the investor might be of help there. But at the same time, you need to figure out how good he is in your area. Venture capitalists will not help you in this. This is the first limitation.

The second limitation that not everyone is aware of is that you may have different goals than the venture capital investor does. Your goal, for example, is to create a huge company with endless prospects for development that you will be in charge of forever. But any venture investor has the task of issuing an IPO. And that means that he will come to you in five to seven years and say, "Well, brother, it's time to go. Let us start maximizing the valuation."

At this point, the goal of the venture investor may differ from your business goals, and you need to understand that well. And if there are complex terms in the contract with the investor – for example, reaching profitability or dilution of capital if the profitability is not achieved – you can really get into a mess.

A. Egorov:

Sergei, this is a very strange argument. It turns out that you attract an investor with growth in mind, and then you lose interest in growth? In this sense, your interests completely coincide in some areas.

S. Andreev:

There is the goal of growth and development of the business, and there is the goal of selling it. These are not the same things.

A. Egorov:

Selling the business or shares in the business?

S. Andreev:

Those are almost the same thing.

A. Egorov:

Not always.

S. Andreev:

When you want to sell a stake in the business, it is better to sell the whole thing: it is more profitable. If you have a minority shareholder who wants to get out of the company, it would be great for him leave with control, because then he will find another buyer who will give more.

I. Agamirzian:

Excuse me, Sergei, but there are different exit strategies. One of them is called a management buyout: the investor sells his share when there is a conflict of interest.

S. Andreev:

I absolutely agree. I am just saying that we should pay attention to these aspects. Alexander Galitsky correctly said that when you start to negotiate with an investor, you need to understand with whom and about what you are negotiating, what your goals are, and how you are going to reach them together. It may turn out that you have different goals.

A. Egorov:

Does a difference in goals after three or four years not represent a signal to entrepreneurs and to the team that they have not ended up where they intended? Maybe we should look at the problem from that point of view?

S. Andreev:

Of course, that may be one of the options.

G. Magdanurov:

I agree with Alexander's idea: you have to choose an investor carefully. You have to understand who is joining you, and not just chase after the first one who shows up.

I. Taber:

I would say otherwise. The objectives of a financial investor, as a rule, are very transparent. Most venture capitalists have one goal: maximize the company's capitalization during a certain period of time and exit from the project. There are no secrets here; there is no lack of transparency.

The entrepreneur must determine for himself whether these goals are the same as his own. If not, he should consider whether he needs this investor.

A. Egorov:

But this very difficult during the first stage, Igor. You know this, as a person who has raised money many times.

A. Galitsky:

There are also criteria.

A. Egorov:

What are the criteria?

A. Galitsky:

First, there is the sector the investor operates in. Second, there is the stage at which he is investing. It is important to understand how many years he will stay with you. The later the stage, the less time he is going to stay. Third is the life of the fund. Funds tend to live according to a ten-year cycle, and if you attract money in the first year of the fund's activity, you will have ten years of work with this investor. If you do this in the last year, then after a year they will start to kick their way out. Fourth, you have to look at other companies that have worked with the investor.

The best option is to call our start-ups and ask if their investors helped them or not, whether there were problems with them and, in general, whether they are idiots or not. It is always possible to figure this out from the answer: for example, if a person says, "Well, I cannot say", or something like that. When I ask if I should hire some person, then if I hear the answer, "Basically, he is a good person", I immediately understand that I should not hire him.

The same approach can be applied to us. You have to learn it.

G. Magdanurov:

Let us ask the audience a question: is there anyone looking for investments amongst the representatives of the start-ups?

Not that many.

For those seeking investment: who really pays attention to the investor and carefully chooses him, and does not show the project to everyone around him, trying to find at least a little bit of investment?

For some reason there are very few raised hands. I hope that those who did not raise their hands realize that the choice of the investor is important. It is not worth it to chase after just any money you can get.

A. Egorov:

Shahar wanted to comment.

S. Waiser:

It is difficult to work with many venture capital funds, be it in Russia, in America, or in the UK. Venture capitalists give a great amount of help when you have a positive result. When there is more growth than expected, it is difficult to imagine a venture investor who is not going to like you. He will run up to you at the meeting and show you how he has such a successful company in his portfolio.

