

**Marat RESSIN, YEDI**

**The Conceptual Principles of "Business Development"  
as Specific Form for the Restructuring  
of SME in Russia**

Today, in the realm of small and intermediate businesses in Russia there are represented separate groups of enterprises that differ substantially one from another in their capabilities. Along with potentially prosperous companies capable of maintaining existing facilities, expanding production and updating products there coexist companies that are clearly distressed. These are characterized by numerous problems associated with the formalization of ownership for both real and virtual assets, the declining profitability of financial management operations, payment defaults, difficulties with acquisition of working capital, lack of reserves for development and so on.

The need to increase business efficiency and strengthen competitiveness confronts the problematic Russian small and intermediate enterprises which find themselves in particularly adverse circumstances aggravated by a combination of political, inflationary, monetary, institutional, resource, organizational, statistical and other forms of risk which are influenced by numerous factors in the internal and external environments.

The high state of flux in the world of contemporary business is responsible for the increased importance of carrying out restructuring on the majority of unsuccessful enterprises in the realm of small business through the updating of old management methods and basic rebuilding of the production and economic activities.

The concept of so-called business development as a contemporary effective method for the restructuring of problematic small domestic companies is discussed in this article.

**1. The present condition of the purchase and sale market of potentially  
successful small business companies of Russia**

In present day Russia, under the conditions of a still forming active business market<sup>1</sup>, well established and generally accepted standards for the purchase and sale of businesses have not yet been worked out. As a result, virtually any transaction, in the majority of cases, takes on an extremely confidential nature and, from the financial

---

<sup>1</sup> The purchase and sale market for active businesses in Russia which began to form in about 1999 has gone through a period of formation and now is gradually taking on civilized characteristics and follows standards worked out by developed countries over an extended period of evolution.

and legal points of view, turns into a complicated and murky process. It becomes personalized upon the appearance of the contractor (agent), as a rule, through personal connections and contacts and there flourishes a mutual distrust between the purchasers and vendors and, consequently, the majority of transactions fail even at an early stage.

At the present time, on the domestic purchase and sale market of relatively successful businesses, there are represented the following groups of active small (medium) enterprises offered for sale (according to information from the company GURUS which specializes in the sale of complete businesses<sup>2</sup> in Russia):

- "microbusiness" : very small companies (OOO [Limited Liability Company], ZAO [Limited Joint-Stock Company]) and private entrepreneurial structures (PBOYuL [Enterprise Without Established Legal Identity]) the maximum value of which amounts to 100 - 150 thousand USD (up to 70% of the overall total of businesses sold). Among them, as a rule, there are included: minor commercial and service enterprises, general food services, brokerage firms, minor communication service operations and handicraft production. The fundamental distinguishing characteristic of such enterprises is that the basis of their economic attractiveness is that they provide employment for the owner and members of his family, an opportunity for the accumulation of capital and the expression of skills and talents;

- "golden middle" : small and intermediate companies distinguished by being large compared to "microbusiness" companies in terms of business acumen and management skills, a large number and variety of processes and many employees (up to 20% of the overall total of businesses sold). The range of value for such companies is from 150,000 to a few million USD. The majority of them includes "family" companies with obscure accountability, a strong dependence on the principal individual and the specific risks inherent in private companies. The essence of the "golden middle" category is the management of the companies by means of various controls with intensive use of the professional skills of the owner or the managers, capital, new ideas,

