

Hitachi's Business Strategy in Russian Market

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OVERVIEW: In May 2012, Hitachi celebrated the 30th anniversary of its doing business in the Russian Federation. Hitachi, Ltd. Moscow Office was established on May 12, 1982. Its original function was to pioneer the market and create new business. Since that time, a number of Hitachi Group companies have established their own offices in Russia and CIS countries, and others are doing business through their distributors, which they manage from Japanese or European headquarters. High oil prices have been keeping the Russian economy steady and growing. A recent focus of the Russian government has been on innovative social projects, and it has initiated a number of high-profile projects in the past few years, including Skolkovo City, the APEC Russia 2012 summit in Vladivostok, Sochi 2014 Olympics, and 2018 FIFA World Cup Russia.

INTRODUCTION

THE Russian Federation is a fast growing country with significant gas and oil reserves, a territory of about 17 million km² (roughly 45 times that of Japan), and a population of about 143 million people. Russia is ranked number one by proven gas volume, and has a 28% share (50 trillion m³) of world gas resources. Russia's territory extends from Europe to Asia and the country offers a unique combination of business possibilities as well as opportunities to participate in the development of a country-wide infrastructure.

Russian gross domestic product (GDP) growth in 2011 was steady at 4.3%, one of highest among Group of Eight (G8) member states. Russia's industrial production index grew by 8.2% in 2010 and 4.7% in 2011. The inflation rate of 6.1% is the lowest it has been for several years, and the government continues to target a reduction in inflation to 4%. At \$US514 billion, Russia's foreign exchange reserves are the forth highest in the world after China, Japan, Saudi Arabia, and they helped maintain the stability of the Russian national economy during the recent global financial crisis.

The Russian economy is making extensive efforts to become better connected with the rest of the world.

Russia signed the final protocol to join the World Trade Organization (WTO) in Geneva in December 2011 and expects to achieve membership in mid-2012. A customs union signed between Russia, the Republic of Kazakhstan, and the Republic of Belarus in 2010 has eliminated the need for customs clearance for goods traded between these three countries. In November 2011, the presidents of the Commonwealth of Independent States (CIS) countries signed an

agreement to simplify internal CIS trade operations in order to create a basis for a free trade zone. This will boost further development of Russia and neighboring countries. Meanwhile, there are plans to establish a Eurasian economic union by 2015.

To support development of new innovative industries, the Russian government introduced an "Economic Modernization Program" focused on energy efficiency, healthcare, space and communications, information technology (IT), and nuclear energy.

TABLE 1. Examples of Ongoing Infrastructure Projects in Russian Federation

These projects are suitable candidates for Hitachi's social infrastructure approach. The Russian Federation has a big demand for power equipment, water treatment, construction equipment, healthcare, and information technology (IT) infrastructure.

Year	Project name
2012	APEC summit (Vladivostok)
2013	Universiade (Kazan)
2013	Asia Pacific Parliamentary Forum (APPF) (Vladivostok)
2014	Skolkovo—innovative city (Moscow)
2014	Sochi Olympics (Sochi)
2014	Formula 1 ^{*1} Grand Prix (Sochi)
2014	G8 Summit (Moscow, Skolkovo)
2018	FIFA ^{*2} World Cup (several cities)
—	New Moscow (expansion of Moscow territory)
–2025	Program of the Development of the Far East
–2025	Development of the Arctic Transport Route

APEC: Asia-Pacific Economic Cooperation G8: Group of Eight

*1 FORMULA 1 and FORMULA ONE are trademarks of Formula One Licensing BV, a Formula One Group Company.

*2 FIFA is a trademark of Fédération Internationale de Football Association (FIFA).

During the last few years, the Russian government has launched a number of national infrastructure projects (see Table 1).

Elsewhere, various industries have their own significant infrastructure projects, usually led by state-owned corporations in the oil and gas, power, transportation, healthcare, banking, and other industries.

