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Q&A: Baltika Boss Isaac Sheps Likes to Be Challenged

By Oleg Sukhov

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Sheps warns businessmen not to be naive when they come to Russia. **Vladimir Filonov**

Isaac Sheps, CEO of Russia's largest brewer Baltika, says that his job is "selling fun."

The fun materializes when a waiter brings several pints of an amber-colored liquid.

"I never go to places that don't have our beer," he says, speaking in a calm, leisurely way and laughing occasionally.

Since there should be moderation even in fun, Baltika is seeking to encourage responsible drinking, Sheps said.

"This is a strategic interest of our industry that people use our product responsibly," he said. "If you use it excessively, it's not good for you. We want you to enjoy the evening, not kill it."

Sheps, 64, said he had come to Russia because it's a huge challenge.

"I like challenges," he said. "Baltika in Russia accounts for 40 percent of Carlsberg Group. There's no other company this size in our group."

Sheps has had to steer the company through a difficult period. When he took the helm, Baltika was not growing.

Isaac Sheps

Education
1986 — Technion — Israel Institute of Technology, bachelor's degree in industrial engineering and management
1986 — Tel Aviv University, a degree in management sciences and organizational behavior
1995 — Tel Aviv University, MBA
2005 — The Academy of Economic Studies, Bucharest, Ph.D in economics

Work experience
2011-present — CEO of Baltika
2008-2011 — CEO of Carlsberg U.K.
2007-2008 — CEO of Carlsberg South Europe
2006-2007 — CEO of Carlsberg Serbia
2004-2006 — Chairman of the board of directors of Carlsberg Bulgaria, Carlsberg Serbia and Carlsberg Croatia
1998-2004 — CEO of United Romanian Breweries

Favorite books: "The Girl with the Red Scarf" (1978) by Chinghiz Aitmatov; "Thinking, Fast and Slow" (2011) by Daniel Kahneman

Reading now: "Execution — The Discipline of Getting Things Done" (2002) by Larry Bossidy and Ram Charan

Movie pick: Scent of a Woman (1992), directed by Martin Brest

Favorite St. Petersburg restaurant: the Ginza Project chain

Weekend getaway destination: Lausanne, Switzerland

The company's fortunes were also hit by the government's recent massive crackdown

on alcohol sales — the largest since the Soviet prohibition campaign in the 1980s. The anti-alcohol legislation, gradually introduced in 2011-13, includes a ban on beer sales in kiosks, alcoholic beverage advertising and all alcohol sales at night.

Born in the Socialist Republic of Romania, where the government controlled the entire economy, Sheps came to espouse a laissez-faire philosophy.

"Government should not do business. Government should govern," he said, commenting on state alcohol monopolies in Canada and Sweden. "Businesses should do business."

He said no other country has followed the Canadian and Swedish models because "it doesn't make sense."

But businesses have to adapt to local conditions, Sheps said. He has worked as a top executive at Carlsberg, Baltika's parent company, in Britain and various markets of Southeastern Europe.

"The basic idea of good management is to understand that the market around you is a given and you have to adapt yourself to that environment," he said. "You cannot change the market, you have to change yourself."

The beer industry is not the only field in which Sheps has been involved. Prior to becoming CEO of United Romanian Breweries in 1998, he worked in the electronic and electro-optic industries.

He also has a penchant for research.

"I have studied all my life," said Sheps, who has a Ph.D. in economics and is a known expert in quality management.

He is an avid reader. At the end of each year Sheps compiles a list of the books he has read for his employees.

He also has a blog in which he tells his staff what he is doing every week.

Despite being a pragmatic executive, Sheps displays a romantic bent when he talks about his favorite movie, the Scent of a Woman.

"You should see it together with your girlfriend or wife," he said.

Sheps said the movie's main theme is that "it's very tough always to do the right thing."

This interview has been edited for length and clarity.

Q: You have a unique experience of having worked in various European markets and Britain. What is the difference between the business cultures of those countries?

A: The business cultures are different not only in terms of the general macroeconomic environment, but also in terms of the specific business environment for our industry.

For example, the U.K. is one of the oldest beer countries. It has a very developed industry. Half of the beer that people drink there is drunk in a pub. In Russia, only 9 percent of the beer is drunk outside of the home. This of course gives you a very big difference in the way the market is built.

The same applies to outlet structure. In the U.K. total beer that is sold in off-trade, meaning for consumption off the premises via retail chains, is about 80 percent. In Russia it's still 28-29 percent because the tradition of small shops is the most common.

On the other hand, Southeast European countries are much smaller. They are less developed economically and suffering from a recession. They still have a long way to develop as stable economies.

The Russian market is more developed than Southeast Europe but it's less advanced than the U.K. in many aspects. The U.K. is a very small country, compared to Russia. The stability of the Russian economy is much higher than the U.K. This is still a growing economy, while the U.K. has been going down for three years now.

Q: What's your strategy of dealing with the government's crackdown on alcohol sales?

A: I'm also the chairman of the Russian Beer Union. We have only talked about facts — professional facts. They are based on research and international knowledge. I will say very honestly and openly and maybe too bluntly: What we're doing is not lobbying for an industry's interests. We are lobbying to put logic in the restrictions, to base them on international experience. Everybody in the world believes — and I assume the Russian people would agree — that low-alcoholic drinks are better than high-alcoholic drinks. And that's why you should have a much higher tax relatively on spirits — in Russia it's mainly vodka. That's what happens all over the world. In Russia, the tax is actually the same.

And we believe that if people drink more low-alcohol drinks responsibly, it will be much better than high-alcohol spirits. The law is not encouraging this move but discouraging it. We don't think it's good for the country.

