



DT - Global Business Consulting

DIGITAL TRANSFORMATION IN RUSSIA: KEEPING COMPETITIVE

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EXECUTIVE SUMMARY

- ▶ **Digital transformation is a major priority for business in Russia.** Companies in Russia face a far-reaching digital transformation. Broader than just digitalisation, digital transformation is a customer-driven strategic business evolution that involves implementation of digital technologies but also organisational change. Three-quarters of the senior executives surveyed for this report said that digital transformation was either important or a top priority for their company in Russia, and 80% expect to increase investment in digital transformation in 2019.
- ▶ **Key technologies have gained widespread adoption.** Many of the key technologies involved in digital transformation are increasingly widely used by firms in Russia. For cloud computing, social media, mobile technologies/apps and document digitisation/workflow automation, around one-quarter to one-third of companies say that the technologies are extensively integrated into their core business operations, and in most others they are used to some extent. Big data/analytics is used by around two-thirds of firms; the Internet of Things (IoT) and software-defined everything are used by a little under half.
- ▶ **AI is on the agenda.** Take-up of artificial intelligence (AI)/machine-learning, advanced robotics and 3D printing has been more limited. Artificial intelligence (AI)/machine learning is not used at all by 71% of firms, advanced robotics by 87% and 3D printing by 91%. However, AI/machine learning is very much on the agenda of large Russian enterprises and is already used extensively by 6% of companies.
- ▶ **Companies in Russia are mostly still in the early stages of digital transformation.** Siloed digitalisation initiatives are still the norm, with over 60% of companies only at the stage of either 'considering' or 'planning' for digital transformation. Another 28% are 'engaging', with business results starting to appear. Only 10% consider that they are 'leading'. That means there is an excellent opportunity to be at the forefront of digital transformation in the country.
- ▶ **Digital revenue is generally low, but is growing quickly.** The early stage of digital transformation in Russia can also be seen by looking at the proportion of companies' revenue that comes from digitalised business lines. For the vast majority of firms (86%) this is below 20% of total revenue. Another 9% have revenue of between 20% and 39% from digitalised business lines. However, digital revenue is growing rapidly, far outstripping traditional formats.
- ▶ **Challenges include a lack of resources and knowledge.** Firms in Russia face a range of challenges in undertaking digital transformation. The leading two, each cited by around half of respondents, are insufficient allocation of resources, and lack of knowledge and understanding of what digital transformation involves. Large minorities of respondents also cite dealing with legacy systems (47%), the broader cultural shift required within the organisation (45%), and dealing with the internal side of digital transformation (42%).
- ▶ **The business environment is mixed.** The government in Russia is playing a key role in prioritising and driving digital transformation. Digital infrastructure is fairly favourable—72% of companies think it is adequate. However, the regulatory environment presents certain impediments to digital transformation: over half of survey respondents (52%) consider it to be problematic in important respects, and only 3% think it is good. Economic sanctions complicate digital transformation in certain respects.
- ▶ **Russia enjoys important advantages.** Notwithstanding the impact of sanctions, Russia enjoys a number of advantages for pursuing the digital transformation of the economy. In addition to reasonable digital infrastructure, the skills and knowledge base is good, and the country has its own large, competitive digital players. Moscow is leading the way on digitalisation, and the regions are catching up.
- ▶ **Focuses of companies digital transformation efforts are both internal and external.** The main focuses of companies' digital transformation efforts are both internal and external: to improve the customer/client experience (75% of survey respondents) and to improve internal productivity and efficiency (74%). A sizeable proportion of firms (45%) are also focusing their digital transformation efforts on developing new business models and revenue streams—market disruption is likely to increase as these efforts come to fruition.
- ▶ **Structures need to be more flexible.** Close to half of companies say that their digital business is fully incorporated into their traditional business in terms of systems, structures and people. Another 40% of companies say that their digital business is "half-in and half-out" of the traditional business, with overlaps but also some separation. Whatever structure is adopted, an important consideration is how to bring together people with digital skills with other areas of expertise. Moreover, structures now have to be more flexible in order to cope with faster planning and a greater speed of change.
- ▶ **Availability of digital talent is reasonable, but competition is fierce.** Availability of talent is critical for digital transformation initiatives, and technological change stands to substantially alter the skills that companies require. Russia has a decent talent pool, but most respondents, 61%, said it was "possible but tricky" to find people, while a sizeable minority, 20%, said it was extremely difficult—reflecting in part stiff competition.
- ▶ **Disruption is set to intensify.** Despite the importance attached to digital transformation, there is concern among executives over their companies' efforts. A majority, 59%, say that they are dissatisfied with their firm's progress on digital transformation, while only 3% are very satisfied. Companies need to work hard to keep up with rapid developments in a range of technologies and with the changing expectations of customers, clients and employees. As digital transformation continues, disruption is set to intensify.

ABOUT THE RESEARCH

Survey demographics

The survey was conducted in February-March 2019 and covered DT Global Business Consulting's membership in Russia. Respondents are at a senior level in both multinational and local companies operating in Russia—typically C-suite—and from a cross-section of industries. There were 118 respondents in total.

Interviews

In addition, in-depth interviews were conducted with:

- » Nikolay Kozak, Deputy General Director, Luolia Nikolaeva and Andrei Chechin, Online Business Leaders, Leroy Merlin Russia.
- » Guvenc Donmez, CEO, Domino's Russia.
- » Robert Farish, Vice President and Regional Managing Director, CIS, IDC.
- » Sergey Khalyapin, Manager Systems Engineers RU&CIS and Eastern Europe, Citrix.
- » Heiko Koop, CEO, Linxdatacenter.
- » Maria Kudryavtseva, Brand General Director Clinique, and Dimitri Khodovets, Corporate Marketing, Digital and E-commerce Director, Estée Lauder.
- » Andrei Kutukov, Managing Director, and Artur Gioev, Pre Sales Manager, Micro Focus Russia.
- » Johan Vanderplaetse, President Russia/CIS, Schneider Electric.
- » Sergei Voitishkin, Managing Partner, CIS, and Denis Khabarov, Partner, Intellectual Property and Technology, Baker McKenzie.
- » Anonymous, CEO Russia, consumer goods multinational.

1. INTRODUCTION: A KEY PRIORITY FOR BUSINESS

- Business in Russia faces a far-reaching digital transformation. A wave of digital innovation globally is creating new technologies that are increasingly relevant and affordable for business, and the expectations of customers, clients and employees are evolving rapidly as they are exposed to new technological applications.
- This should be seen as an opportunity for companies to leverage digital to add business value—and firms that fail to do so will increasingly struggle to compete.
- Farish, IDC: *"Digital transformation means that there are new competitive advantages in speed and in digital technologies, and new opportunities from applying them to different areas of business."*
- Kutukov, Micro Focus: *"You can't stay 'not digital' because you won't be able to compete. The question is not whether to digitalise or not, it's if you will exist tomorrow. More and more of our customers are doing it. They all have digital transformation on the agenda."*
- Digital transformation is very much under way for companies in Russia. Three-quarters of the senior executives surveyed for this report said that digital transformation was either important or a top priority for their companies. Only 7% are not actively pursuing it.
- Moreover, companies are stepping up their investment in this area. Some 80% of respondents expect their firms to increase investment in digital transformation in 2019, including 19% who think they will raise it a lot, and 34% who anticipate a moderate rise.



DEFINING DIGITAL TRANSFORMATION

There is still a lot of confusion about what digital transformation really means. Three terms—digitisation, digitalisation and digital transformation—are often used interchangeably, but actually have distinct meanings.

- **Digitisation** is about taking analogue information and encoding it so that computers can use it. It is about information, not processes.
- **Digitalisation** is about deploying digital technologies and information in business processes.
- **Digital transformation** is a broader idea of customer-driven strategic business transformation. It involves the implementation of digital technologies but also organisational change.

2. HOW FAR HAS DIGITAL TRANSFORMATION REACHED IN RUSSIA?

2.1 Take-up of key technologies has been extensive

- The far-reaching impact of digital transformation comes from the intersection of different technologies, which together enable not just the digitalisation of particular processes, but completely new business models—for instance the growth of online commerce. The key technological trends in Russia are likely to be the same as globally, although there will be differences by industry and in speed of uptake.
- We accordingly see ten key technologies for firms in Russia: social media, cloud computing, mobile technologies/apps, document digitisation/workflow automation, big data/analytics, the Internet of Things, software-defined everything, artificial intelligence/machine-learning, advanced robotics and 3D printing.
- Four of these technologies have a clear lead in their integration by companies in Russia: cloud computing, social media, mobile technologies/apps and document digitisation/workflow automation. For each of these technologies, around one-quarter to one-third of firms say that the technology is extensively integrated into their core business operations, and in most other companies they are already used to some extent. Only 10-12% of respondents (or 26% for cloud computing) say that their companies do not use these technologies at all.
- Cloud computing offers a flexible, scalable platform and faster processes. CEO, consumer goods multinational: *“Cloud storage is a massive transformation right now—we’ve had a global initiative to begin moving away from using hard drives.”*
- Mobile applications are an important aspect of digital transformation. They make products more accessible and improve the user and customer experience. Chechin, Leroy Merlin: *“A very exciting development is that we’re distributing 30,000 smart phones to employees, so that they can use mobile platforms as a tool to service customers, and have developed the necessary apps. And we are massively reducing the number of desktop computers, with the aim of encouraging our people to use the mobile platform for collaboration.”*
- Big data/analytics is lagging a little; it is used by around two-thirds of firms, including 18% that use it extensively. Digitalisation has created huge potential for companies

across a range of industries to exploit the availability of vast new amounts of data to create new business models and opportunities, but there is still a lot of work to be done in this area.