This article describes the state of the Russian economy and Hitachi's business activities in that country.

RUSSIA STRATEGY

Established in 1982, Hitachi, Ltd. Moscow Office celebrated its 30th anniversary in May 2012. Over that period, nine other Hitachi Group companies have established their own offices (see Table 2).

The overall objective of Hitachi Moscow is to help the Hitachi Group achieve its target of raising the ratio of overseas revenue above 50%. Hitachi Moscow covers the CIS and Russia, and its strategies are based on both territorial and product expansion.

Territorial Expansion

In seeking to expand the geographical scope of its business activities, Hitachi's initial focus is on the Kazakhstan market. In 2011, Hitachi appointed representative person for Kazakhstan to support an

ongoing H-25 gas turbine project and to create a basis for new Hitachi businesses.

Kazakhstan is an oil rich country with proven oil resources ranked ninth in the world. It has a population of about 16.7 million and its economy is the most stable of all the CIS countries. GDP grew by 7.5% in 2011 to reach \$US186 billion. Kazakhstan also has significant mineral resources, being among the top three nations in the world for zinc, lead, copper, silver, molybdenum, and rare earth metals, and having 21% of the world's uranium resources. Another important industry is coal, which includes large opencast coal mines and coal-fired power plants. The Kazakhstan government is undertaking a variety of infrastructure projects where it recognizes Hitachi's ability to assist in numerous different fields.

After Kazakhstan, Hitachi's next focus is on the Ukrainian market, which has a population of about 45.6 million and GDP growth of 5.2% in 2011. Key national industries are iron ore mining, steel making, and coal. Ukraine is a member of the Kyoto Protocol and is keen to introduce green and energy-efficient technologies for power, transportation, and social infrastructure.

Hitachi's Product Expansion

To open up new markets for Hitachi products, Hitachi Moscow assists group companies to establish new businesses in Russia, taking an approach that is based on developing customer-oriented complex solutions (see Fig. 1).

In the past few years, Hitachi Moscow has helped establish a number of new businesses in Russia and the CIS.

TABLE 2. Hitachi Offices in Russia

Usually most Hitachi Group companies start doing business through local partners, which they manage from Japan or Europe. Once the business becomes established, this is followed by registering a representative office with local staff to create a local legal entity.

	Company name	Legal status
1	Hitachi, Ltd. Moscow Office	Representative office
	Hitachi Construction Machinery Co., Ltd.	Representative office
2	Hitachi Construction Machinery Eurasia Sales LLC	Legal entity
	Hitachi Construction Machinery Eurasia Manufacturing LLC	Legal entity
3	Hitachi Power Tools Netherlands B.V.	Branch office
	Hitachi Power Tools RUS L.L.C.	Legal entity
4	Hitachi Home Electronics	Representative person
5	Hitachi Data Systems GmbH	Legal entity
6	Hitachi Air Conditioning Europe SAS	Representative office
7	Hitachi Solutions, Ltd.	Representative person
8	Hitachi High-Technologies Corporation	Representative office
9	ZAO-Hitachi Svetlana Power Electronics	Joint venture
10	Hitachi Aloka Medical, Ltd. Moscow Office	Representative office
11	Hitachi, Ltd. (Almaty, Republic of Kazakhstan)	Representative person

RECENT NEW BUSINESS DEVELOPMENTS

In spite of the financial crisis, Hitachi Group companies continue to develop new business in Russia (see Table 3). The following are some examples:

One example of a major new business is the card reader and cash recycling automatic teller machine (ATM) business established by Hitachi Omron Terminal Solutions, Corporation in 2011. This was the first time a cash recycling ATM had been used in the Russian market, and Hitachi Omron Terminal Solutions, together with its global partner has received certification for these activities from the Russian Central Bank. The first ATM equipped with a Hitachi finger vein authentication module will be delivered to Gazprombank in 2012. Gazprombank is the third largest bank in Russia.