Concerning the ban on beer sales at kiosks — this will increase the consumption of vodka. If you cannot buy a drink on your block when you suddenly want a beer with your dinner, you're going to stock it at home. It's easier to buy two bottles of vodka and keep them at home than to buy a whole case of beer and carry it a long way. Then, if you consider the taxation, it's not really making vodka much more expensive. You end up encouraging the wrong things.

Q: How did the anti-alcohol legislation affect your business?

A: As far as the advertising ban is concerned, we don't really know. This is something long-term. Russia is not the first country to ban advertising of all alcoholic drinks, including beer. So we know what it is.

Research has been done in Europe about this ban that came into effect many years ago. It was found that, when you restrict advertising, you are not changing the habit of consumption.

Advertising really impacts the choice between different brands, and not total consumption.

About the ban on kiosk sales, we see now a temporary disruption. Businesses will find some other type of outlets because you still have to shop and the consumers get used to it.

If you look at the total economy, all kiosks have closed and a portion of pavilions have closed. In total, we estimate that 40 to 50 percent of non-permanent outlets have closed down already. Is it good for the Russian economy? More than 100,000 people lost their jobs in one day on January 1. We don't really understand the logic behind it.

Q: Do you see the government's role in the economy, including the energy industry, increasing?

A: You have more and more privatization. If you look at the Russian economy, privatization is increasing, and this is the right way to go. Yes, you can say that energy is strategic for this country, and people are very concerned about it. If half of your GDP is in the hands of the energy industry, you will be very careful what to do about it.

Q: What is the biggest challenge you have faced in Russia?

A: When I came, we had a very successful company. It was doing very good business but not growing. It became a concern: It was a small decline, but we are very careful about every trend. And the main story was how to make sure that it doesn't continue. We succeeded. In 2012, we reversed the trend and started to grow back. We are a growing company in all aspects now.

We did this by focusing very clearly on what we want to do and rebuilding the confidence that we can do it. Because whenever such a big company feels not as 100 percent good as before, you lose some confidence and this is the most dangerous part. We, the leadership, built back the confidence. And our people — about 10,000 employees, the best in Russia — follow and focus on what to do.

Q: When you were the CEO of Carlsberg U.K., you turned the company around to a point where it tripled its profit and grew its market share from 13 percent to more than 15 percent when the British beer market was in decline. How did you achieve this?

A:. When I arrived, the U.K. company was almost in the red and nearly losing money instead of making money. The U.K. is a huge Carlsberg market. There, the main thing we succeeded in doing was understanding that things can be done differently, to find out our strengths and to look at our people's behavior and attitudes. In some parts of the company, people had an attitude of "this is what it is, nothing to do about it," and we had to convince them that we can do things differently.

For example, one of the areas where we were quite weak is on-trade, meaning the sale of alcoholic drinks for consumption on the premises. This is very big in the U.K. We put in a very big effort, changed some management, and this is one of the strengths of the company in the U.K. today; we are the most appreciated on-trade supplier. This is very much about

the culture of focusing on what can be done and not on why something cannot be done.

Q: What is your advice for potential investors in Russia?

A: They should ignore the perception created in a lot of publications about Russia. Russia is not so bad; it's not a country to fear. You can do business here, it's a nice country. Nice people, very talented, professional and educated. This is a good country to work in. And yes, sometimes we don't like some legislation and some decisions that are made. Russian democracy is not perfect, but it is still a democracy. As of the end of last year, we had invested $12 billion. And then we added another billion to buy out our minority shareholders. We wouldn't have brought all this money to Russia if we didn't think there is a future.

I don't speak Russian — it's a barrier. But I have a translator. It's tougher, but I don't give up at any meeting. You have to overcome barriers and not to look for easy things to do.

Q: What is your experience with corruption in Russia?

A: There is one thing you're not allowed to be when you work here. You cannot be naïve. Yes, we have 10,000 employees. Some of them could be doing some kind of wrong deals with distributors or suppliers. Unfortunately, the 100 percent morality that exists in Western countries doesn't exist here in Russia. Here, some businesses are doing things not in the proper way in which we do them in Copenhagen or Britain or other countries. But I really don't think it's a big issue for us.

Q: What are the primary upsides of doing business in Russia?

A: One is a growing market. The other thing is that you have a huge pool of very skilled people in all professions. There is one thing they should improve: It's knowledge of foreign languages. Younger people are much better. You have a global company like ours, and we have some brewery directors who don't speak English. And they are professionals, and we would love to send them to manage a brewery in Europe, and we cannot because of the language problem.

Q: How will you know that your mission in Russia is a success, and what legacy would you like to leave behind?

A: Success is that we will continue to grow. We want to keep growing.

You find out about your legacy after you leave. The main thing is that people think I left them with some good ideas, some new ways of working that they appreciate and enjoy. We are selling fun. For us, it is not only important that we work but that we also have fun, so that people feel that it's fun to work at Carlsberg and Baltika.

Q: What inspires you?

A: I'm inspired by success. What I like is the overcoming of a challenge. Because I'm not as young as I look. I like to use two quotes from Winston Churchill in my communication at the company. He is a person who faced a huge challenge. There were moments in those four years of war that I think everybody thought that the battle was lost. And he was the one who succeeded in holding on. It's not lost, we will do it. And I think about the Blitz, the bombarding of London — people thought this was the end of the world. Churchill just never gave up.

One quote is "success consists in going from failure to failure without losing enthusiasm." When you're on a journey to success, you may fail on the way. But you don't give up. You continue, you try again, and you will get to your success.

The second quote is "if you want to improve, you have to change. If you want to be perfect, you have to change often." When I'm talking to a lot of people, one thing I tell them is that we're going to have a lot of changes. We are in an industry where change is part of our daily life. You have to have the ability to change all the time. I know this personally — that's what I do — I go from one culture to another, I have to change.

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