- CEO, logistics multinational: *“One thing we definitely need more of is data analysis. We’re still not fully exploiting the potential for data analysis to unlock business opportunities.”*
- Nikolaeva, Leroy Merlin: *“Customer data is a key challenge because we have nearly 1.5 million people visiting our stores daily plus nearly 1 million visitors online. Once you learn how to collect the data you can start (omni-)personalisation, through online interfaces, algorithms, automated communication with the customer, empowerment of sales people.”*
- The Internet of Things (IoT) and software-defined everything are used by a little under half of firms: 49% for the Internet of Things (including 18% extensively) and 43% for software-defined everything (including 10% extensively).
- Farish, IDC: *“The IoT opens up an enormous range of disruptive new applications in industry. For example, the smart-labelling of products in store, so that you can easily alter the prices. It’s a significant opportunity for suppliers of IT equipment—it’s seeing solid double-digit growth.”*
- Take-up of three other technologies is lagging considerably. Artificial intelligence (AI)/machine learning is not used at all by 71% of firms, advanced robotics by 87% and 3D printing by 91%.
- AI/machine learning is though definitely on the agenda, and is already used extensively by 6% of companies. Farish, IDC: *“The large Russian companies are starting to consider AI seriously. Many of them have pilot projects running. That’s likely to grow significantly.”*

2.2 Most companies are still in the early stages

- The majority of companies in Russia are still at an early stage of digital transformation. We can identify 5 stages of digital transformation for companies (adapted from IDC):
 - 1. Considering.** Some siloed digital transformation initiatives and pilots; considering formalising them into enterprise-wide projects with executive sponsorship.
 - 2. Planning.** Siloed digital transformation initiatives, accompanied by the development of a digital strategy with executive sponsorship.
 - 3. Engaging.** The firm has launched some corporate-wide digital transformation programmes, which are starting to deliver tangible business results.

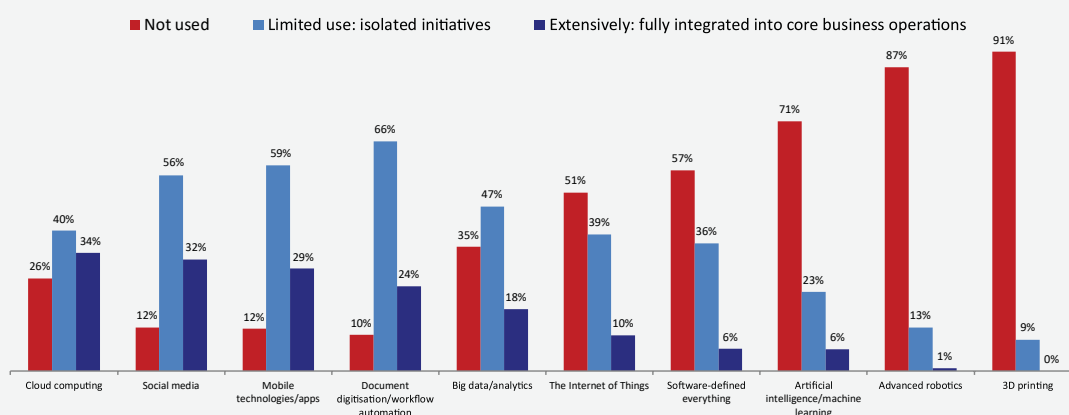


Figure 1. Take-up of key digital technologies in Russia
How extensively has your company deployed the following digital technologies in Russia, in your business processes, products and services?

|||| CASE STUDY: MICRO FOCUS

Andrei Kutukov, Managing Director at Micro Focus Russia, and Artur Goev, Pre Sales Manager, discuss the key technological changes involved in digital transformation.

"There are two main streams to digital transformation. The first, which is more external, is changing the way we provide and receive services. The services are still the same—people are still ordering taxis and watching movies—but the way we do it is completely different. For the consumer, it's easier and more convenient, and for the companies, it's a way of attracting additional customers to increase their margin and market share. Companies are looking to make customer interactions more profitable—to sell more services per customer and cut their cost. Banking and telecoms have all introduced digital platforms to cross-sell—for instance telecoms companies are implementing food- and taxi-ordering.

The second part is more internal. It's about how companies operate, and the automation of many processes within companies—making them more efficient, getting rid of basic and routine operations and switching people into more intellectual roles, and reducing costs. Ultimately, it's about becoming more profitable.

There are four major areas that companies must consider: 1/ app development 2/ information security, 3/ data analytics, 4/ hybrid infrastructure.

Digital transformation puts apps at the centre, it's either new software, or a modification of existing software. For big companies it's both, and you have to do it faster and faster, adding new functionalities and capabilities not just once a year or once a quarter, but once a month or even more often. If you slow down, you lose market share. The speed of change is everything. And the amount of data is growing. When you analyse it, you find things you couldn't even imagine at the start. That's an additional source of business value.

With things now moving so fast, most companies can't cope on their existing infrastructure; they're forced to use external infrastructure, such as Amazon in many countries. You end up with a combination of your own infrastructure and cloud—hybrid infrastructure. It's a different level of complexity when you have your own data centre and outside infrastructure."

The next wave of technological change

"There are two main streams of technological change for the next two-to-five years. First, the pure technology, for instance changes in app architecture. Micro-services architecture and the consequences bring us to containerisation, which seriously increases the speed of implementation and scalability. Then there's software-defined everything. You can automate all of your applications, but it's much more difficult to automate the hardware infrastructure, so that will continue.

Pure tech is pushing the limits for working with data. We still need to learn how to find value in the data. Five-to-ten years ago, no-one knew about data scientists; now you have special education programmes for them. You need machine-learning to help with that amount of data. But that means less transparent apps, so how to cope with this and make it secure and controlled? AI is a buzzword, but it's really a combination of big data technology and machine-learning to provide value for business.

Second, there's what's feasible now for business. Enterprise solutions like Customer-Relationship Management (CRM) systems, for example, more and more demand for social networking, messaging and other new features which were quite new five years back, but now you can see them everywhere. Things such as 'likes' on Facebook and bots helping in banking—virtual agents using machine-learning. Digital transformation is limited by people and money, that's all. And it's a never-ending story. You can't complete digital transformation—it will go on and on."

4. Leading. Portfolio of key digital transformation initiatives underway and delivering significant business results, following a well-defined strategy with close attention from combined business and IT leadership.

5. Disrupting. Wide portfolio of relevant digital transformation initiatives ongoing, disrupting and challenging the industry and delivering strong business results.

- Companies in Russia are predominantly in stages 1-3. Over 60% are still either 'considering' or 'planning' for digital transformation. Another 28% are 'engaging', with business results starting to appear. Only 10% consider that they are 'leading' and a mere 1% are 'disrupting'. That means there is an excellent opportunity to be at the forefront of digital transformation in the country.
- There are considerable variations in digital transformation by industry. Broadly, research suggests that banking and telecoms are very advanced; petrochemicals and retail are relatively advanced; metals and mining is catching up. Oil and gas companies vary.
- Kutukov, Micro Focus: *"Its very industry-dependent. For example, banking is very digitalised in Russia, partly because there's not so much legacy compared with banks in the West, so it's much easier to become digital. If you look at some other industries, maybe there's less digitalisation because there's less need for it—you can still produce steel and oil the old-fashioned way. But it's coming, because of market demand and competition."*

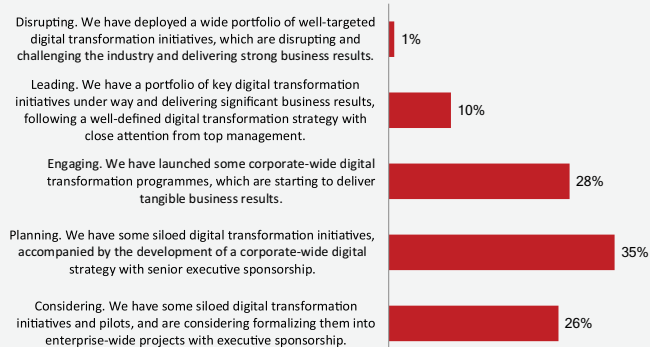
2.3 Revenue from digital business lines is growing fast

- The early stage of digital transformation in Russia can also be seen by looking at the proportion of companies' revenue that comes from digitalised business lines. For the vast majority of firms (86%) this is below 20% of total revenue. Another 9% have revenue of between 20% and 39% from digitalised business lines.

- However, revenue from digitalised business lines is growing rapidly, far outstripping traditional formats. To some extent, this is from cannibalisation of other channels, but companies also say that e-commerce is helping them to reach new customers.
- CEO, consumer goods multinational: *"We now have one-third of our sales on e-commerce, which is massive, and we only started that three years ago. We're well ahead of the game, because for Russia it's about 6-9% e-commerce overall, then 15-20% for our industry. It was a big focus for us, and it's paying off. We plan to double the e-commerce unit in the next 12 months. E-commerce sales are growing 25%, versus flat for traditional sales."*
- Donmez, Domino's Pizza: *"Our company's average sales grew 49% over the past six months, online sales, 74%. Close to 80% of the delivery business is online, from zero four years ago."*

Figure 2. Stages of digital transformation

What stage of digital transformation has your company reached in Russia?



|||| CASE STUDY: CITRIX

Sergey Khalyapin, Manager Systems Engineers RU&CIS and Eastern Europe at Citrix, discusses the different stages of digital transformation.

"Digital transformation involves moving from the old paper-based technology to a more flexible situation where the end-user can connect to the business tools they need. In terms of key technologies, it varies according to a company's maturity in digital transformation.

There is server virtualisation—it's not something new, almost all companies already use it. If you don't, you can't accept new technology and move further, because it's the foundation for the next generation of services. Companies in some sectors, particularly retail and banking, have started to implement mobility projects, developing applications for mobile devices to serve customers. AI and machine learning are used by companies that work with a lot of data, especially oil and gas and banks. And there are also virtual desktops for the digital workspace. The next breakthrough technology which customers expect is containerisation.

Companies often go step-by-step: desktop virtualisation, application virtualisation, then adding mobility and after that uniting all of this technology in one bubble, a digital workspace. So they try to rebuild their existing networks to be very flexible and allow them to make rapid changes.

For instance one large telecoms company started using our solutions over ten years ago. They have a lot of branches around Russia. And people working in, say, Vladivostok connected to the central server in Moscow. They had to wait a long time to get data from this server—the employee might go off and get a coffee. Then they would do some analysis with the data and finally return it to Moscow. And maybe they'd lose the connection and have to start over. So they began using Citrix and it became very fast and reliable. Then seven years or so ago they decided to relocate their call centre from Moscow to a regional city, because of huge differences in office rents and salaries, and used our software to create that opportunity. Then five years ago they

started a project to shift from normal desktop computers to thin clients (light computers without hard drives that work by connecting remotely to a server-based computing environment). They calculated the return on investment themselves and found that our solution was the most efficient.