Fig. 1—Hitachi, Ltd. Moscow Office Business Development Concept for Supporting Hitachi Group Companies.

Hitachi, Ltd. Moscow Office provides support and consulting for Hitachi Group companies from when they first enter the Russian market, including market investigation, identification of potential partners, local product certification, and the establishment of a local office.

Another example from the medical field is the planned start in 2012 of a linear accelerator made by AccSys Technology, Inc. of the USA, a Hitachi Group company, at the Bakoulev Center for Cardiovascular Surgery in Moscow. The linear accelerator will be used for positron emission tomography (PET). A project for a proton beam therapy (PBT) center in Russia is also in progress.

Taking a complex approach, Hitachi Moscow creates projects in the power sector (smart grids), social infrastructure (smart cities and water solutions), oil and gas, healthcare (PBT and PET), IT, automotive businesses, and other industries.

Hitachi Moscow has developed good relations with Russian national companies like Open Joint Stock Company Gazprom [oil and gas projects, including technical cooperation on mini liquefied natural gas (LNG) plants and equipment for pipelines], Federal Grid Company of Unified Energy System (FSK) and MRSK Holding (the national transmission and distribution companies), Skolkovo City and Moscow City administrations (smart city projects), regional governments, and federal ministries.

Cooperation with Gazprom

Russia's largest national gas company, Gazprom has an 18% share of the world's proven gas resources and operates approximately 161,000 km of gas pipelines. It has a special focus on the development of LNG plants. Gazprom's current share of world LNG production is 5%, and this figure continues to grow.

Technical cooperation between Hitachi and Gazprom includes the oil and gas industry and energy efficiency solutions. In November 2011, a delegation of 17 Gazprom people visited Japan for a regular meeting between Hitachi and Gazprom engineers. Gazprom is keen to cooperate on pipeline diagnostic and monitoring systems, mini LNG plants, gas turbines, and energy-efficient technologies.

Participation in Far East Development Program

In 2009, the Russian Government approved a social-economic strategy for the development of the Far East and Baikal territories until 2025. The Far East (about 36%) and Baikal region (about 9%) makes up about 45% of total Russian territory. Although the region is rich in natural and mineral resources, its low population density and under-developed infrastructure are a bottleneck to further growth. In the past, local people have left their native regions for the European part of Russia to find better working and living conditions. Nowadays, about 8% of the country's population lives in the Far East. To boost development in the Far East, the government has decided to provide extensive support through a number of projects. Through this strategy, government may spend up to \$US230 billion by 2025, including infrastructural and industrial projects by national companies like Gazprom.

Hitachi has a special focus on this region, and, in 2012, participated in the promotion of smart grid and energy efficiency solutions for the Asia-Pacific Economic Cooperation (APEC) summit.

TABLE 3. Examples of Major New Business in Russia

Hitachi Group companies in Russia are embarking on new business in a variety of fields.

Company	Major activities
Hitachi Industrial Equipment Systems Co., Ltd.	Commenced sales and deliveries of electric screw air compressors in 2011.
Hitachi-Omron Terminal Solutions, Corporation	Established business in card readers and a cash recycling automatic teller machine in 2011.
Hitachi Solutions, Ltd.	Appointed a person in Moscow to support its satellite imaging business in September 2011.
Hitachi, Ltd.	Together with a Russian partner, Hitachi, Ltd. supplies electric traction equipment for metro trains used by the Sofia Metro (Bulgaria).
Hitachi Plant Technologies, Ltd.	Markets centrifugal compressors to gas & oil and chemical companies. In March 2012, received an order for six compressors for Rosneft.
AccSys Technology, Inc.	A linear accelerator for the positron emission tomography (PET) center at the Bakoulev Center for Cardiovascular Surgery in Moscow is scheduled to commence operation during 2012.
Hitachi, Ltd.	Promoting a proton beam therapy (PBT) center project in Russia.