The real venture capital investor gets tested when the result is at variance with what was expected and when there are difficulties: difficulties related not to the team, the

market, the product, the strategy, or the tactics, but to external circumstances that must be overcome. Then the experience and quality of the venture capital investor are tested: either he tries to solve the problem with you or he starts to panic. Perhaps, as has been said, it is worth it to request references about the venture capital investor, and ask those companies who have had difficulties.

A. Egorov:

What do you do in practice? For example, some difficulties have arisen. I know that there was a difficult period during the realization of one of your old projects. How did the investors behave? What can you expect from them?

S. Waiser:

Absolutely. I had a company in California that I eventually sold. One of the stages of its history was incredibly difficult: the company was on the verge of bankruptcy. Prior to that, we had attracted capital not from venture capital investors but from personal investors. We were incredibly lucky at the time, because these investors were right next to me at that moment, and they helped me with what they could, and they did not panic. The main thing in this situation is not to panic, not to try to take back money, and not to indulge in negative criticism. Thanks to these investors, we overcame the difficulties.

Some of my colleagues' companies have also faced difficulties, and I have seen panicking investors who ultimately brought the company to a crisis point.

A. Egorov:

Regarding panicking investors: we know that the truth lies somewhere in between. What does an investor expect from the leader of a company in this situation: for example, in terms of communication?

G. Magdanurov:

It seems that Igor Agamirzian has some comments on the previous statement.

I. Agamirzian:

Colleagues, I have a feeling that we have strayed very far from the topic of discussion. What is being discussed now is interesting and important, but firstly, it is an endless topic, and secondly, it has very little to do with the work of Russian start-ups or even with investment in Russian start-ups in order to work on a local or global market.

I have some figures. Yesterday, in conjunction with PricewaterhouseCoopers, we presented the results of the first study in Russia according to the MoneyTree procedure: this is an international standard by which the activity of venture capital investments in various sectors in the market is estimated. PricewaterhouseCoopers conducts related research in dozens of countries.

In 2011, the first study in Russia was conducted, exclusively in the IT sector, because it is more open and it is easier to get information in this sector. The results were as follows. During 2011, there were 139 documented transactions totalling USD 237 million. So from these, 33 transactions totalling USD 107 million, almost half, were investments in projects that somehow related to e-commerce. E-commerce is a 100% domestic market, and we have no projects in this area focused on the global market.

Almost half of all investment is spent on the projects of companies operating within the country. And investments with the participation of foreign venture capital investors, i.e. those that are almost always aimed at global markets, are involved in 28 projects. That is only about a quarter of the total.

A. Egorov:

Yes, but we all know that the consumer Internet in Russia is now experiencing rapid growth, and to me, for example, these figures are quite surprising. An investment in the B2C market in Russia is a no-brainer. But what about those who would like to go further?

In this sense, the topic we are about to close – the relationship with the first or second investor – is very important. This is something which people present in this audience encounter in reality, and the encounter can be very difficult. There may be some pros and cons that may lead to the continuation of business or its abandonment.

I. Agamirzian:

I agree. However, there is a specific reality, and for the first time we have been able to ascribe a value to it in numbers, which is a great achievement. I have not provided even close to all of the numbers. There are not only few investments, but they are also strongly focused on the domestic market.

I. Taber:

This statistic does not surprise me. Every investor assesses his risks. The risks are minimal in a case in which a Russian company is focused on a substantial Russian market. The risks are greater when a Russian company is focused on a large foreign market. But they are even greater when a Russian company is focused on a small Russian market.

Of the three options, the least risky is the one in which Russian company is focused on a large local market. And so I was not surprised by the behaviour of investors.

D. Chikhachev:

Are all investments in e-commerce venture capital investments? In my opinion, this is not a venture project at all. There is no more innovation in e-commerce; there are only transactions and payments.

A. Egorov:

Russia is one market in which e-commerce represents a venture project.

G. Magdanurov:

I propose changing the topic of this discussion. We have gone too deeply into investment.

A. Egorov:

Excuse me, please.

Using the right of the moderator – in the interests of people sitting in the audience – I am going to allow myself to ask investors: what do you expect from entrepreneurs in a critical situation? What do you need to do so as not to panic?