Vendors try to create software that is very easy to use, so that people do not have any problem in transferring from the old way of working to the new one. Most vendors do this part very well. But for the back part, building the infrastructure, which involves many different technologies, there are not many engineers able to do that. That is why demand for cloud is growing so much—because the end-user can handle the interface, but for everything from maintenance to building and securing the infrastructure they have to rely on a service provider."

Maturity levels vary widely

"Companies are at different maturity levels in digital transformation. In automotive, in space technology, they are already very advanced because they exchange information with foreign counterparts. There is also very good progress in the banking sector, because they implement a lot of technologies to keep ahead of their rivals. Another advanced area is the oil and gas sector, because they have to use advanced technologies to get oil or gas from very difficult conditions in the far north and Siberia; they also use AI to assess where oil and gas can be found. Some companies in the retail sector are also quite advanced—they have to be digitalised, because they need to collect information very quickly from many different branches and warehouses. We see movement in healthcare, but not too fast, and not across the whole of Russia. Several hospitals, especially private ones, are spending a lot of money to transform medical records to electronic form

In the next two-to-five years, I expect that we will see more on microservices, containerisation and cloud, including local clouds. I also expect the government will continue to strengthen its position in terms of providing digital services to both citizens and companies."

3. THE ENVIRONMENT FOR DIGITAL TRANSFORMATION IN RUSSIA

3.1 Challenges include a lack of resources and knowledge

- Firms in Russia face a range of challenges in undertaking digital transformation. The leading two, each cited by around half of respondents to our survey, are insufficient allocation of resources, and lack of knowledge and understanding of what digital transformation involves. These are challenges that to a considerable extent start from the top of the organisation.
- Kutukov, Micro Focus: *"To undertake digital transformation, it's all about investment—money and people. That's why digital in China is booming, because they have a lot of both."*
- The next three most significant challenges are more related to the company as it begins digital transformation. Some 47% of respondents cite dealing with legacy systems as one of the biggest issues, 45% highlight the broader cultural shift that digital transformation requires within the organisation, and 42% mention dealing with the internal side of digital transformation (for example processes).
- Farish, IDC: *"The biggest challenge is cultural. Digital transformation implies a change in the way companies are run: values, traditional hierarchies and measures of success change. That's difficult to address. And the more established an organisation, the more difficult it is."*
- However, compared to other countries, the amount of legacy systems in place may actually be an advantage for Russia, because systems are generally younger and less embedded than in West European markets.

- Kutukov, Micro Focus: *"One example of the legacy issue is the way you can pay for parking in Moscow using an app. Ten years ago, there was no paid parking in Moscow at all, whereas in the West there were meters. In Moscow payable parking was introduced with the app – there was no heritage to deal with."*
- Farish, IDC: *"The biggest inhibitor to faster progress is the effort and structures put in previously. If things are very well organised, it's hard to adjust when there's a disruptive phase."*

3.2 Security is a top priority

- Digital transformation raises new security challenges that it is critical to address—particularly as information stored is increasingly private and financial data. However, most companies feel that they are dealing with this adequately.

Figure 3. Challenges of digital transformation

In which areas do you experience significant difficulties in relation to digital transformation in Russia? (Select all that apply)?



|||| CASE STUDY: DOMINO'S

Guvenc Donmez, CEO of Domino's in Russia, discusses the company's digital transformation in Russia, particularly their development of an e-commerce business.

"Digital transformation is four spaces. The first one is the digitalisation of the sales channel, basically making the transactions of your products and services through online platforms. That's the easiest one. The second one is the internal processes, mostly the back-end: document approval systems, internal communications, budgeting system, etc. This is the second easiest thing to digitalise. Then there is the core processes, your cycle of production of the product or service until the moment that it reaches the customer. That is very difficult to digitalise—but when it is done, it's a huge competitive advantage. The fourth area is supply chain digitalisation and automation, which could be included in core processes, but is really a large area in itself.

When we started our digital transformation journey for Domino's Pizza in Russia, we started with digitalisation of sales. We launched our apps, website, but we treated that as an e-commerce company.

The second thing we did was basically the core process. This is very important in terms of having a competitive advantage versus a traditional business. If you think about a regular café, the point-of-sales system is just to take the order. You track what you prepared, what you sold, and probably internal ingredients for stock management. We don't only take the order into the system. We include the pizza preparation time, so then you can check the performance of the pizza maker and incentivize them accordingly. Also when the pizza goes out of the door and the time for delivery. We really use the system to run our operations and incentivise our people.

Thanks to digitalising the core process, we became the only company in Russia to deliver pizza in under 30 minutes and guarantee the delivery. Our success rate is more than 85% and we give free pizza for the next order in case we fail to serve. Our average delivery time became 24 minutes, which is a huge competitive advantage—none of our competitors are close to this. And that all happened due to fully integrating technology into our core process. The important thing is the restaurant director being able to see where they are being late with the orders, so that they can immediately do real-time allocation of resources, getting more drivers from the neighbouring stores, etc. This makes us very competitive. We also reflect that to the customers. You can go to the application, order a pizza, and see when it is in the oven, whether it left the restaurant."

Launching an e-commerce company

"The digitalisation of sales is a separate sphere, because that's about launching an e-commerce company. Many companies, when they want to do e-commerce, hire someone from a digital background. For them, all digital is the same. In reality, digital is a huge world. We modelled our sales off the most successful e-commerce fashion companies, and hired a consultant who worked there to help us. And I grandfathered this approach—the hires, the processes, the budgets. Even if the people came at a young age with high salaries. We launched a company within a company.

Probably the biggest challenge was lack of know-how. I knew where to start, but not how to start. I treated everything with a beginner's mindset and educated myself. The second thing was the team, hiring the right people. We kept on hiring and firing digital marketers, because they were not the right people. We finally understood who we needed after probably three hires: we had to find a performance marketer. Our first guy was brilliant, and he made a huge turnaround in the whole business.

The second challenge was IT infrastructure. When we started from scratch, we had an IT team, but it was very limited. We were growing sales fast with the performance marketing, but our infrastructure was always crumbling. The challenge was how to invest ahead of the curve. If you really want to work like an e-commerce company, you need to spend like an e-commerce company. So we had the vision of what we wanted to do, but very low sales, so we didn't have any money to do it.

How can you make that transition? We hired the most critical people, starting with performance marketing managers, and the IT people for IT product development, but we outsourced everything else. As soon as sales started to grow, we invested more, and we moved towards this ideal structure.

We relied on a lot of external knowhow and outsourcing companies to help us with architecture, software development, testing. This meant we were able to deliver the products. But it made us very dependent on outsource companies, and when we grew our business dramatically, we started having scalability problems. So we took the critical investment decision to in-house the most strategic aspects of e-commerce, such as writing the code for websites and our proprietary mid-ware systems that link consumer-facing web products with our core internal operating system. Together with the move to cloud, the project took almost a year, but now we are on much faster and much more scalable platform, way ahead of the fast food sector.

We allocate a constant 15% of our budget for tests, experiments, because what is efficient today will not be efficient tomorrow—it will change very fast. We spend money on what drives our traffic and conversion. Once we figure it out, we constantly optimise it, based on data analytics. We are getting more efficient with traffic creation with the main channels, but we also experiment on new channels, tools, or techniques of advertising and targeting. When we find something that works, we just triple it, or even put 10 times the budget into it.

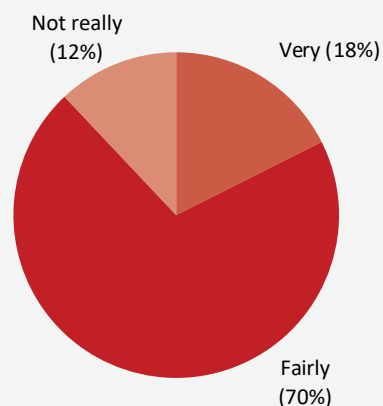
We're always acting with a startup mentality. We always thought that with e-commerce: as you try, you see. If it doesn't work, you change. We were quite agile in decision-making on this side of the business. Starting from zero and going full digital, we turned around our course in Russia. Digital became more than 50% of our sales in 2018. Our total system sales grew 12 times in 4 years and we went public on the London Stock Exchange, merging with Turkish Master Franchise. Our e-commerce capabilities and growth played a huge role in this transformation."

Some 70% of respondents are fairly comfortable with the security of their digital solutions, and another 18% are very comfortable.

- Donmez, Domino's Pizza: "Initially we weren't really paying attention to security. You learn, because we had a DDoS [distributed denial of service] attack in the high season. That's the simplest attack to defend, but we weren't ready. After that, we put in protection, and now it's a different story."
- Koop, Linxdatacenter: "For Russian companies, just as globally, security is a top priority. It becomes very easy with cloud products. When companies had their own equipment and and software, security was on them: they had to test it, build firewalls, etc. Now they can get it all in a package."
- Chechin, Leroy Merlin: "For security, we benefit from being a global corporation, with global standards of security. There's also Russian-specific legislation, for local storage of consumers' personal data, fraud monitoring of card payments. So we have a strong IT team working on security and IT infrastructure, applying both global and local solutions."

Figure 4. Cyber-security

Are you comfortable with the security of data within your digital solutions?



|||| CASE STUDY: BAKER MCKENZIE

Sergei Voitishkin, Managing Partner, CIS, and Denis Khabarov, Partner, Intellectual Property and Technology, at Baker McKenzie discuss the impact that new technologies are having on their firm and on the legal profession.

"Our profession is expected to undergo a very serious transformation. We anticipate that AI and machine learning will deliver new tools and new software that will have many things that we currently spend a lot of time on run more efficiently and much faster. Due diligence, review of large volumes of data, analysis of precedents—technology will become a key part of all these processes, minimizing human involvement. Most likely we won't need as many junior people working on basic tasks.

