

# Convergence & Differentiation

What is  
success in  
a connected  
world?\*

Interview transcripts of Julia Solovieva,  
Chief Executive Officer, Prof-Media Holding,  
Russia



### Julia Solovieva is Chief Executive Officer of Prof-Media

**PwC:** Based on your experience, on the experience of your company – what do you see as the competitive advantage of your organisation, maybe of the industry and Russia as a whole?

**J.S:** We operate in the media industry and probably what is relevant for us is not access to natural resources, nor technological innovations, even though the latter might become a much higher priority for us quite soon. At this stage, our main priority is indeed access to content. We create content in all industries in which we operate. Be it internet, television programming or movie production. And content is created by people; so, in a way, the priority for our industry is access to talent and access to human resources.

**PwC:** Is access to human resources a competitive advantage for Russia in some way?

**J.S:** there is a huge problem in Russia in being able to recruit high talent. Among other things, the reason is that after the split of the Soviet Union such category as middle management simply did not exist in Russia. Top management positions were being filled with people who were intelligent, educated, results driven, yet at the same time very young, and probably lacking some of the experience which exists in the West. On the other hand, currently there is very high demand for local content in the Russian market. And the trend we see is continuing localisation of content. For this reason the advantage for Russia probably is the access to Russian talent and people who can create content that will be well received by the audience here.

**PwC:** So, localisation of some international content in the Russian market...

**J.S:** Yes, and creating our own, unique, content.

**PwC:** Are there any differences in creating Russian content as compared to creating, for instance, Western content? What is interesting there and what is interesting in this country? To what extent do you use Western experience in creating content? It is no secret that many shows are copied in television, or approaches are copied to other types of media, to the Internet.

**J.S:** Russian television has been experiencing a boom over the last five years. Five years ago access to foreign made content was the most important thing; that was what interested the Russian public the most. In the last two years we have seen the absolutely opposite trend – it turns out that the Western formats do not work here anymore. And all the international companies we have met with in the last 18 months or so have been saying that they cannot enter the Russian market with only Western content, they need localisation. The main component of localisation has to do probably with differences between cultures. What are they exactly? Probably they differ from case to case. With MTV this may be access to Russian music, Russian pop culture. It is youth culture and it differs from what they have in the West. In film-making it may be something else, specific to movies, but the content these days absolutely has to be local.

**PwC:** What caused this trend? This reversal of the trend?

**J.S:** I think partly the reason is the nostalgia for the old times, partly, pride for our country's success, and partly, the realization that Russia also has talents that can create something of quality, a quality product at any level.

**PwC:** How do you identify these trends? Do you run some formal market research or do you do it intuitively?

**J.S:** It varies. Certainly, we make a point of using focus groups, and in-depth interviews, and market research. For the most part, we order research from third parties – from relevant consultants. But certainly many of the talented managers involved in creating our product rely on their intuition.

**PwC:** You have mentioned Western majors. Does Prof-Media have many Western partners?

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**J.S:** It depends on the company. For example, one of our companies, Central Partnership, is involved in film-making and film distribution. It distributes the products of many foreign majors from Hollywood, Europe and so on. Our television assets are also a good example of international co-operation. We are promoters of the global brand MTV in Russia. Here we are working with Viacom, the owner of MTV Network, and certainly we buy a lot of content (feature films and programs) from many global companies, both for Channel 2x2 and Channel TV3.

**PwC:** You have mentioned Prof-Media's focus on the Russian market. Do some companies of the group or the group as a whole have any global and/or international aspirations? For instance, do you see yourself operating in the CIS, Eastern Europe, or somewhere else?

**J.S:** We are primarily interested in Russia at the moment: it seems to us that the potential for our products and services still has a big upside in the Russian market. The next stage of our development will probably be an expansion into the CIS countries. Currently, Cinema Park, our multiplex chain, is planning exactly that – going to the Ukraine markets and launching a chain of movie-theatres. On a company level at this stage we do not have any definite plans to go to the global markets. What happens later? I think we will be able to judge in two or three years' time.

**PwC:** So, one of the routes for future growth should still be moving to new markets, but what other routes for the company's growth are you considering? You went through some mergers and acquisitions very recently, so, first how successful were they? And second – what are your forecasts for the future?

**J.S:** Your last question, how successful the mergers were, is something we are working on right now. We have created a special division inside ProfMedia responsible for the integration of our new assets – from evaluation of the acquired companies' management teams and helping in strategy development to streamlining corporate governance and reporting systems, We would like to evaluate the full results of the integration towards the end of the year. The main indicators will probably be: growth in profitability, increase in overall efficiency and accountable synergy effect. It is a bit too early now to talk about the success of the integration, as we are still in the middle of the process. As to your question relating to the routes for the business growth, I think for many of the companies it is new products and innovation – in terms of what product portfolio they offer and how they position it. One of the examples probably is Rambler, our internet company, which is currently significantly modifying its product line and the way they position themselves in the market with new product portfolio,

**PwC:** I would also like to talk a little about management style, about what is called corporate governance. Very often people believe, at least in the West, that Russian companies and companies in emerging markets in general manage to be very successful by using the command and administration method – i.e. all decisions are made on a top-down basis and this brings such rapid growth. What methods does your company use and to what extent do you agree with this opinion – that in order to achieve rapid growth this kind of effort from the top is required?