D. Chikhachev:

First, I would like to comment on what Shahar said. We invest at an early stage, and there are always difficulties at an early stage. There is not a single project in my portfolio that would not have experienced certain difficulties.

What does an investor expect from an entrepreneur? First of all, a broad perspective, with the ability to accept others' opinions. The worst situation is when the entrepreneur is excessively stubborn. He must be persistent, but not stubborn.

A. Galitsky:

More importantly, he has to not say "yes" to every proposal. This is also a very dangerous situation. There are entrepreneurs who say "yes" in response to anything the investor says.

I. Taber:

When investing, an investor expects that nothing will come from a substantial part of his portfolio. This is normal economics for any venture capital investor. It should not be surprising to an investor when a particular project runs into difficulties: he sees this often. In fact, it is less likely that there will not be any difficulties.

When does an investor start to panic? When he sees that the entrepreneur has given up. This is the worst, because the investor cannot do anything with the company by himself. If an investor sees that the company is having difficulties, but

the team continues to make an effort and to actively seek a way out of the situation, then this is normal. But if the entrepreneur gives up, then everything is bad. Then the investor starts to think about how to get out of the project fast or about what to do with it.

A. Egorov:

Steve, you work with investments and investment projects within EMC, and perhaps also outside of EMC. Do you have your own perspective on the problem? What do you expect from the leader of an investment project if the project has run into difficulties?

S. Todd:

I expect that a leader who is having investment difficulties when it comes to going from a start-up to a global corporation will collaborate with those geographic markets. For example, there are many people from start-ups in the audience today who are designing products and services for Russia, but as they are designing those products they are running into trouble selling them to foreign markets. How can you sell to a foreign market if you have not talked to your peers who are either developing the same or similar projects? I would recommend that start-ups in Russia begin to find ways to collaborate with their peers in other companies. One strategy to do that, which we use at EMC, is to go through the universities. Find the universities in those geographic areas that are working on forward-looking research, and begin to collaborate and form networks in those foreign markets.

A. Egorov:

You are now talking about universities located in foreign markets?

S. Todd:

Yes, because that is the pathway to innovation in that market. Find the problems that they are trying to solve in that market, and that will help you build your product here in Russia.

A. Egorov:

That was very interesting commentary.

G. Magdanurov:

We now turn to the question of what helps a company enter the global marketplace. Maybe Steve, since he already begun to speak, would like to switch to this topic? What else can a start-up receive in terms of support, in addition to investments, and not just from investors? Can it be helped by global players: large corporations, universities, and government support institutions? What does a start-up need to enter the global market?

A. Egorov:

Who should be taken into account?

S. Todd:

In addition to the university marketplace, it is very important to find government initiatives that are sponsoring innovation. For example, my co-workers here in Russia have introduced us to the Skolkovo Foundation, and we are discovering that the market of bioinformatics is important. We do not have a solution for that in the United States. One of the needs here in Russia is a smart grid. And so that partnership with Skolkovo is introducing us to local companies and local start-ups which are developing solutions in that space. Therefore, we can take our intellectual property and begin to combine it with regional start-ups and corporations.

A. Egorov:

Yes, but this is the path of the international corporation to the Russian market. Is there an analogue of Skolkovo in the US? Where can people go? We know where to go here: to Skolkovo. But there?

S. Todd:

You should follow my advice and start with the universities, because they are working on problems that are local to the United States and trying to come up with solutions to them. Many times large corporations do not have the time or the funding to pursue those solutions.

A. Egorov:

But in Russia's understanding, a university is not a place where money is given out: this is a place where knowledge is shared. Perhaps in America the situation is different. Are there any funds or investors associated with the universities in the USA?

S. Todd:

When it comes to innovation, knowledge is more important than money. The ideas that come from knowledge are what are attractive to investors. Those new things that you cannot find with just money, you find with the inspiration that comes from professors and students, who have more time on their hands to think about these hard problems and come up with novel solutions.

A. Egorov:

Is it possible to find both knowledge and money at the same time?

S. Todd:

You can find knowledge and money at the same time, yes you can, certainly. That is our hope at EMC here in Russia: that the problems of the local market will create solutions that we can build here in Russia and sell globally.

G. Magdanurov:

You were doing such a good job of doing PR for Skolkovo. Could the representative of RVC add something about government support?