We are drifting towards becoming more of a services organisation, where clients need not just legal advice or analysis of information, but rather help in mapping and assessing risks, providing cross-client, cross-practice and cross-jurisdiction experience and solutions. In some areas we will become much faster, because we won't have to spend that much time on mechanical tasks. That's already the case in some areas, for example we already use software based on AI that helps drafting and analysing contractual clauses. Another example is complicated trademark search tools that we use on a day-to-day basis.

Still, this is just the beginning. For a few years already we have been looking at whether we could do more digital transformation internally and looked at various developments in IT. But at this stage the consensus is that the existing solutions are still a few years away from something massive that will change us radically. The really advanced things are not yet available, and we came to the conclusion that it would be a waste of resources to try to come up with something internally.

So we are looking at developers and start-ups in various parts of the world, to see who comes first with the solutions that we could really benefit from. We changed to SAP a few years back, and we are continuing to implement various software solutions to become more globally integrated and more advanced in the use of certain technologies for internal purposes, like billing clients, tracking internal KPIs. So all of that is happening, and on a large scale—we realise that we cannot afford to be late in adopting all the modern technologies.

We consistently try to look a few steps ahead of the average state of the market, and we have been investing a lot of time and effort into these programmes. If you take the Russian legal business in general and compare it to large multinationals, it still appears to be lagging behind.

Obviously the younger generation, people we take from college, are very much at ease with all the new technologies, and the right thing would be to use them to drive forward the advanced aspects. Although some of our older people are also very good in the use of new technologies—it depends not so much on age but on willingness to adapt and change. We do have a global team of people who are on the edge of a lot of these processes and are very active in driving innovation—we have a lot of very promising initiatives."

Selecting relevant technologies

"Realistically, any company these days is becoming a tech company. We set up a special team working on new technologies as their full-time job, the innovation committee. We also co-operate with research institutions. We have several hubs, in Europe and Canada, where we sit down with clients and start-ups and try to find out how to best meet clients' needs through innovation, and based on that we decide what our offering will be. What we see is that a lot of start-ups are creating new tools and then trying to sell them. We help them understand if there is a market for their products.

In Russia, we see companies that are looking into high-tech solutions, and some are attracted by the fancy ideas, but they don't realise that a lot of these technologies are not necessarily applicable for them. For example, the government is discussing moving state registers for intellectual property rights to blockchain—but it seems ineffective to use distributed ledger technology for a state register. It's necessary to filter technologies to understand if it's something that you actually need for your business.

In terms of current trends, we are seeing a lot of companies trying to do AI, such as machine-learning, for analysing documents and so on. A second thing is document information systems, where you don't draft something from scratch, you just insert some parameters and have the document created by the software. And the third direction is data visualisation.

Two-to-four years out our guess would be that things will not change very radically for our sector; four-to-six years is when things will start happening probably a lot faster. The market will change significantly, and we will need to offer a lot of new things in addition to the purely legal offering.

We see already that clients want less our past experience, because that's now less relevant; they want us to tell them about the future and anticipate future risks. In a Russian context, as a global firm we can share what's happening in the US, or Europe, so we can draw on that experience. That's an important part of digital transformation for us."

3.3 The business environment is mixed

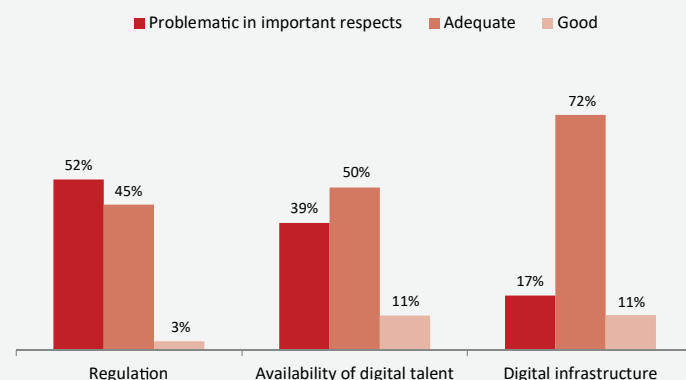
- The government in Russia is playing a key role in prioritising and driving digital transformation. It sees this as a way to promote the modernisation of the economy and move away from excessive reliance on oil and gas. The federal government's Digital Economy Programme unveiled in 2017 has an expected annual budget of US\$1.8 billion to 2025.
- Farish, IDC: "It's clear that the government has tasked the key players in the economy with digital transformation, to be ready for the challenges of the next ten years. You feel it primarily from the large companies—the big resource companies, telecoms firms, large state banks. They're driving it, rather than necessarily market forces."
- Voitishkin, BakerMcKenzie: "The government is keen to promote its Digital Economy programme. It seems well thought-through as a concept, but the implementation in Russia typically lags behind. In theory the programme is country-wide, but in practice Moscow and a few other major cities is where you see change; they tend to proceed more on a project-by-project basis"
- Digital transformation of the state apparatus makes life easier for companies in many ways, for example in paying taxes and clearing customs. E-government has developed rapidly, especially in Moscow.
- Koop, Linxdatacenter: "E-government is developing very quickly, with more advanced services than in countries like Germany or the UK. In Russia, for example, if you see a hole in

the road, you take a picture, send it to an app, and you get a swift reply."

- CEO, consumer goods multinational: "Digitalisation has facilitated a lot of things. For example, customs declarations. It took us six months to get that set up – putting all the SKUs [stock-keeping units] into the system and so on. But now we can do the declarations at the touch of a button."

Figure 5. The business environment

How well does the business environment in Russia support your digital transformation?



- Helped in part by this strategic imperative from the state, the situation with regards to digital infrastructure is fairly favourable. A large majority of companies, 72%, think it is adequate, another 11% consider it to be good, and only 17% think it is problematic.
- A World Bank study in 2018 found that Russia enjoys a competitive telecommunications market, high rates of mobile penetration, and affordable broadband.
- The government's strategy is to try to replicate the level of automation achieved in Moscow nationwide—although the investment earmarked is less per-capita than was the case in Moscow, which will pose a challenge.
- However, the regulatory environment in Russia presents certain impediments to digital transformation: over half of survey respondents (52%) consider it to be problematic in important respects, while 45% view it as adequate and only 3% think it is good.
- As is the case globally, one issue is that regulation is playing catch-up to technological developments.
- CEO, consumer goods multinational: *"Although there's a clear legal structure for 'bricks and mortar' sales, it's less clear for e-commerce. So to an extent we're using the old rules for the new business. Things like anti-monopoly laws haven't been fully updated to reflect e-commerce dynamics yet. So there are big unknowns coming down the line."*
- One important regulatory development was Russia's data privacy law, passed in 2006. Legislation in 2015 then required personal data on Russian citizens to be stored in-country. This has already prompted cases against major Western tech platforms. Roskomnadzor, the Federal Service for Supervision of Communications, Information Technology and Mass Media, blocked LinkedIn in 2016 over its non-compliance with the regulation and more recently has brought cases against Facebook and Twitter.
- Companies that operate in the EU and Russia will need to be compliant with both European and Russian legislation.
- Koop, Linxdatacenter: *"Russia was quite advanced and clear with its personal data-protection laws and requirements. They're very similar to the EU's GDPR, but that took longer and it's difficult to understand. Everyone understands the Russian one. All countries want personal data to be kept in-country."*
- Khabarov, BakerMcKenzie: *"The personal data localisation requirement—that if you collect the personal data of Russian citizens, irrespective of where they are based, you must store the data in data centres in Russia—is a significant burden. There is no commercial rationale for the major tech companies to have data centres in Russia just to store information on Russian citizens, so it's not very business-friendly."*
- There are also other localisation requirements. For example, if the end-user is the state, or a state-owned enterprise in critical infrastructure, the rule on paper—now being implemented—is that they will only purchase software if the source-code is owned (at least a controlling stake) in Russia.
- Khalyapin, Citrix: *"We use Western cryptography to protect the channel between the endpoint and the data centre. But in Russia it is mandatory in some areas to use local cryptography. We worked together with Russian companies to build a joint solution. I have seen a lot of projects where rather than replace the Western technology completely, they combine technologies."*

3.4 Economic sanctions complicate digital transformation

- Economic sanctions on Russia are clearly an important consideration for companies in relation to digital transformation. They complicate the process in a number of respects. One is that they make Russian companies that are on sanctions lists reluctant to implement projects that rely on Western technologies.
- Khalyapin, Citrix: *"We have also seen cases where customers could not go ahead with digital transformation projects due to sanctions. Some customers at the moment are not moving to cloud solutions, because they are worried that if they're sanctioned they would lose the connection to these services. These customers expect to have similar services from Russian service providers, and then they will return to this topic again."*
- Voitishkin, BakerMcKenzie: *"Sanctions are important, because digital transformation is a very global process, and if you try to make it local, you get into practical difficulties like getting hardware, getting some elements of software that's developed elsewhere. If any part of that is suddenly sanctioned, whoever is implementing it in Russia has to come up with a replacement. Which means either developing it locally, which may be difficult for economic reasons or just ineffective because of scale."*
- Combined with Russia's localisation requirements (themselves partly a response to the risks posed by sanctions), sanctions have meant that large US tech companies like Google and Amazon, which are leading providers of digital services in many countries, have been cautious about expanding their operations in Russia. There is an emphasis on developing local solutions—although this has limitations and drawbacks.
- Farish, IDC: *"You won't see Amazon or Google opening a data centre in Russia for the foreseeable future. You could foresee a situation where you couldn't use it any more. So business wouldn't base their operations on it."*
- Kutukov, Micro Focus: *"There's big investment in internal analogies. Yandex offers an even broader set of services than Google, for instance taxi ordering. It will be both international and local solutions."*
- Vanderplaetse, Schneider Electric: *"One of the biggest challenges on the Russian market is the geopolitical situation. For example, in many countries communication over the cloud is provided by the likes of Google, Amazon and Microsoft. In Russia, you have to store data in the country. Either you have a proprietary centre owned by the customer, or you have to look at different providers. So it's a different structure to roll out the technology. We see the same challenge in China. I'm afraid that the days of one worldwide system, developed in Silicon Valley and commercialised globally, are probably gone. But this in its turn creates an opportunity for a company that can address this regional challenge through a technical multi-zone strategy."*
- More broadly, sanctions arguably hamper digital transformation for the Russian economy as a whole by weakening competition.
- Farish, IDC: *"The big challenge for Russia is the external pressure of competition. There's too little in too many industries, without that it's hard to see how that development will come. Sanctions put off foreign competition and cut off funding for start-ups."*

IIII CASE STUDY: SCHNEIDER ELECTRIC

Johan Vanderplaetse, President Russia/CIS of Schneider Electric, discusses the key trends in digital transformation in the industrial sector.