Cooperation with FSK

In April 2012, Hitachi signed a cooperation agreement with FSK (see Fig. 2). FSK operates 121,700 km of transmission lines and 856 substations with voltages ranging from 35 to 1,150 kV. The agreement involves Hitachi increasing its cooperation in smart grid technologies, energy management systems (EMSs), distribution management systems (DMSs), switchgear, amorphous transformers, high-temperature cables, high-voltage direct current (HVDC), static synchronous compensator (STATCOM), and other fields.

Hitachi Construction Machinery Excavator Factory in Tver

Hitachi Construction Machinery Co., Ltd. entered the Russian market in 1978 and established a representative office in Moscow in 1992. In April

2010, the company established a sales office (a legal entity). One year later, in April 2011, Hitachi Construction Machinery Eurasia Manufacturing LLC was established in the Tver region (150 km from Moscow on the way to Saint Petersburg) (see Fig. 3). Seven months later, in November 2011, Hitachi Construction Machinery began construction of its Russian factory, which will start production in 2013 with an annual capacity of 2,000 excavators.

Skolkovo and New Moscow Projects

Skolkovo is a new innovative city linked to Moscow that will be built on a greenfield site. The planned population is about 27,000 people and the area under development is 4,000,000 m². The budget allocated for the first phase is around \$US3 billion. The concept behind Skolkovo City is to create a scientific cluster, housing residents from foreign companies with a research and development focus. Hitachi is promoting a smart city solution, including



Fig. 2—Meeting with FSK in Japan.

Hitachi will support Federal Grid Company of Unified Energy System (FSK) on new projects, especially innovative smart grid technologies that increase the efficiency of the power grid and minimize power losses.



Fig. 3—Groundbreaking Ceremony in Tver, Russia.

By establishing a local factory, business in the Russian market will be strengthened.



Fig. 4—Map of New Moscow and Skolkovo. Moscow consists of Moscow City (managed by the city mayor) and Moscow Region (managed by a governor). New Moscow includes land from Moscow Region, which was added to the territory of Moscow City. The map shows how Skolkovo is located near the old Moscow border.

a smart grid, water infrastructure, and transportation solutions.

In 2011 the Russian government decided to expand the territory of metropolitan Moscow, drawing on experience from Skolkovo Smart City. Moscow in its current form is an overcrowded city of 11.6 million people that suffers from extreme traffic jams. Major companies and affluent residents prefer to have offices or apartments in the city center. To relocate residents and traffic away from the center, the government decided to increase the area of Moscow City and move some government offices and financial institutions to a suburban area called “New Moscow.” This will increase the area of Moscow City by 2.4 times and represents a new phase of extensive development for the city (see Fig. 4).

Brand Campaign

To increase awareness of the Hitachi brand, Hitachi undertakes brand campaigns in the Russian market. Advertisements that promote infrastructural, construction, and IT solutions are placed in the most popular business newspapers and magazines, on web sites, and in buildings.

CONCLUSIONS

This article has described the Russian economy and given an overview of the current business activities of Hitachi. A number of Hitachi companies have already established offices in Russia, and others are doing business through their local partners and distributors.

The stability of the Russian market is based on rich natural resources. At the same time, the government has undertaken a number of programs to support the modernization of the national economy. These programs are aimed at introducing innovative technologies in various fields, including energy efficiency solutions, improvements to healthcare, development of stable financial institutions, modernization of social and industrial infrastructure, and the creation of innovative centers for research and development like the Skolkovo City project.

Hitachi, Ltd. Moscow Office together with the International Strategy Division will continue their strong collaboration with Hitachi Group companies to provide a window into support for business development in Russia and CIS countries.

ABOUT THE AUTHOR



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Joined the Moscow Office of Hitachi, Ltd. in 2008 and now works as Head of Group Business Development. He is currently engaged in a number of infrastructure projects in the Russian Federation and in the development of new businesses for Hitachi.