A. Egorov:

Skolkovo is present in the person of Ekaterina. I think she can say a few words.

G. Magdanurov:

Good. Then ladies first; I will give Ekaterina the microphone.

From the audience:

Thank you all. I would like to note that Skolkovo cooperates on projects not only with individuals but with organizations. We have recently signed an agreement on regular, organized cooperation with the Ingria Technopark, which organized this panel. In one and a half years of existence, we have funded 40 projects in the IT cluster alone. Our commitment to date has been USD 40 million over three years. And if you take all the projects into account, we have awarded a certificate to the five hundredth participant already.

If some of the representatives of start-ups in the audience still have doubts about whether to join Skolkovo, I hope that this information has dispelled these doubts.

A. Egorov:

Ekaterina, but what does 500 participants mean? Is this 500 accreditations, or has there already been investment in 500 projects?

From the audience:

To date, there has already been investment in 120 projects, and 50 participants have received benefits. Benefits are also a kind of hidden financing, because we offer the opportunity to enjoy such privileges as zero income tax and zero VAT, as

well as a social tax of 16% instead of 36%. This is a very big advantage, especially for businesses like IT: high-tech businesses that require more human resources.

A. Egorov:

Start-ups often have an acute shortage of time. Money always runs out, especially in the first 25 years of the company's existence. How much time passes from the filing of the application to making money? Maybe there is an average?

From the audience:

Of course. The process is transparent: you have to apply for a website, and within 30 days you receive the status of a resident, or you do not receive it. This is the first cycle. Receiving a grant or a mini-grant is the second cycle: about another 30 days. We have rules for reviewing applications for funding and applications for resident status, and they are reviewed fairly quickly. People who cooperate with venture funds – representatives of start-ups and entrepreneurs who are present here – know that cooperation with venture funds takes at least three to six months. We are one of those organizations which reviews applications more quickly.

A. Galitsky:

I should add that Skolkovo does not provide investments: Skolkovo gives grants that are not in any way tied to your property.

In Russia, there are very few start-ups based on scientific research. If we remember what Steve said, Russian universities are lagging behind universities in other countries in this respect. Skolkovo is now launching various projects. Has a project been started for research in the field of quantum physics, where revolutionary research is expected?

From the audience:

The Russian Quantum Centre.

A. Galitsky:

There will be great start-ups there.

In addition, last week, according to *Vedomosti*, a project was launched for so-called software-defined networking. It is hoped that this can be implemented in cooperation with American universities. People are still talking about starting something like Big Data, with EMC participating. Centres of innovative research can be formed around all of these projects.

A. Egorov:

So to summarize, everything is working at Skolkovo. Is that correct, Ekaterina?

From the audience:

Yes, Alexander. That is exactly it.

A. Egorov:

Now let us talk about the agreement that the Ingria Technopark signed with Skolkovo. Irina, maybe you can tell us in a couple of words about what this agreement gives residents? What is its meaning, and what will it give start-ups from St. Petersburg, since we are holding this discussion in St. Petersburg?

I. Kalashnikova:

Thank you for giving me the floor.

We are very pleased to have signed this agreement, but the cooperation started earlier. Since the beginning of the year, three resident businesses of the Ingria incubator have become residents of Skolkovo. We hope that the number of start-ups will reach ten by the end of the year, and that they will receive this status and then grants.

A. Egorov:

What kind of practical help does Ingria provide for residents: help with registration, with something else?

I. Kalashnikova:

We help bring the level of start-ups in accordance with the requirements of Skolkovo. There are so many different requirements that need to be fulfilled. In addition, we, crudely speaking, force them to change their mind, and we are learning from Skolkovo how to do so properly.

A. Egorov:

Is it necessary to force them to change their mind? What will the investors say? Is this useful work, or another initiative that may not be very necessary? Perhaps you yourself will be forced to change your mind when entrepreneurs come to you?

I. Taber:

If we believe that we need to force an entrepreneur to change his mind, then we probably will not invest in him.

A. Egorov:

So is this useful?

G. Magdanurov:

Igor wants to say something

I. Agamirzian:

Colleagues, as a person associated with Skolkovo, I will explain. Among the panelists, I am probably not the only one. For example, Alexander Galitsky is a member of the Governing Council of Skolkovo, and I am one of the founders of the Fund and a member of the Board of Trustees.