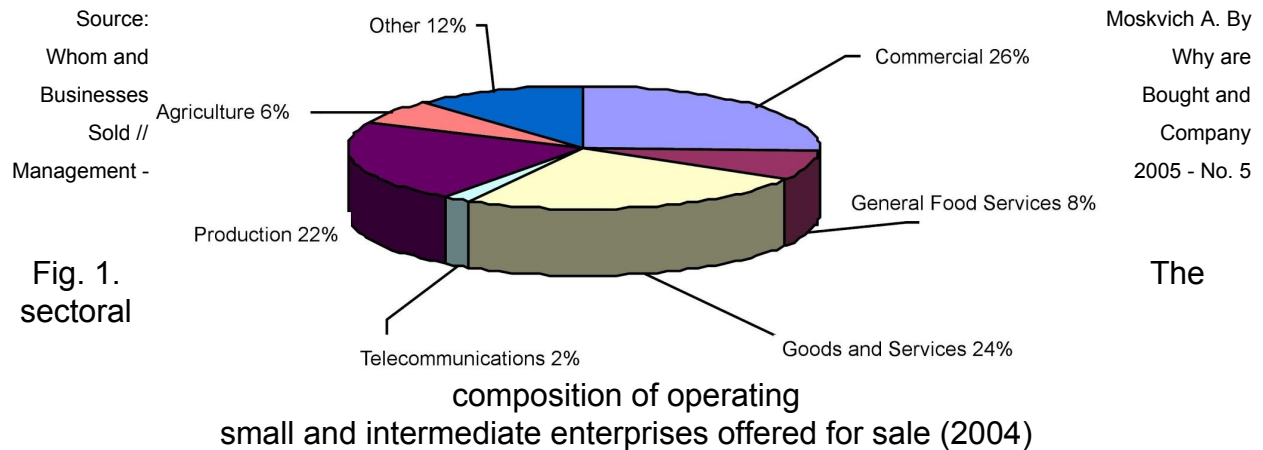
---

<sup>2</sup> [http://gurus.ru/index.php?id\\_menu=76](http://gurus.ru/index.php?id_menu=76)

up to date equipment and qualified and experienced staff; it is traced to an understanding and desire among the company leaders of a separation between ownership and management, the implementation of business processes, management accountability and increasing the value of the business;

- "strong small business" (accelerators): small and intermediate companies striving to grow through the development of new products and expansion into markets of the Russian regions, CIS countries and abroad (of the overall total of businesses sold, not more than 10%). Due to business confidentiality, obscure accounting and the absence of competently structured business processes, the risks in purchasing such companies are rather large which impacts negatively on their value. The range of values is quite blurred but is found to be from 1 to 10 million USD and above.

Fig. 1 illustrates the composition of the active small and intermediate enterprises offered for sale by category (as of 2004).



In the opinion of the author of this article, at the present time, in the purchase and sale market of successfully active small and intermediate businesses in Russia there have formed four fairly distinct categories (groups) of purchaser-investors each of which approaches in its own way the questions of the acquisition and exploitation of active businesses, - strategic investors, institutional investors, qualified investors and investors guided by financial considerations (Fig. 2).

Purchase and Sale Market for Successfully Active Small  
and Intermediate Business Enterprises in Russia

**Basic Russian Categories of Potential**  
↓ ↓ ↓ ↓

<b>Strategic Investors</b>	<b>Institutional Investors</b>	<b>Qualified Investors</b>	<b>Investors Guided by Financial Considerations</b>
Private Firms, Investment Funds	Private firms - competitors, purveyors	Groups of Private Investors (Banks, Direct Investment Funds)	Private Individuals – professionals
<p>Motive: Strategic (future) profits, brought about by rise in market shares, acquisition of new markets and technologies, obtaining a synergetic effect, savings on overheads</p>	<p>Purchased business - accumulation of assets (space for production, equipment, client base).</p> <p>Motive: profits from horizontal (vertical) diversification</p>	<p>Goal: Stable source of income.</p> <p>Motive: profits from intermediate term effective management</p>	<p>Emphasis of investors is focussed on present profits while future profits are considered by them to be a potential opportunity</p> <p>Motive: current profits from the improvement of the business through their own efforts.</p>

Fig. 2. The basic categories of potential Russian investors in the purchase and sale market for successfully active small and intermediate business enterprises

In the purchase of small (intermediate) businesses:

- strategic investors ([strategic investors])<sup>3</sup>, as a rule, are governed by the following considerations:

the most up to date management should remain in the enterprise;

the company should occupy a unique market niche or be an essential component of the purchaser's strategy;

the purchase price should be estimated on the basis of the discounted future cash flow;

- institutional investors are usually based on the following criteria:

the absence of requirements with regard to a minimal sales volume;

management of the company should be changed;

essential equipment should be in good condition;

- qualified investors:

have available personnel who possess management skills and have access to internal sources of financing;

place emphasis on the primary importance of future profits;

in assessing price they most often take into account future profits;

- investors, guided by financial considerations, investing personal resources in the purchase of the enterprise and who will be in charge personally proceed on the basis that:

the business should be in line with the requirements of the purchaser with regard to providing for a suitable form and style of life and making available new opportunities for improving the activities of the enterprise;

the day-to-day revenues should provide a level of prosperity that permits the

---

<sup>3</sup> Strategic investor - an individual, interested in the acquisition of a significant block of assets with the goal of participating in the management and/or obtaining absolute control of the enterprise.

purchaser to carry on with his customary lifestyle and obtain a return on the invested capital;

the management structure in the company should be retained to train the new owner and carry the business forward.

Of course, the strict assignment of a purchaser to one or another of the categories is rather arbitrary in as much as there are encountered individuals with their own distinctive perspective on business and willingness to accept risks: so, what one attributes to risk, another may consider to be a collection of opportunities. Thus, the choice of a purchaser is a decisive factor in a purchase and sale transaction for determining the future outlook with regard to the company being sold.

In the context of a study of enterprises, the most interesting are represented by a new type of entrepreneur (business developer, [business - developer]) who extracts profits from the qualitative transformation (rebuilding) of problematic small and intermediate business companies by means of implementing comprehensive restructuring measures based on "business development, [business - development]"<sup>4</sup> techniques aimed at increasing the market value and the subsequent resale of new competitive enterprises demanded by the market (Fig. 3).

---

<sup>4</sup> Business development - a complex and multifaceted activity in the sphere of small (intermediate) enterprises, aimed at the transformation of problematic enterprises with the goal of subsequently selling them on the market or operating them.

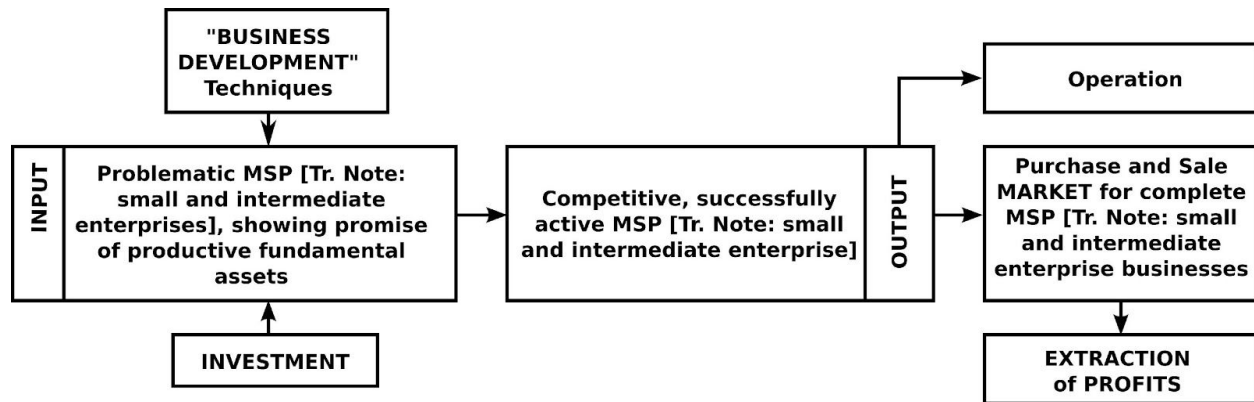


Fig. 3. Business Developer Activity Flow Chart

In the opinion of the author of this article, the emergence of business developers makes it possible to saturate the purchase and sale market for small and intermediate enterprises for promising complete businesses and gives a new impetus to its growth.