"Digitalisation has been talked about for some years now. It maybe wasn't called digitalisation, but it's been all about connecting the eco-system in the factory either to an IT system or to the cloud, to bring value for the end-users. That discussion has been there for 7-8 years. But today it's no longer marketing noise, it's really there.

When you talk about a digital architecture in an industrial facility, you basically have to work on connecting three different levels. For instance in a factory, a new generation of connected devices that are measuring vibration, flow, level, temperature etc. Those devices are collecting all kinds of data on what is going on at the site. This data is then transmitted to the second layer, the edge control system, like DCSs [distributed control systems] or controllers. Then you have a third layer on top of that, software applications and tools that are analysing the data and extract the really relevant parts. Here, Artificial Intelligence (AI) is going to play a more and more important role, since the quantity of data is so huge that you need intelligent algorithms to make sense out of it. So if you are able to connect those levels, you unlock a lot of possibilities: enhancing efficiency, operational expenditure, maintenance control, and so on.

Another example of the impact of digital transformation is, for instance, when you build a plant, you can now do the construction and the optimisation of production processes in virtual reality. You can create a "digital twin", which is a simulation of the asset throughout its entire life cycle: from design, to construction, operation, maintenance, extensions. You can start by virtually building and operating your plant, and see what design is the most efficient before you actually start the capex phase. This means you save millions in construction cost, and allows construction progress to be months ahead compared to doing things in the old style.

People say 'digitalise or die'. Digitalisation is extremely transformative for the end-users—those companies that do not introduce it today will lose market share, both domestically and on export markets. If you don't deliver these products, you'll be a dinosaur. We all heard many times about Kodak when they missed the digital age.

On the Russian market, as is normal everywhere, there are early adopters and laggards. Our own resources are limited, so we need to spend the time and effort on customers who believe in the technology—otherwise you just hit a brick wall for a long time. You focus on those customers first, then roll things out more widely.

It can only really succeed if there is a buy-in from the top of the company. For instance, with one major Russian petrochemicals company, it started with the CEO, who perfectly understood the importance to digitalize the operations of his company, and he collected an innovative group of vice-presidents below him, working to create a digital business. Their internal organisation connects quickly with the value proposition you can offer."

The internal aspects

"But the whole machine must be able to follow. The challenge internally is to retrain staff away from legacy systems, and from an operational mindset to IT/convergence thinking. The traditional sales people of our own company were used to mainly selling products, and they can perfectly explain the technical features of the offering. But it has been a challenge to retrain them so they can pitch not just the capex side of the story, but the opex side as well. It's the same challenge for our customers. Engineers are often very conservative. The technology is used in critical infrastructure where safety is very important. There's a notable reluctance among engineers to take on new software where systems have worked well for many years. Where people are working on traditional systems, the mindset is hardest to change. The good thing in Russia is that it's very practical. Two years ago it was still possible to present a high-level vision, now it's all about quantifying it with real examples, showing pre- and post-digitalisation spending on electricity, heating, and so on.

We're also striving to digitalise our own workflow and processes. Once we do that, we can offer a better service. It's not just having a modern customer site, it's about interacting with clients. Today for example clients can track orders on their iPhones or iPads and see where they are in the logistics chain.

We're a global company, so every business unit invests vast amounts in R&D. That's necessary in order to keep ahead of the curve. Then in my team, the strategy department does a lot of looking into megatrends, but also country trends. How to combine the regulatory framework with technological specifics. We look at what we want to localise, and at strategic partnerships with key players. And you can't have enough internal communication—we have to make sure we have the buy-in of staff. We try to crisply explain the direction we're going.

Industry 4.0 has started with the early adopters, but the whole of the industrial sector is now seeing what's going on. The tipping point has passed, and the pace of digital transformation will now increase exponentially."

3.5 Russia enjoys important advantages

- Notwithstanding the impact of sanctions, Russia enjoys a number of advantages for pursuing the digital transformation of the economy. The skills and knowledge base is good. The country has its own large, competitive digital players, but these are not as dominant as, for instance, Amazon has become in e-commerce in the US.
- Vanderplaetse, Schneider Electric: *"We're very impressed with the quality of the engineers in Russia. And they have a creative attitude to finding solutions. There are some great success stories, such as Yandex. Moscow is one of the leading capitals for connectivity, with amazing progress in projects like car sharing, smart city deployment and e-government."*
- Kutukov, Micro Focus: *"Russia is very developed and competitive in digital transformation. Its large digital players are present and competing even outside the CIS."*
- Donmez, Domino's Pizza: *"Russia has its own Internet landscape. It has a dedicated search engine, Yandex, which has two-thirds market-share, more than Google. It has a social network, VKontakte, which is bigger in Russia than Facebook. So when you do digital marketing and e-commerce in Russia, you adapt for these players. You have to make sure that your website is optimised not only for Google but also Yandex."*
- As a result, Russia ranked 41st globally in the World Economic Forum's latest Networked Readiness Index, in 2016, making it

the highest-ranked BRIC economy, ahead of most emerging markets and a number of EU member states including Italy.

- There is considerable variation in digital transformation by region. Moscow is leading the way, helped by considerable public and private investment, sophisticated consumers and the presence of many corporate headquarters. St Petersburg, the tier of cities with over 1 million population and independently resource-rich cities are also seeing considerable investment in digital.
- Less prosperous cities and regions are lagging considerably. However, there are still patches of development that offer opportunities, and the regions are catching up—a BCG study in 2016 found that the digital gap between Moscow and the regions had narrowed considerably over the previous five years.
- CEO, consumer goods multinational: *"E-commerce sales are maybe 70-75% in Moscow and St Petersburg. Because distribution is easier. In the regions, you can deliver, but it's pricier and takes more time; also the consumer is generally less evolved. But there's high penetration even in the regions for digital technologies—the economy needs to catch up."*
- Koop, Linxdatacenter: *"A lot of big companies like MTS and Megafon are outsourcing to the regions. It costs less and at the same time, enables them to contribute to the development of the technology they need."*

4. MANAGING DIGITAL TRANSFORMATION

4.1 Focuses of digital transformation initiatives are both internal and external

- The main focuses of companies' digital transformation efforts are both internal and external: to improve the customer/client experience (75% of survey respondents) and to improve internal productivity and efficiency (74%).
- Kudryavtseva, Estée Lauder: *"The business model remains the same but we focus more on consumer facing activities online and offline. And the communication flow with the final customer is so fast that it is now impossible to execute it just from the global office in New York. Currently, local accounts in social media are much more engaging compared with global accounts, since consumers want brands that are closer to them in terms of local relevance."*
- CEO, consumer goods multinational: *"On the internal side, the future is about production—robots in factories, for example—and there are big opportunities in internal communication—using video, webinars, virtual meetings, which is a much better way to work. We manage our teams differently. That filters through sales. Then cloud storage."*
- CEO, logistics multinational: *"A few years ago we were still relying on legacy systems developed 30 years ago. Now we have much more flexible foundation systems that allow us to react quickly to developments."*
- Just below half of respondents mentioned a focus on better decision-making, for instance through the use of data analytics. A proliferation of data combined with increasingly advanced analytical software allows executives to better understand their business and their consumers, gain early warning of changes and mitigate risks.
- A sizeable proportion of firms (45% of respondents) are also focusing their digital transformation efforts on developing new business models and revenue streams—which suggests that market disruption is likely to increase as these efforts come to fruition.
- CEO, logistics multinational: *"It's completely changed the discussions we have with customers. We can go a client and say 'did you know that half of the hits on your website are coming from the US?'; and tell them from where, and how much we charge to ship to those locations. So a lot of what we do has become that kind of consulting service—it's no longer a traditional sales business."*

4.2 Structures need to be more flexible

- An important question for CEOs is how to structure their digital business in relation to their main/traditional business. There are various approaches, each with pluses and minuses.
- Close to half (49%) of companies say that their digital business is fully incorporated into their traditional business in terms of systems, structures and people. Another 40% of companies say that their digital business is "half-in and half-out" of the traditional business, with overlaps but also some separation.
- Leroy Merlin, for example, created a matrix structure to help meet changing customer needs. As the Deputy CEO Nikolai Kozak explains: *"Consumption needs and technological trends are changing much faster, and our offer must become more tailored to customer needs that evolve rapidly. Previously*

Figure 6. Focuses of digital transformation

What are the main focuses of your digital transformation efforts in Russia at present?
(Select all that apply)



marketing was designing the customer journey centrally. That doesn't work anymore. You need different teams looking into specific parts of the customer journey with transversal products, including people from different departments and with new KPIs measuring customer satisfaction."

- Just 11% of respondents say that their digital business is entirely separate. However, executives are keeping an open mind: 46% of respondents say that it is an option for the future for their company.
- The advantage of having a separate digital business is that it allows digital to develop in more of a start-up environment. The disadvantage is that it may hinder the spread of digital through the rest of the business.
- CEO, logistics multinational: *"I would question the way some companies split off their digital business from their traditional one. If you have a legacy sales team and a digital sales team, it implies one of those will eventually die. Digital should be integrated into everything you do."*
- Whatever structure is adopted, an important consideration is how to bring together people with digital skills with other areas of expertise.
- Farish, IDC: *"A key issue is how IT executives should work with executives from other parts of the business on the customisation of new digital services. In the past, IT was a very particular function, with a specialised culture and language. In the digital era, you need very close collaboration between business and IT."*
- Donmez, Domino's Pizza: *"Many companies focus on digital marketing but struggle to have an integrated marketing strategy. Also the people and the skillset for growing the brand are very different from the people and the skillset to do digital. The digital people tend to be more technical, extremely analytical; the offline are more external and customer-oriented. These two cultures sometimes have difficulty speaking with each other. How do you deal with that integration? I make them report to the same person and sit next to each other."*

|||| CASE STUDY: LINXDATACENTER

Heiko Koop, CEO of Linxdatacenter, explains how his company is supporting Cloud adoption in Russia.