Skolkovo was conceived as the core of a system. Here, I think you can find the answer to a question that we have not fully discussed: what helps Russian start-ups enter global markets? In my opinion, the correct answer is good integration in the existing system of doing business in the sphere of high technologies.

I completely agree with what Steve said about the universities, but this system is not limited to universities. Moreover, a dense collection of various players and participants forms around any major university like MIT or Stanford, such as offices of major multinational companies operating in high technology and venture capital funds. Large corporations engaged in high technology play a key role in this system. In particular, they implement a variety of programmes. For instance, there is the Microsoft programme for working with ISV (Independent Software Vendors), which are often start-ups. This is a programme for the support and development of a network of partners.

What does this provide? Alexander Galitsky has already partially addressed this topic. For a company, it is extremely important to be part of a value-added chain or a supply chain of major suppliers. This gives it access to the market. And quite often start-ups, and not just Russian ones, make a mistake: they start to create their own channel of access to the global market, and it is incredibly difficult task that only a few know how to achieve. It is much more efficient to enter the global market through existing supply chains, and the same for value-added chains.

Unfortunately, we are all very bad at working with this, including institutions that are designed to provide the necessary support. Skolkovo should solve this problem. Attracting multinationals as key partners not only provides them with access to Russian resources and Russian brains for research and development, but it also includes start-ups that are part of the Skolkovo ecosystem and the ecosystem of multinational corporations.

A. Galitsky:

And you still have to get people. How many people did Microsoft provide: Dergunova, Agamirzian, and others.

A. Egorov:

I cannot say that we have finished discussing this matter. We talked about what is hindering start-ups, so to speak, on the other side of the river, and now we have slowly switched to government support.

G. Magdanurov:

Shahar and Dmitry want to comment on this.

S. Waiser:

When we were talking about the fact that you do not have enough companies and start-ups, we forgot one important thing. Money is certainly important. But we forget that the founding of a company, the creation of new intellectual property, is a small miracle. This is not a pipe into which we pour one thing and another thing pours out. This is some kind of magic.

It requires experience to do this. You have to communicate in order to gain experience. And I am extremely happy that there is better communication between entrepreneurs in Russia, and that a constant migration of knowledge has begun. When people who have created companies meet, they exchange ideas and experiences; they learn from others' mistakes. We always strive to find our own way and to reinvent the wheel, but why? We need to communicate, share knowledge, and even exchange energy.

I am therefore delighted that such a centre is being created at Skolkovo. A community is appearing in which members can help each other, learn from each other, and share experiences. This is part of the magic needed to create a company and debut it on an international or local market.

We have talked about people. Ultimately, it is people that we need. And they can be found in centres like Skolkovo, in forums like ours, whether they arise naturally or are created artificially.

A. Egorov:

Magic. That is clear enough. But as you know, any impromptu performance should be thoroughly prepared for. If you do not create the necessary foundation, it is difficult to expect magic to appear.

G. Magdanurov:

Dmitry wants to add something.

D. Chikhachev:

I just want to say that part of the magic is what is called the product. We have somehow forgotten about the product. Before entering a market, finding partners, and establishing distribution channels, any start-up must create a software product. Very often, we try to enter developed markets where there is strong competition, without a good software product.

The product is not just the written code; it is a lot of things associated with it: a friendly interface, good localization, tech support, and control of releases or updates. In Russia there is a big problem: there are very few specialists in the creation of good software. Where can I learn how to make a Mercedes? Obviously, by working at Mercedes-Benz. You can only learn how to make a good product after working at a large software company. In Russia, we can count our major software companies on one hand, unfortunately.

A. Egorov:

I will say this: they are sufficient to satisfy the amount of venture capital that comes from funds.

D. Chikhachev:

That is not enough. Most start-ups that come to us for investment do not have people with experience in creating software products. And we have to prepare suitable professionals.

A. Galitsky:

We recruited people to Parallels, focusing on Intel. Intel came, hired a lot of people, and trained them for three or four years, and then they became highly skilled professionals.

A. Egorov:

I would like to thank Intel.

Shahar talked about people and you, in fact, are also talking about people, because the product is people. Of course, if we are talking about the idea of a product, no one can replace a team of developers. But you have to turn to professionals for technical performance. There is no need to try to treat ourselves.