## 2. "Business Development": Essence and Scope

The author of this article takes "business development" techniques to mean the form of management of the restructuring of problematic small and intermediate enterprise businesses leading to the formation of competitive successfully active enterprises taking into account market needs through the modernization of basic production assets, redemptions of real estate leases, the sale of non-essential assets, and so on.

The concept "business development, [business development]" owes its origin to the concept "professional real estate development, [professional real estate development]" associated with the attraction of capital to real estate (construction) ventures with the goal of their further development and commercial exploitation:

- real estate development is a way to resolve the contradictions between the changing and growing needs of society in the services offered in the realm of real estate on the one hand both the available quality and quantity characteristics of the real estate

properties and on the other hand the goal of real estate development, realizing revenues (profits) on account of the creation of ventures that meet the needs of the owners (purchasers, tenants) of the real estate;

- real estate development, as a rule, is understood to involve complex procedures, commitments and liabilities directed at the qualitative transformation (increase) in the physical and monetary parameters of the real estate property through renovation or new construction with the goal of maximally increasing its gains or market value in the course of its subsequent operation or sale (lease)<sup>5</sup>;

- fundamental to real estate development is the management of an investment plan including: choosing an economically effective plan; obtaining all the necessary authorizations for its realization from the proper regulatory agencies; establishing the conditions for attracting investments and working out the basic processes and forms for their restitution if necessary; finding and attracting investors; selection of contractors, financing their activities and monitoring their work;

- the economic aspect of real estate development is due to the growth in the value of the property as a result of the physical changes effected in accordance with market requirements and the demands of consumers and the increase in the market value of the newly marketable real estate property and its subsequent realization (sale, lease) or transfer to the commissioning client.

A key figure in the real estate market is the so-called "developer"<sup>6</sup> (the actual absence of the term in domestic legislation fosters the emergence of rather arbitrary

---

<sup>5</sup> According to the opinion of well-known specialists in the realm of real estate, R.B. Peyzer and A.B. Frey: "Real estate development is a multifaceted business involving various forms of activity - from the renovation and renting to tenants of existing buildings to the purchasing of undeveloped land and the sale of improved parcels" [Peyzer, P.B., Frey, A.B. Professional Real Estate Development. ULI Handbook on Business Practice. Published by Institute of Municipal Lands, 2004, pg. 464.].

<sup>6</sup> In the opinion of the author of this article, a developer - entrepreneur is a specialist in the development of real estate with experience and multifaceted knowledge in the fields of law, finance, marketing and architecture who initiates and coordinates the activities of other participants in the real estate market to take on themselves the principal risks associated with the realization of the development project and who facilitates the progress of the real estate property toward an increased market value and its realization or transfer to a customer with the goal of increasing his own revenues as his principal mission.



interpretations of the content of the clauses; in Russia developer refers both to builders and vendors and also to specially structured subsets of multi-unit holdings and others):

- carries out the evaluation of the probability of realization for a real estate project based on estimates of long range trends of economic development (demographic data, prospects for development in the real estate sector of the economy and households); analysis of the condition and degree of growth of the financial and personal tax systems and the anticipated economic effectiveness of the project; analysis of the condition and prospects for the real estate market; possibilities and most economically effective locations for the realization of the project;

- establishes the conditions for carrying out the investment project and working out a business plan for its realization including: appraising the feasibility of realizing the investment project; calculation of the total costs for realizing the project and their effectiveness, detailed analysis of the markets associated with the specific investment project (real estate, financial, contracting); finding possible sources of financing (personal resources, borrowed resources, attracted resources and others); obtaining approvals from relevant state and municipal structures and carrying out advertising campaigns to shape the necessary public opinion for the realization of the proposed project and others;

- directly realizing the real estate development project which involves concrete activities for attracting financial resources (through the issuing and sale on the securities market (shares of a joint-stock company) created for the realization of the project; obtaining credits from relevant financial institutions, distribution of a bond issue and others); attracting and finalizing contracts with design and construction contracting organizations for the elaboration and material realization of the investment project; organization of the financing to ensure the construction and monitoring its progress; sale of the project (transfer to operation), receiving revenues<sup>7</sup>, returning invested resources and settling with creditors.