"For Linxdatacenter, digital transformation focused first internally on online applications for approval of holidays and business travel, invoicing, customer registration management, reporting, etc. Of course, we have also transformed the way we deal externally with our customers and the market. Our clients can communicate with us via Telegram, Whatsapp, and customer portals.

We're in the "engaged" or "leading" stage of digital transformation; pretty well advanced on existing systems. Now we need to keep up with developments, which are rapid, like the adoption of Microsoft 365. With our ambitious, young team, we're really using the new applications. For example, how we communicate with data centre customers: before, they had to fill in a lot of paperwork; now they complete a short form on an iPad.

We understand the trends very well: the market is asking for web-enabled solutions. Hardware and software solutions are expensive, insecure and difficult to maintain. So there is no stopping adoption of cloud-enabled applications in the markets where we operate.

Cloud apps make life so much easier and friendlier. Cloud adoption is actually happening; you see it all around. Not just among providers like Linxdatacenter, but in the industries we support, like finance—payment applications, etc. Finance used to be quite a conservative line of business for IT—they wanted to have everything in-house, to control the hardware. That's no longer possible. It's just too complicated and expensive to make sense. In Russia they are definitely on the highway to cloud adoption.

More generally, for the Russian enterprise market, it's clear that Amazon, Google and Microsoft are leading. Russian companies like MTS, Rostelecom and Yandex are investing heavily in Russian cloud infrastructure. International players are not expected to enter the Russian market because of geo-political tension and strict requirements for transparency. The international cloud providers are making large investments in the Nordics and watching for opportunities to tap into the Russian hunger for cloud services. Russian clouds look like an interesting alternative; it's not clear how the competition will develop.

For us, digital transformation is currently about better productivity, and attracting and retaining talent. Talented people expect to be challenged at the office and to live life on-screen. In the future, the customer/client experience will be more important.

We like to work closely with techno partners like VMware, Lenovo, Red Hat, AWS and Cisco. Cisco is our supplier and partner in our LinxCloud platforms. Cisco Russia has been recognised for the best sales performance over the past three years. They don't fulfil needs, they create needs. They don't talk about "routers" and "equipment" any more. It's all about connectivity and business solutions. These shifts will become game-changers for digital.

In terms of challenges, one issue is the road-map to cloud adoption and how to make it visible. Everyone talks about cloud, but what does it involve? [See Figure 7] There's still a data centre. You do the same things that you do with hardware. What has changed? You really need to bring solutions aligned with the requirements of companies, and to help those companies understand the opportunities. Because companies don't always know what the market makes available to them. And cloud adoption on their legacy systems is a very difficult task. The historical data and existing processes make modernisation hard to do. Therefore, a good cloud readiness assessment of existing processes and data and a clear cloud migration plan are the keys to their digital transformation."

Keeping up with rapid changes

"Traditionally everyone had their business plans, 2020 goals, and so on. In a digital market, who knows what will happen two years from now? Look at the speed of adoption of the iPhone, iWatch, etc. Companies like Cisco will develop products using machine learning and artificial intelligence. It will be hard to keep up. Our challenge is to keep our organisation ready for that. We have to be on our toes, a bit ahead of the curve.

How to do that? Partnerships are very important. At the end of January we were in Barcelona with our core technical development team at Cisco Live. Cisco invited 15,000 people, introduced products, and offered training and development. We came back with a clear understanding of where things are going. Now it's just plug-and-play to connect from Russia to the global clouds. We use a software-defined network (SDN) portal branded as Linx Direct Cloud Connect to establish connectivity to AWS, Azure, Google Cloud, etc. to adapt various solutions. In our data centre industry, certain players focus on the colocation of large IT infrastructure. Others, like Linxdatacenter, combine data centre services with a roadmap for cloud adoption for enterprise customers.

Cloud adoption is far more than a procurement function: it is a journey where we share our knowledge with our clients to make an inventory of the current structure, then migrate and adopt new applications to lower costs and meet customers' needs."

Figure 7. Aspects of Cloud services
Source: Gartner.

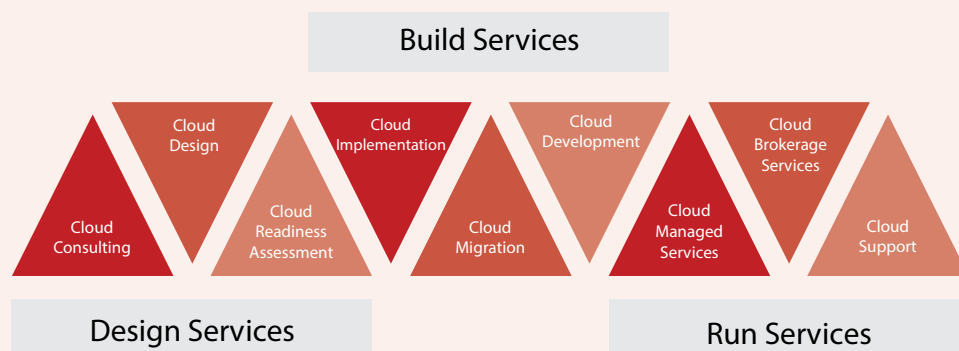
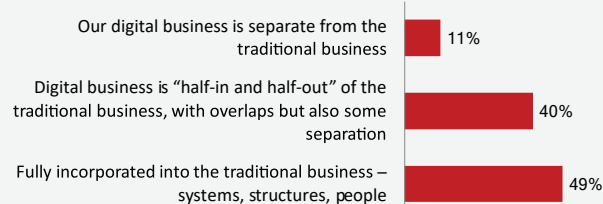


Figure 8. Structuring a digital business

How do you structure your digital business?



- Moreover, structures now have to be more flexible in order to cope with faster planning and a greater speed of change.
- CEO, consumer goods multinational: "Planning now happens at light-speed. We used to plan product and promotional activity over the space of a year, from conception through testing to implementation. Now sometimes the time-frame is just two weeks. And the e-commerce players expect you to figure out in a day if something is working or not. So you need internal flexibility. We put an organisational structure in a few years ago, and we revisit it every six months."

|||| CASE STUDY: LEROY MERLIN

Nikolay Kozak, Deputy General Director, and Iulolia Nikolaeva and Andrei Chechin, Online Business Leaders at Leroy Merlin Russia discuss the transitions that digital transformation entailed for the company's organisation and operations.

"There are three dimensions to digital transformation. First, the behaviour of customers is very much driven by the opportunities created by digital channels, the internet and social media. Second, it changes the way your business processes are conducted internally. Third, to be successful, you need digital tools to facilitate interaction between customers and employees that allows the customer's needs to be met. When you think about home improvement, customers are already digitalised and behave in an omni-channel way. Consumers jump between channels but still need face-to-face meetings in stores. For example they might get ideas for their home when visiting stores, or a friend's apartment, and abruptly jump into a digital channel to search, compare or buy.

We're in a transition, changing our business model from a self-service store to a platform company selling projects and solutions. The former was for many years in the DNA of Leroy Merlin—in the 1920s, there was nothing about providing consultancy on materials or products. We started as a self-service everyday low-price retailer in Russia, brought many new good quality products at affordable prices to the Russian consumer, and enjoyed years of strong growth—for example last year we grew by 20% year on year. But we're transitioning to an omni-channel and digital orientation inside our stores. Previously because of high traffic and sales, stock replenishment was the main activity of employees. We've been moving to a more customer-oriented approach, with new digital tools to service customers in-store or without even visiting a physical store.

We have 30,000 employees in Russia across around 100 stores, and they need new digital skills. Our collaborators should be empowered with digital tools. We plan to identify, meet and service customers' needs before their visit to our store and to move from product to project sales. For that we need to understand a customer's previous interactions on a project, and sell not only from-shelf but from an extended offering (virtual shelf). We're launching a marketplace platform in Leroy Merlin that will include hundreds of thousands of SKUs that aren't available in-store."

Creating a matrix organisation

"The launch of product teams in the organisation moves us from a operational hierarchy into a matrix & product teams. For example we have teams to look after the critical customer-journey parts or business processes. When we create a product team, we move it out of the operational routine and focus on creating new customer journeys or internal processes – i.e. analytical CRM. That's a massive transition that began this year, and obviously it's a major pressure because traditional business units still have to meet their targets while sending some of their direct reports to the new product teams. It creates a huge opportunity for faster time-to-market of new solutions that wouldn't be possible in hierarchical structures as they tend to protect territories and are resist to change. And we also need to update the customer journey monthly or even faster if we want to keep the satisfaction level of our customers higher than competition. It requires a big focus from the senior

management team to facilitate the transition, but what helps is that it's done with a clear goal in terms of customer needs.

A key consideration is how the role of the physical store will evolve. In the digital world we'll still live in physical houses and apartments and sleep in physical beds. So customers will still need physical experience, face-to-face conversations, to touch and feel the products. And stores may continue to bring showroom value to customers. One of the key findings from a learning expedition we did last year to China is that physical stores create great proximity to the clients. And if you can deliver quickly from store, your physical network creates your competitive advantage when you compete in digital channels.

Employees are becoming younger, and we need to make connections between different age teams. We've launched an internal social network for both business and non-business matters. We stimulate participation of employees to work with local community social networking. Instead of managing only one national group, we encouraged store teams to launch local social media groups where they talk to local communities, get feedback and do promotions. That helps us stay local, while also facilitating those employees' natural inclination for social media.

We identified 4 years ago the need for hiring new people and profiles because of digitalisation. That led into injecting digital requirements into the profiles of different roles. So recruitment has already, for several years, been selecting people with digital skills. We also inject external expertise to educate employees with e-commerce and digital skills. We collaborate with different start-up communities, organise hackathons in partnership with FMCG and Tech companies, etc. We encourage start-ups and ventures to present projects and products to Leroy Merlin, and participate in initiatives led by Moscow City or regional governments for hi-tech development. And we set up an internal innovation team to explain innovation and promote engagements with start-ups.

In terms of disruptive trends, in DIY and home improvement, the first disruptive is that consumers would like more variety of choice, price comparison and services solutions in one pack or separately. That means individualisation. At the same time, in Russia, they won't have significantly more money to pay for it.