D. Chikhachev:

That is exactly what I am talking about. The question was how to help entrepreneurs. You can help by preparing specialists who can give the right advice.

A. Egorov:

We, a few of us present here – I will not name names, in order not to advertise – have been developing leading products for leading Western ISVs for over 15 years. No one knows that these products were developed in Russia. But the funds that are developing products do not come to the companies that produce them.

A. Galitsky:

The funds are not the issue. The issue is that the company's founder must have a vision for the product.

A. Egorov:

That is what I was saying. This cannot be replaced.

A. Galitsky:

There are many people who can write good code quickly. But remember the old saying: to create a technology, you must expend 25% on the prototype, and 75% on the rest, to turn the prototype into a product and the product into a business.

You will help make the product, but you also need to turn this into a business.

A. Egorov:

That is not our task. Now my programmer's heart cannot withstand this. I absolutely agree with this statement: maybe even not 75%, but 85% or 90%. But if we talk about the individual technical task – writing a quality program – then this has been achieved in Russia.

D. Chikhachev:

Alexander, how many employees in your company are qualified project managers?

A. Egorov:

A product manager, which is very important, is on the client's side. In general, product management cannot be outsourced.

D. Chikhachev:

That is the problem. Our start-ups do not have enough product management. And help from outsourcing companies, unfortunately, will be limited.

G. Magdanurov:

Colleagues, we have ten minutes to finish this discussion, and yet there are still many questions. We have not finished discussing the help that a start-up can get from venture capital funds, in addition to investment and recruitment of experts.

Igor presented a very good advertisement on how Microsoft is a company that helps start-ups. Microsoft is not the only company that does this; our colleagues also do it.

Global companies are developing start-ups, including trying to bring them into the global market. We have also talked about the role of the government.

What else could help start-ups when entering the global marketplace? We have not discussed one important problem: the problem of mentality, the fear of risk.

A. Galitsky:

And the problem of English language skills.

G. Magdanurov:

Good point!

A. Egorov:

I want you to hear about another infrastructure initiative. I am going to yield the floor to Elena Semykina of MICEX. She will talk about the MII (Market Innovation and Investment) initiative. This is another way to enter a market.

E. Semykina:

Good afternoon, dear friends, good afternoon, colleagues! Thanks to Alexander for giving me the floor. As a member of the Coordinating Council of the Market for Innovations and Investments, Alexander himself could represent the market to those who have yet to pay much attention to it.

My heart, as well as Alexander's, could not bear it when one of my colleagues mentioned the need to enter NASDAQ. Perhaps this is the mentality of the Russian people: first of all, see what is happening 'out there', and then evaluate it. But we forget that we have a 'Russian NASDAQ'. Maybe it has not yet reached the same level, but since 2009 some very good professionals have been working there.

We have Skolkovo. Great, there are grants. This is fine. But you cannot develop a business (note even a local one, let alone an international one) on grants. You have to understand the structure of investments: to understand how they are implemented and what the MICEX-RTS is. It is the largest stock exchange in Russia

and ranks 15th in the world amongst stock exchanges. We are developing ambitious plans to merge the two largest Russian exchanges in order to reach fifth place by 2015.

We are actively developing the market for innovation and investment, and we offer cooperation to all young companies. We have started active collaboration with the Ingria Technopark. I think that some of those present went to the training workshop held specifically for residents of the Ingria Technopark at our MICEX-RTS St. Petersburg office, which I head. The seminar was devoted to the market of investment as we understand it. We interpreted it as a meeting of two product streams. We taught people not to confuse the words 'modernization' and 'innovation', and explained what an investment is.

Our amount of experience, perhaps, is not that huge: for now, 25 companies have entered the investment market. We have our success stories: for example, the company RNT, which started with a business idea, thought up by MIPT graduates, received venture funding, came to our Market Innovation and Investment, and has now transitioned from a youth platform to a broad platform.

One way to enter the international market is to cooperate with our international investors. International funds come through the Market for Innovation and Investment to you. For them, your exchange rating is like a mark of quality, a guarantee that you represent some value, since the experts of the exchange and of the Coordinating Council believe that you have great potential.

