

Vodka and banking, the perfect cocktail

As relations between the West and Russia deteriorate, spare a thought for tycoons such as Roustam Tariko. He has built his successful Russian empire – the country's largest premium liquor distribution business, the biggest bank specialising in consumer finance and credit cards, and the top vodka brand – by working with Western partners and applying Western knowhow to his ideas.

With US president George Bush intent on placing missile defence systems on Russia's borders, Russian president Vladimir Putin delivering hostile speeches and posing shirtless this summer to bolster his macho credentials, Russia's harsh treatment of Western energy companies and a host of other issues, leading some commentators to talk about a new Cold War, 45-year-old Mr Tariko has reason to be worried.

"It doesn't affect my business today but it is my biggest concern. All my businesses grew up in strong co-operation with the Western community – and obviously borrowing from Western financial markets – so everything that is about increasing tension between the American and Russian governments creates a lot of concern," he says, speaking in charming Russian-accented English. "I could handle everything, but I could not handle this."

Mr Tariko, a Tatar by birth who arrived in Moscow aged 17, first made contact with the West by helping foreigners find hotel rooms; he then saw that the demand for Western premium goods would take off as Russians threw off the shackles of communism. He became the distributor of Ferrero Rocher chocolates and then luck played a part in the development of his fortune – estimated by Forbes at \$5.4bn, making him the 151st richest person in the world.

Spirit of free enterprise

A Ferrero Rocher director sat next to a Martini & Rossi director on a plane. The latter was looking for a distributor for the Italian company's beverages in Russia. His travelling companion's recommendation was taken up. And thus was born Roust, Mr Tariko's spirits business, which distributes



Roustam Tariko, owner and founder of Russian Standard Bank (and Vodka), tells Karina Robinson of plans to tailor his banking model to current realities

alcoholic drinks ranging from Krug champagne to Johnnie Walker whisky. It had sales of \$250m last year and is seeing 30% growth this year.

Over coffee in his magnificent forest-enclosed mansion within a gated estate an hour from Moscow, Mr Tariko spoke in a soft voice and appeared rather low-key. Despite the chill in the autumn air he was dressed in all-white casual clothes down to his loafers, an outfit that would have been appropriate for his home in Sardinia where the interview was originally due to take place. He is looking for a home in London as his two youngest children are going to kindergarten there, although he plans to keep his main residence in Moscow. But Russian billionaire clichés make him uncomfortable.

"The difference between me and the oligarchs is that I did not make my fortune because of the privatisation of government assets. I built my business myself. It is totally independent of governmental authorities," he says. For the record, he is also not planning on buying a football club like oligarch Roman Abramovich.

Nor does he accept the thesis that bribery and corruption are a normal part of doing business in Russia.

"You know, I was always winning because I was so good and innovative and I did not need it much. For example, when I was selling Martini and Johnnie Walker, nobody else would be selling them. It is usually in highly competitive and average products where you need to deal in compromising with the authorities," he says. "I don't support the idea of people talking about Russian government corruption or something like that because I believe a market is created by two people, one who gives and one who takes."

As a Rasputin lookalike photographer in a flowered shirt circled him, snapping away, he explained how Russian Standard Vodka was born in 1998. Sales of \$100m last year look like doubling this year as overseas sales increase – it is the world's fourth fastest growing spirit brand, according to industry databank Impact.

"The Russian paradox: there was no high quality Russian vodka in the market but huge consumption. I started with

the intuition stage, then I entered the innovation stage. I went to the West looking for the best technology available and the best knowledge available," he says.

As he ardently speaks about the esoterica of creating a superb vodka, it seemed very unlikely that his next step back in 1999 had been to create a bank, Russian Standard Bank.

"Like vodka, it was so obvious," he says. "People did not have even a simple line of credit, like \$200-\$300 in their pocket. The fundamental basis of all Russian Standard's success is, if it works in America or the UK, it will work in Russia."

Russian Standard, which has assets of \$7.3bn, posted net profits for the first six months of 2007 of \$395m. It is among the top three most profitable banks in Russia. Its return on average equity (ROE) in the first six months of the year, according to CEO Dmitry Levin, was 68%. The lifetime banker, recruited by Mr Tariko, expects ROE to be maintained at those rates but the return on assets to fall on the back of increased competition and regulation.

The secret of the bank's success – a 40% market share of consumer loans given out in shops plus two-thirds of Russia's credit card market – was that bankers in Russia at the time were only interested in deposits, while state behemoth Sberbank took a week to approve a tiny loan, says Mr Tariko. Russian Standard Bank did it in 15 minutes, using Western knowhow.

He adds: "I am not a genius."

"He's an entrepreneur. The vodka business is an excellent business and the credit business is brilliant," says Moscow-based Al Breach, economist and strategist for Russia at Swiss bank UBS.

The combination of alcohol and banking is unusual. Even more so when one considers that consultants McKinsey, whom Mr Tariko hired to design the bank, balked at his telling them to name it after his vodka. Consumer research in Russia showed them how wrong they were and how right he was. By creating a vodka brand which played on its quality and purely Russian origins and ingredients – there were no allusions to Western knowhow then – Mr Tariko had built a name that would support another business with the same attributes, albeit in an entirely different sector.

The banking business, though, looks like changing, even as the demand for credit on the back of Russia's high GDP



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growth continues. An investigation of Russian Standard Bank by the local authorities last month led to an order for them and their competitors to increase transparency by ending the practice of hidden charges on consumer loans.

Mr Tariko says the bank had already started doing that, based partly on what he learned last year at a two-day conference held by American Express with its partners. (Russian Standard signed an agreement in 2005 with the US card company to issue their cards in Russia).

At the California meeting, a whole day was spent on how regulation was going to affect banks and it convinced Mr Tariko of the need to head towards developed market standards in his bank's products. He says he had also decided to expand the retail network, doubling the 150 branches by the end of the year and offering retail banking products, before the current turmoil in the credit markets.

Wider depositor base

With a worrying 65% of Russian Standard Bank's funding coming from international capital markets, well above that of its main competitors, this is no bad thing. Funding from deposits, only 5% currently, is targeted to increase to 25% by 2011, says Mr Levin, who insists that the bank's higher funding costs this year will be offset by much lower hedging costs.

It seems doubtful that Mr Tariko will sell the bank. He did not answer directly the question of whether he pulled out of selling to BNP Paribas in 2004 but says in his low voice that "I believe all more or less important banks came to us trying to get equity

in Russian Standard Bank because it is a big success story".

Rather than a serial entrepreneur, who creates and sells companies, he appears to enjoy expanding them. That is his plan for Russian Standard Vodka, which is sold in 40 countries outside Russia. The launch in the US last year will be followed by one in the UK this month.

Russian Standard Vodka will, he says, be among the top three global vodka brands within five years or a bit longer, as he uses long-standing Western partners such as Rémy Cointreau to distribute in countries such as China, as well as taking advantage of what he calls "shaky" global vodka brands such as Smirnoff and Absolut.

As he said goodbye with a dimpled smile, it was clear that he would get there, regardless of the frosty relations between Messrs Bush and Putin. **TB**