The second trend is that customers are internationally omni-channel—they travel the whole world through the Internet or visit stores to find products. So we need to expand our offer and cater to their behaviour in terms of our capabilities at each stage of the customer journey. We're now competing not only with local retailers, but national and international marketplaces or online platforms.

Third, we won't increase the number of collaborators in-store, so we need to give them lots of help and assistance—increase their autonomy with education, connectivity, integrity, customer-focus and entrepreneurship. We don't want our employees selling at the highest margin to any customer from the store shelf, but we want to facilitate higher customer satisfaction from an omni-channel experience and to ensure the next purchase is with Leroy Merlin."

- Kudryatseva, Estée Lauder: *"Consumer trends are changing at a very fast pace; so we try to shorten the production cycle—R&D, logistics—to be able to catch the trends. It's not quite the ideal world where we can launch a product in couple of weeks. And on the organisational level we try to be much more flexible, to have more agility from different departments to work together on various projects."*
- Digital transformation also requires flexibility in the company's structure between global and local initiatives. Global companies benefit from economies of scale in developing digital solutions, but sometimes these are not adapted to local needs and take too long to develop.
- CEO, consumer goods multinational: *"There's a balance to be struck with global initiatives. Sometimes things happen faster locally. So with CRM for example, we just did it—if we waited, we'd have lost out. We have these global 'centres of*

excellence', but the stuff they develop, you can't push out to the e-commerce players locally—the content's wrong, and then you lose the consumer immediately and perhaps forever."

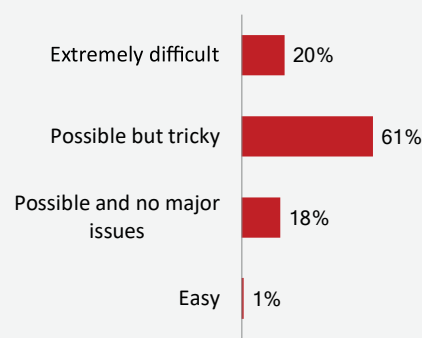
- Khodovets, Estée Lauder: *"The communication with the final consumer should be locally relevant, and this means that it must be locally driven. So we see the transition of the responsibility for execution from the global regional level to the affiliate level. Nowadays, most social media activities are prepared and executed on the local level, with the involvement of the regional and the global teams on the high-level KPIs and the strategy level. This was not something that was the case before."*

4.3 Competition for digital talent is fierce

- Availability of talent is critical for digital transformation initiatives, and technological change stands to substantially alter the skills that companies require. Some 39% of companies find availability of digital talent in Russia to be problematic in important respects, while half think it is adequate (see figure 5). This partly reflects competition—overall Russia has a decent digital talent pool in an international comparison.
- Koop, Linxdatacenter: *"If you look at the IT sector and the universities, systems and talent, they're very highly skilled, even more than in Western Europe. The people are absolutely there. They're very talented, young and ambitious."*
- Kutukov, Micro Focus: *"Millennials are a big generation in Russia. They benefit from a high quality of fundamental education and can cope well with the new technologies and paradigm shift."*
- Running a digital business requires drawing on a mix of internal and external talent—the former know and understand your business, the latter will bring fresh ideas and expertise. Some 83% of survey respondents said they used existing talent, and 74% said they needed to find new people.
- Kutukov, Micro Focus: *"Companies won't need fewer people, they'll just use them differently. Skills will be different. The intellectual part will grow. Staff will be more upscale. Also there will be substitution in terms of staff, with relatively more IT people. Before in banking it was maybe 5-6%, now it's often 10%."*
- In either case, finding the right people is a challenge. Most respondents, 61%, said it was "possible but tricky" to find people, while a sizeable minority, 20%, said it was extremely difficult.
- CEO, consumer goods multinational: *"Although everyone understands digital and e-commerce at a certain level, they don't necessarily have the ability to put it into practice. Finding good people is difficult. We do get people from the outside, but we've accepted it's only going to be a short-term relationship. We count it as a win if someone stays for two years – you extract what you need and they move on."*
- It may well be worth looking beyond Moscow. As Heiko Koop of Linxdatacenter explains: *"We've found strong talent and software development companies in regions like Rostov and Perm. They prefer to stay where they are rather than move to Moscow, where life is very expensive. There are also good people in the universities in the regions. We have launched the Linx Trainee initiative—people start working with us while they're still in university."*
- One particular challenge that most companies will face in attracting digital talent is that such people may instinctively be more inclined to work for tech firms and digital start-ups than for companies in more traditional sectors.
- Donmez, Domino's Pizza: *"We didn't have the reputation to attract the right people, because we are a pizza company. We basically rebranded our company as a technology company that delivers pizza. We had to invest a lot and do smart campaigns in order to attract the right people."*
- There are also challenges around how to integrate digital talent, who may have very different values and expectations of working practices from a company's traditional employees.
- Farish, IDC: *"The new generation are hard to fit into a very structured environment. There's an overlap with the US debate on how to manage millennials. There's a challenge in terms of how you integrate, for example, software developers."*

Figure 9. Finding digital talent

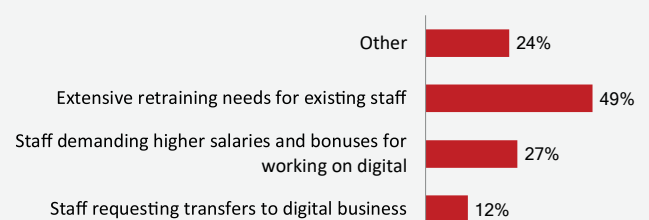
What is your experience of finding the right staff to run the digital business?



- Voitishkin, BakerMcKenzie: *"We find that young lawyers typically have good digital skills. But they're not generally fixated on a particular career, and in order to retain them we have to offer something different, make their life fun, create an environment where they would want to stay. For example, connectivity, providing them with the technology that they can work from home or wherever they are. Still, we've lost a few very talented young people who decided to go into IT or to a start-up. But this is a generational issue and a challenge in many offices globally."*
- A leading challenge, cited by almost of half of respondents, is that digital transformation demands extensive retraining of existing staff. There is a need to ensure that HR understand what is required in the digital world and adapt their practices accordingly.
- Donmez, Domino's Pizza: *"Selecting the right person requires a technical understanding of the business. Your people may not fully be able to assess the external digital talent to bring in. We made some mistakes."*
- Kutukov, Micro Focus: *"Companies require new skills from employees. It's about how to educate existing resources and how HR understands what's needed—there's also a question of educating HR."*
- Another significant issue, mentioned by over a quarter of respondents, is that staff expect higher salaries and bonuses for working on digital.
- Donmez, Domino's Pizza: *"Digital talent is available in Russia, but there is very big demand for such people. So there is huge salary inflation going on."*

Figure 10. Other HR-related challenges

Are you encountering any other HR-related issues with digital transformation? (Select all that apply)

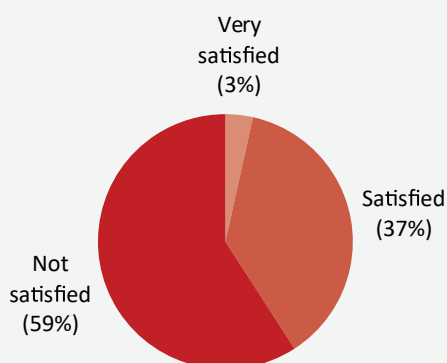


5. CONCLUSION: INTENSIFYING DISRUPTION

- Despite the importance attached to digital transformation, there is concern among executives over their companies' efforts in this area. A majority, 59%, say that they are dissatisfied with their company's progress on digital transformation, while only 3% are very satisfied.
- This probably partly reflects the fact that many companies are still in the early stages of digital transformation. The mood is better among companies that have fully embraced the changes and managed to get ahead of the curve. For example, Andrey Chechin of Leroy Merlin notes that: *"I'm satisfied with our progress. Moving so fast is sometimes painful, but we have a very good, open environment."*
- Nevertheless, the complexity and wide-ranging nature of the changes involved in digital transformation pose major challenges for companies.
- Companies need to work hard to keep up with rapid developments in a range of technologies and with the changing expectations of customers, clients and employees. As digital transformation continues, disruption is set to intensify.
- Farish, IDC: *"Sectors like transportation, retail, wholesale and financial services will be extremely disrupted. Also manufacturing, it's beginning to roll out there. Agriculture will be a huge area—the aim there is to minimise wastage."*
- CEO, consumer goods multinational: *"The big digital marketplaces are coming to Russia—that will be a major change. Alibaba with Tmall, and Yandex launching беру.ru with Sberbank. How do you compete? You lose your distribution channels, and it's a big issue how to build a brand and stand out on these new channels."*
- Khodovets, Estée Lauder: *"The e-commerce market in Russia is not very consolidated, but there are new investments from big players, and it will be a different story in a couple of years. We try to identify those who will be the leaders of tomorrow."*

Figure 11. Views of progress on digital transformation

How satisfied are you with your company's progress on digital transformation?



Corporate Fact Sheet

Company Overview—

Micro Focus helps organizations run and transform their business. Driven by customer-centric innovation, our software provides the critical tools they need to build, operate, secure, and analyze the enterprise. By design, these tools bridge the gap between existing and emerging technologies—enabling faster innovation, with less risk, in the race to digital transformation.

Our Focus—



Enterprise DevOps

Build and deliver better software faster



Hybrid IT Management

Operate with agility



Security, Risk & Governance

Secure what matters most



Predictive Analytics

Analyze in time to act

Differentiation—

By delivering a holistic set of solutions that can be integrated together, and with existing systems, Micro Focus has differentiated itself by better matching the current and future enterprise IT reality—all in a market largely dominated by point solutions that are often incompatible, and only address a specific portion of the collective IT needs. By offering customers and partners a broad portfolio, deep analytics, and the proven ability to protect valuable IT assets, we give them the confidence to transform their business on their terms.