We have a high opinion of the NASDAQ, and we forget that we have funds in Russia, including foreign ones, that cooperate with the exchange. Alexander will confirm that. Thank you for giving me the opportunity to speak.

G. Magdanurov:

Thank you.

What do our investors think, those of you who were talking so animatedly during the speech? Dmitry, what can you say?

D. Chikhachev:

When we discussed the procedure for the panel, we agreed that we were not allowed to give pitches about ourselves. So here we are sitting quietly.

G. Magdanurov:

And Alexander used his right as a moderator.

A. Egorov:

We were talking about Skolkovo. Igor presented Skolkovo, and, mostly, RVC. Elena represents a department of quite a large company. It is not necessary for her to deliver pitches, because everyone knows her.

G. Magdanurov:

That was a joke, of course. Dmitry can tell jokes with a serious face; he is very good at it.

A. Egorov:

In every joke there is an element of a joke.

Incidentally, I doubt that Dmitry Chikhachev was really delivering a pitch for NASDAQ. He objectively noted that this is the right path. But there are alternative paths, and we must remember that. There are rough edges, but the main thing is that there is movement forward; there is improvement in the regulatory documentation, improvement of processes. I think that it is possible to work with this structure also, if anyone is ready for that.

G. Magdanurov:

We have fewer than ten minutes left. Maybe we will ask those sitting in the audience to give examples of successful companies that have emerged in Russia and entered the global market?

There are people from ABRT sitting here: for example, Nikolai Mityushin. He can provide examples like that.

N. Mityushin:

In my experience the most successful companies are those whose founders aimed at the international market from the beginning. It seems to me that one of the main difficulties, which Shahar already described, is misjudgement, or insufficient understanding of the unique features of the international market. Founders of Russian companies have had no ambitions associated with the international market. Now such ambitions, it seems, are beginning to emerge, and it is great. But then these founders will get to Silicon Valley and realize that the rules under which they operate there are different from those that operate here.

I will name a few successful companies with which we have worked. A perfect example is the people from Perm who working on AlternativaPlatform: they have the prospect of entering international markets. They started with Russia and have achieved a good turnover here, and if things continue the same way, their international prospects are very good.

Who else? Evernote is the most famous, perhaps: an example of a company with Russian roots. Microsoft has Acumatica and Actio in BizSpark One. Let us see how they turn out. There are many successful companies based in Russia: both mature ones, and those that have just been started.

G. Magdanurov:

The participants want to give other examples. Will we let them speak?

A. Egorov:

Certainly.

Y. Fedulov:

Hello. My name is Yuri Fedulov; I am from Ashmanov and Partners. Thank you all for an interesting discussion.

A week ago I was at the Russian–European Innovation Forum in Lappeenranta, Finland. One of the speakers talked about the Swedish market. I think we underestimate factors such as the lack of collaboration between major universities and private companies. In Sweden, for example, there are about 70 business incubators where 5,000 companies operate with a staff of 70,000 people. In almost every business incubator, there are two or three anchor companies: that is, large companies that have long proven themselves on the market and that cultivate start-ups with universities. The first question for the participants is: do you plan to somehow cooperate with Russian universities?

A representative of the American business incubator US Market Access also addressed the forum. He said that the third stage of financing cannot be obtained if the company did not initially use the services of mentors, i.e., people with business experience who can help, sometimes even for free. In America, for example, there is the SBA (Small Business Administration) programme, which enables communication with mentors. The second question is: how do you assess the prospects for a mentoring institute in Russia; when will it really appear here; how it will work?

I. Agamirzian:

If I may, I will very briefly answer these questions.

On the first question: almost every Russian university has a business incubator. The results are well-known. The issue is that a business incubator is primarily people: a service, features, the quality of specialists. Our universities do not know how to work with start-ups, as has been noted many times. Universities have not become part of the ecosystem that is needed here. Something must be done about that.

As for the mentors and mentoring networks: oddly enough, networks are already being created here. We started this process three years ago. Mentors are now working at our companies; they are mostly Russian-speaking people with business

experience abroad. Some of them live in Russia and some live abroad. They work in the technology sector.

The process has basically begun, though everything very much depends on the particular situation. Russian start-ups are often afraid to share their know-how and recruit people from outside; moreover, they exhibit greed, not wanting to motivate these people. And those who might be useful as mentors cannot be motivated by a salary: this is not consulting work. Abroad, mentors often get a share in the company.