**J.S:** I like to believe that, in general, this is an outdated understanding of the Russian method of management. I also like to believe that we are not the only exception – a company that does not use command and control method in building its' organisations. In our case it was very important to distribute the roles between management company and its' assets correctly. The role of the management company and of the holding cannot be underestimated, of course. But it is key not to try to macro-manage and lead from very high up on the top, thereby diminishing the responsibilities that need to stay decentralized and in this way taking away responsibility from the management of the operating business unit. Because when you take responsibility away, you cannot make people answerable.

We indeed have a rather structured approach to how we manage our assets. There is a holding company and there is a board of directors in each business unit. There are rather significant responsibilities delegated to the board of directors. The board uses a number of structural tools to manage the assets which are clearly communicated to the top management of our subsidiaries. These tools are: positioning and strategy of the company, business plan, financial plan (budget), organizational structure and the management team that is able to execute on the strategy and the motivation system, aligned with it. If these instruments have been established and implemented, if they work, in principle, all else is the responsibility of the management of our subsidiaries and they are fully accountable.

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- PwC:** Returning to human resources again, do you think the management on the ground, as you put it, have enough competence, i.e. does the middle management of the group companies have enough competence to take on the responsibility?
- J.S:** Considering the huge shortage of human resources and talent that we are experiencing in Russia right now, no company will tell you that they have enough competence at all management levels. We pay huge attention training: we create talent management and talent retention programs, we rotate our top managers from within the group in order to provide both motivation and learning experience, by putting them in a different situation than the one they are used to. Thus, they look at another business and gain experience. This also helps us transfer some competencies and transfer success from one business to another, thereby creating a kind of continuity within our company.
- PwC:** Does the rotation help you retain these people? Does it happen that you have trained a person and they have left the company?
- J.S:** I think for the most part we manage to retain people. As an example, Anna Znamenskaya, a talented young general manager from B2B Communications, at some stage outgrew the size of the business she helped creating from scratch. We talked with Anna and when we understood her priorities and key expertise we transferred her to the position of commercial director in a much larger company where she now both successfully implements the experience she gained in the position of the general director and, I hope, will learn a lot of new things working in a larger scale environment. Certainly, there is no guarantee that people will not leave us. It is a rather complex issue: it is a matter not only of motivating the people using every method possible. Market situation greatly affects any company ability to retain talent . The situation in the Russian market is quite peculiar now from the perspective of the amounts of money and methods companies use to lure and pirate managers from each other. On the other hand, I am not interested in people who come and leave solely for money and hop from one company to another... in principle we would not like to retain such people, we want people to be with us for other reasons, not only for financial ones.
- PwC:** In your opinion, what is the key thing in terms of competing for talented personnel in Russia in your sector?
- J.S:** It very important for people to understand what is expected of them. Setting goals properly, understanding the expectations correctly and meeting these expectations over a long period of time – both by the employee and by the company – probably is a very strong motivational factor, since it increases stability and significantly increases loyalty. These factors, in my view, will be more important for many top managers than financial ones, because people are tired of living in a state of uncertainty, in a situation where they work and do not understand if anybody else needs their work, whether they are moving in the right direction and whether the “party line” might be subject to 180 degree change.
- PwC:** This situation of uncertainty in such rapidly growing markets as the Russian one can be explained by the growth rates perhaps, because the management does not have the time to ‘digest’ and register what is happening with the market and build strategy for further down the road.
- J.S:** If the company is thinking about long-term development and looks at the Western experience, it may not allow itself to dash about responding to short-term changes in the market situation. This may not even work in the short run. It is very important for a company to be able to plan for rather long horizons, not for one to two years, but for five years into the future and be very flexible about the tactics as they go along, but not the overall strategy.
- PwC:** Do you sense that many Russian companies that plan for five years into the future?
- J.S:** I think there are more and more of them and it is a necessary component of the business for them, because capital investments, and investment in resources that require implementation of a certain type of strategy become larger. And there just may not be enough financial resources to change that strategy midway.

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**PwC:** My next question is of a more general nature. How, in your view, do the requirements imposed on business leaders of today's generation differ from those on your predecessors. Can you say that, yes, at that time such a set of qualities was required of leaders and now it is a different set? And what about the future?