Quick Stats—

- One of world's ten largest pure-play enterprise software companies
- US\$4B in annual revenue
- 300+ business-critical software products
- 40,000 total customers
- 98 of the Fortune 100 companies as customers
- 14,000 employees in 43 countries worldwide
- 4,800 software engineers
- 4,000 partners worldwide
- One of the largest tech companies on the FTSE
- One of the largest foreign tech companies on the NYSE
- Established in 1976

Stock:

LON: MCRO
NYSE: MFGP

Website:

www.microfocus.com

Press Contact:

media.relations@microfocus.com

Representative Customers—



Vertical Expertise—

With a global footprint and a customer base of 40,000, Micro Focus has an established track record in virtually all key industries. Below are representative verticals in which we are trusted by the world's largest and most complex organizations:

Aerospace & Defense



Investment Services



Electric Utilities



Medical Equipment



Pharma



Oil & Gas



Telecom



Railroads



* Source Forbes 2000, 2018

Leadership Team—

Chief Executive Officer:
Stephen Murdoch

Chief Operating Officer:
Paul Rodgers

Chief Financial Officer:
Brian McArthur-Muscroft

Chief Revenue Officer:
Jon Hunter

Chief Marketing Officer:
John Delk

Chief Product Officer:
Tom Goguen

Chief Technology Officer:
Jerome Labat

Chief HR Officer:
Ian Fraser

Global Headquarters—

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The Lawn 22-30 Old Bath Road
Newbury, Berkshire

Americas
1140 Enterprise Way
Sunnyvale, CA 94089



Micro Focus has 122 offices in 43 countries worldwide.

Join Micro Focus on LinkedIn  and follow @MicroFocus on Twitter 



The background of the entire page is a photograph of several hot air balloons floating in a sky with soft, golden light, suggesting sunrise or sunset. The balloons have various patterns and colors, including stripes, checks, and solid colors. The Baker McKenzie logo is in the top left corner.

Baker McKenzie.

LEGAL ADVICE

Above Your Expectations

For the eighth consecutive year, Acritas has named our Firm the world's strongest law firm brand, ranking us No. 1 globally in awareness, favorability, and consideration for cross-border deals and litigation.

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Japan
Kazakhstan
Korea
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Fax: +7 812 325 6013
st.petersburg@bakermckenzie.com

www.bakermckenzie.com

What We Do

Citrix powers a better way to work by delivering the experience, security, and choice that people and organizations need to unlock innovation, engage customers, and be productive —anytime, anywhere.



Our digital workspaces combine the apps and files needed to get work done, with access control and endpoint management that offer the contextual, secure, unified experience organizations need to do their best work. Our Networking and Analytics solutions simplify how IT can control cloud and on premise delivery of apps and content anywhere, on any device and any network.

Executive Summary

Citrix delivers people-centric solutions for a better way to work.

We offer unified workspace, networking, and analytics technology that help organizations innovate, engage customers, and support a more productive workforce, without sacrificing security.

With Citrix, users get a seamless work experience and IT has a unified platform to secure, manage, and monitor diverse technologies in complex cloud environments.

Citrix solutions are in use by more than 400,000 organizations including 99 percent of the Fortune 100 and 98 percent of the Fortune 500.

Elevator Pitch

Citrix delivers the technology that allows people to securely work anytime, anywhere and simplifies how IT manages their environment.

Key Messages

Access to a preferred way to work

We give today's workers digital workspaces that ensure simple and secure access to the apps and data they need to be productive. By empowering workers with flexibility and personalized tools, we help your organization provide a competitive advantage that boosts productivity, engagement, and creativity.

A better way to manage digital transformation

We help you manage your hybrid technology infrastructure giving legacy apps and infrastructure new life while you gain the confidence to adopt new innovations as you need them. By unifying the management and security of diverse technologies in a single place, Citrix puts you back in control of the proliferation of devices, networks, clouds, and services.

A people-centric security approach

We deliver a comprehensive, people-centric approach to security that combines contextual access, app and network security, and advanced behavior analytics for centralized visibility and monitoring across hybrid and multi-cloud environments. With our workspace, analytics, and networking solution, you maintain control and improve experience.

Fast Facts

—\$2.82 billion in annual revenue in 2017

—Customers include 99% of the Global Fortune 100 and 98% of the Fortune Global 500

—Consecutive leadership earned in Gartner Magic Quadrants:

—Enterprise File Sync and Share, 2013-2016, renamed Content Collaboration Platforms, 2017 – 2018

—A leader in Forrester Wave™ for:

—Enterprise File Sync and Share Platforms Cloud Solutions, Q4 2017

—Enterprise File Sync and Share Platforms Hybrid Solutions, Q4 2017

—A leader in IDC MarketScape for:

—Enterprise Mobility Management (EMM), August 2018

—Unified Endpoint Management (UEM), August 2018

—A Top Player in Radicati Group Market Quadrant for:

—Unified Endpoint Management Solutions by (March 2018)

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Our Unique Value

Our solutions **empower people** to work in ways that are best for them.

We give IT the **flexibility to choose** any cloud, device, or technology that fits the business and ensure it works, maximizing existing investments and seamlessly integrating new innovations.

We are **secure throughout**, using machine-learning and intelligent analytics for a security model that adjusts access based on contextual factors, like location and user behavior.

We ensure **app reliability** so you can count on the best experience and resource availability any time, on any connected device.

We offer network and IT **visibility** that allows you to control and optimize performance, pre-empt threats and simplify management.

We are trusted by customers across **every industry**—including the most highly regulated—to protect data and stay ahead of compliance and privacy requirements.

We have an **extensive global ecosystem** of strategic partners that offer combined solutions to accelerate cloud, mobility, networking, and security strategies.

Value Proposition For Business

- Build a digital strategy that fits where you are today and accelerates opportunities to execute new business models, envision new products and services, and enter new markets.
- Stay ahead of the next threat and protect trust in your company with a security approach that optimizes visibility and control while ensuring compliance and governance.
- Maximize efficiency and value by adopting technology innovations and IT services that align with the needs of line-of-business (LOB) stakeholders.
- Attract, develop, and retain top talent by empowering employees with flexible workstyles and secure digital workspaces that foster a culture of creativity, collaboration, and innovation—all while increasing productivity, engagement, and satisfaction.
- Provide highly personalized customer experiences that build loyalty and ensure better service delivery with real-time access to information and insights.

Citrix Solutions

Workspace

The Citrix Digital Workspace solutions offer a secure, unified, contextual experience for SaaS, mobile, and virtual apps while increasing IT visibility and simplifying management. Citrix Workspace creates a personalized and secure platform for employees to be productive on their terms—on any application, any device, any cloud.

Networking

Citrix Networking solutions deliver secure and reliable access to all apps and data in hybrid and multi-cloud environments so you can count on the best experience and resource availability anytime, on any connected device. With Citrix, you have full visibility of and insights on your IT environment to optimize performance, preempt threats, and secure your end-user files, apps, and devices.

Analytics

Citrix Analytics provide visibility into performance, operations, and security, detecting and reacting to threats in real time based on changes in user behavior, device trust, and network conditions. Citrix Analytics solutions automate aggregation of data across the Citrix portfolio and performs intelligent analysis using machine learning to correlate information across network traffic, users, files, and endpoints in Citrix environments.

Value Proposition For IT

- Reduce IT complexity while ensuring performance and reliability. By centralizing management and monitoring of all apps and data across disparate systems, platforms, and devices, you improve visibility and control.
- Provide the intuitive experience employees need to be productive by unifying apps and data in secure digital workspaces that enable people to work on any device, anywhere.
- Proactively address security priorities and reduce risk, without limiting productivity, through context-aware access control and visibility across your entire infrastructure.
- Gain the flexibility to build or buy the services you need to confidently scale, so you're able to spend less time reacting and more time thinking ahead.
- Transform your IT organization into a strategic partner, ensuring your infrastructure is ready for the next market-changing innovation so you can quickly deliver value to the business.

CLOUD SOLUTIONS AND COLOCATION

in Moscow, Saint Petersburg and Warsaw

SOLUTIONS PORTFOLIO

IaaS	Private server infrastructure HyperFlex	Public & hybrid clouds	Secure cloud
Private access to global clouds	Backup as a service (BaaS)	Network infrastructure as a service (NaaS)	Software licensing as a service (SLaaS)
Colocation	Disaster recovery as a service (DRaaS)	Customer's DC management	Remote hands

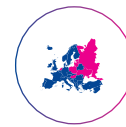
WHY LINXDATACENTER?



18 years' experience
on the IT market



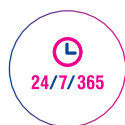
100% uptime



More than 200 customers
across the world



Tailor-made innovative
IT solutions



Round-the-clock technical
support in English



Expertise in personal
data protection

OUR CERTIFICATES





Domino's Pizza®

based in USA in

1960 year.....



99%

of ingredients

are produced in

Russia



16 000 restaurants
in 90 countries



annually

>500 million pizzas

34 million

options
for cooking
pizzas

> 1 000 000

deliver pizzas per day



30 minutes

delivery

INFORMATION

Address: Moscow, Vasilisi Kozhinoi st, 1

Number of employees: over 2000

Sales (2018): 4913,7 mln rub

More than **180 stores** in Russia

ABOUT DOMINO'S PIZZA

Domino's Pizza is a recognized world leader in pizza production and delivery. The company was founded in 1960 by the Monaghan brothers. The head office is located in Ann Arbor (Michigan). Domino's has more than 16 thousand pizzerias in 90 countries of the world and annually prepares more than 500 million pizzas. One of the main factors for the success of the company is pizza delivery within 30 minutes. There are more than 180 restaurants opened in Russia.

HISTORY

○ **1960**

Tom Monaghan and his brother, James, purchase "DomiNick's", a pizza store in Ypsilanti, Michigan in the USA. Monaghan borrowed \$900 to buy the store.

○ **1983**

Domino's Pizza opens its 1,000 store.

○ **1990**

Domino's Pizza signs up its 1,000th franchise.

○ **1998**

Domino's opens its first shop in Russia.

○ **2012**

DP Eurasia N.V. is awarded the exclusive master franchise of the Domino's system for Russia.

○ **2016**

DP Eurasia launches its first franchised store in Russia and is awarded its first Gold Franny in respect of its Russian Operations in the same year.

○ **2017**

DP Eurasia opens its 600th store and 100th store in Russia.

○ **2018**

179 stores opened

www.dominospizza.ru

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