A. Galitsky:

Can we talk about the successes? They are actually very few in number. For us investors, entrance into a market can be considered success. Apart from Mail.ru, Yandex, and those that they absorbed in their path, there have basically not been any successes after Ratmir Timashev and his Aelita. You can count them: Alexander Andreev's company SJ Labs was sold; the QUIK service was sold to Skype, which was then absorbed by Microsoft.

I am not taking into account those that are on the road to success, but only companies that have already proven themselves from the perspective of the investor. You could probably name another three or four companies.

A. Egorov:

But is there movement?

A. Galitsky:

Yes, there is. The first record was set by Ratmir Timashev. QUIK surpassed him. I hope that the next entrance onto the Russian market will be even greater.

A. Egorov:

There is another problem: not enough mentors. Mentors are still in business themselves; they are not ready to give advice.

I. Agamirzian:

When our generation – those who started IT businesses in Russia 20 years ago – retires, there will be more than enough mentors.

A. Galitsky:

But no two mentors are alike. Some write that you will never get Internet mentorship from those who are over thirty. It disturbs me a bit, but, nevertheless, such an opinion exists.

Another problem related to mentoring is that any entrepreneur has to be aggressive. It is always possible to persuade a mentor. I think that even Igor, despite being engaged in business and a lot of unnecessary conversations with government officials, will find time for an interesting conversation. We must inspire a person, and then he will become a mentor.

G. Magdanurov:

As I understand it, our time has come to an end.

A. Egorov:

Maybe there are more questions?

G. Magdanurov:

There is always a last question.

A. Andreev:

I am Alexander Andreev from the company Soft Joys.

I seem to have the same question as Andrei Terekhov. We have heard an excellent lecture about strategies and marketing. What role does technology play in all of this? Do I need to have advanced technology to become a global player? And are there companies on the Russian market that are developing this kind of technology?

I. Agamirzian:

If I may, I will answer. Here is my favourite thesis: in business related to high technology, technology is the simplest part. I seriously believe that. Without technology, you cannot go anywhere. That is a necessary condition, but it is so uninspiring that it is of no interest to discuss.

D. Chikhachev:

There are three Russian products that have worldwide popularity and that have sold more than 50 million units. The first of them is almost high-tech: the Kalashnikov rifle. The second product is the works of Dostoevsky. The third is the NGINX web server. This is an example of technology developed in Russia that has received worldwide popularity.

I agree with Igor that technology is not everything. But it is an important competitive advantage.

A. Galitsky:

Technology certainly plays a very important role. But we should not strive for utter perfection. I would also add that in Russia, unfortunately, the number of technology start-ups is negligible.

It is very sad, because within the last 20 years, the ecosystem in which research was conducted (I am not talking about the Academy of Sciences, but of applied research and development institutes) has collapsed. If anything appears, it will only be because of young people with a good education who are looking for solutions for niche problems based on their knowledge of mathematics and physics. And if technology start-ups do not emerge, we will have a very sad future.

Therefore, we need to appreciate those schools that still exist. We should appreciate Terekhov and other people who are still trying to research something, and to do something.

A. Egorov:

This seems to be a topic for another discussion.

G. Magdanurov:

Maybe we could finish on a positive note? The market really is growing; the number of investors is increasing, and there are more good start-ups. That is not so bad!

S. Andreev:

To be successful, you need to only engage in what you can become the best in the world in. That is very important.

A. Egorov:

Absolutely. But for that to happen, you need a first step.

I will pass the microphone to Pavel Belov for a technical announcement.

P. Belov:

First of all, I would like to express gratitude on behalf of the organizers of the conference. Thanks to all the speakers, moderators, and participants.

This is a technical notice: our discussion will be continued in the form of individual business meetings with investors. For those who have already signed up, the meetings will be held in meeting rooms 3.4 and 3.5, as well as in the third pavilion, on the first and second floors.

This is also relevant for investors. There are many projects today. And we want the impulse that has been given here today to lead to specific meetings and transactions.

G. Magdanurov:

So we are not saying goodbye to the initiators of the projects, but just finishing up our round table. Thanks to all the participants.

A. Egorov:

Many thanks to all.