**J.S:** I think that as compared with the past, these days people face more requirements of a managerial kind. In the past there was probably more of an entrepreneurial approach, with the ability to come and tackle everything at the same time, and somehow carry what you have in your hands to the next stage, preferably without losing 70% of it. Now, I think, we value more the ability to use management tools, –from financial planning to leading people. Global companies operate and rather aggressively compete in the Russian market now and they come here with this sort of experience. Companies that go to the Western capital markets face very specific set of requirements and therefore you cannot really win by just providing a strong push and just actions – without any planning. In the past, I think, very many leaders who grew into top-level executives were put into situations where it was necessary to grab and run. Its changing now.

In the future, I hope, we will acquire everything that we are lacking at the moment. A huge part of it is simply experience, working side-by-side with people who are older and more seasoned, who have been in various situations you have never been in. Certainly it is better to learn not from your own mistakes but from seeing how things are done properly by people who can be used as role models.

**PwC:** What if we were to compare executives from Russia and other rapidly developing countries with executives, say, from Western Europe. Are there any differences in terms of requirements for leaders, executives? Or are they roughly the same, in your view?

**J.S:** I can only talk about my own experience, because it is hard for me to judge what requirements there are in Western companies. As far as I can see looking at executives from Western Europe, they are somewhat calmer, somewhat less charismatic than our leaders, and have somewhat more structure and a more technocratic approach. During their career development they have not jumped steps or even whole flights of steps, which sometimes happens with Russian managers. And probably more structure is a requirement Russian executives have to meet now; they need more ability to use modern management tools.

In this country, I think one of the most necessary requirements is talent or charisma to lead people in order to motivate and engage them. In Russia this is still really necessary; a leader is needed to make people believe in things that nobody has had the chance to see and 'touch' for themselves but that maybe exist in the West already. And still, I think that Russian managers, given the stage of growth across Russia as compared to the West, have a much broader level of responsibility and authority. In the West everything is more structured but the level of authority is narrower. People specialize more.. Whereas in Russia managers are expected to have the knowledge of a very broad nature already or get this knowledge very quickly to be able operate in very diverse areas of activity.

**PwC:** The last part of our interview has to do with the role of the state, because there is no secret that in countries with rapidly developing economies it is critically important – for achieving the stages of development and the advantages which the companies and executives subsequently gain in the global markets. Is the state's role critically important for your business and your company?

**J.S:** Yes. It is critically important. Because both mass media and telecommunications, which have been co-operating more and more and converging with each other, are a highly regulated area. First, these are licenses that broadcasting corporations and any organisation that is classified as belonging to the media have to have, secondly, its intellectual property and laws on intellectual property. In principle, we are surrounded by a fence of state regulation. Currently, it is certainly important for us to understand where we are going because the companies have to spend an enormous amount of time simply obtaining a permit from government, or just getting a reply as to whether or not they are moving in the right direction. There is still a multitude of laws, regulations and areas of state regulation which are not fully clear on interpretation either to us or to the regulator. And moving in these grey areas is very scary because you do not know for certain how this law will be interpreted.

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**PwC:** To what extent do you manage to engage in a dialogue with the state on improving the legislation, more transparent regulation and so on? And do you see this as your objective or do you play a more passive role?

**J.S:** We want to participate, we want to lobby for the interests not just of our own companies, but of the industry as a whole. In particular, Prof-Media companies are active on various commissions which have to do with regulation in media including the transition to digital broadcasting.. Certainly we want to participate because if we don't it is possible that we will have to leave with the result that we don't like.

**PwC:** My last question. The survey that I mentioned indicates that Russian companies are much more confident about the future than their colleagues in Western countries. For example, in respect of revenue growth for the next year, 73% of respondents in Russia were absolutely certain that they would ensure revenue growth in the next year and 50% of respondents were absolutely certain that in the next three years revenues would be growing. Are you, as head of the holding, also certain about this? How far can you look ahead and what is this certainty based on?

**J.S:** I am certain about this. The financial crises which have been shaking both America and Europe may impact the revenue growth, but probably insignificantly. We still have a big potential for growth. We can look at how fast the Russian market is growing and to what extent it lags behind Europe, America and Asia on some macro indicators, and the growth potential is enormous. The internet market, which grew in the last year by 92%, is still very small compared with America. Therefore we will be growing, that is certain. The question is only for how long and at what rate. I think that we will grow rather steadily over the next three to four years and then probably we will see declining growth rates. However, if we do not experience too great an impact from the current financial shakeout – and that would mainly affect our possibility of access to capital markets for development and expansion – we will still probably be growing at higher rates than America and Europe.

**PwC:** Do you believe that the Russian banking system and financial system in general at this point is still not ready to finance domestic business?

**J.S:** It may be ready, but it still depends on the global system. Like any other banking system. Therefore it will experience some impact from the financial crisis in America and Europe.

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