---

<sup>7</sup> Upon completion of the arrangements for development (construction) the profit (or loss) of the developer is determined by the difference between the total of all the expenditures of the project and the market value of the completed property.

To the basic types of real estate development it is customary to attribute<sup>8</sup>:

- ordinary development: creation of a real estate property from scratch;
- redevelopment: reconstruction and repositioning of the real estate property;
- [fee development] (clean development): the developer carries out the work to order, does not take on financial risks himself and receives for his activities a fixed honourarium (determined as a fixed amount or a percentage of what is realized on the coming project)<sup>9</sup>;

- [speculative development] (speculative development): the investor contributes his own resources to the elaboration and realization of the project and independently lines up the financial arrangements of the project<sup>10</sup> with the goal of obtaining the most profit<sup>11</sup>.

Business development encompasses a variety of forms of activity in the realm of small (intermediate) enterprise. According to the interpretation of the author of the article, business development is an activity associated with the finding and selection on the basis of specific criteria found in the condition of small (intermediate) enterprises, the working out of the concepts of the project development for reviving the selected enterprise, the finding and attraction of investors, the repurchase of the enterprise, managing the program of reconstructive measures based on business development techniques with the goal of maximizing the increase of its profitability or market value, the realization (sale) of the enterprise with the extraction of profits and the return of

---

<sup>8</sup> Effective project for development // <http://www.utg.kiev.ua/?sec=new&id=130&npage=170&lang=1>

<sup>9</sup> In Russia "fee development" is practically undeveloped considering that there are no prominent companies in the market specializing exclusively in this form of activity and ready to offer clients a full range of services for the building and management of real estate projects.

<sup>10</sup> One of the main problems for investors is finding financing during the earliest stages of a development project when banks do not give loans (risks are too high) and individual equity is not sufficient.

<sup>11</sup> In [speculative development] even with an individual contribution in the range of 10% of the value of the project the developer needs to expect to carry is around 50% of the completed property provided that there will also be involved large strategic investors (not less than 25% - 30% of the value of the project), banks (loans in the range of 25% - 30% of the value of the project), the contractor (10% of the value of the project) and future clients (lease pre-payments).

invested resources or the subsequent operation on behalf of the owner. The goal of business development is the obtaining of revenue (profit) on account of the creation and realization of a competitive economic type that satisfies the demands of buyers on the purchase and sale market for small (intermediate) enterprises.

The principal business development types are developers and investors:

- a business developer is an entrepreneur who initiates and achieves the realization of an investment project<sup>12</sup> through the implementation of restructuring measures under his own direct control on the basis of business development techniques to the initially problematic small (intermediate) enterprise business and the sale of the rehabilitated enterprise on the market or its subsequent operation in the form of a competent business by the owner;

- an investor is an individual who puts in place the long term investment of his own resources into the nascent business development project<sup>13</sup> with the goal of subsequent return of invested resources and the extraction of profits.

### **3. The Principal Characteristics of "Business Development"**

The author of this article believes that "business development" methods combine the finding and selection by business developers of problematic small (intermediate) businesses exhibiting prospects from the point of view of the market of basic production assets and specific unrealized advantages, the attraction of investors, the purchasing of the enterprise with acquisition of a complete package of management rights and control over the production processes, the working out and realization under the direct management of the business developer of the radical restructuring using contemporary information and techniques of the organizational structure of the acquired enterprise,

---

<sup>12</sup> The principal reference for making a decision regarding the engagement in the work of the investment project is the satisfactory evaluation of the economic effectiveness, the level of which is determined by the ideas of the business developer regarding reasonable rates of return taking into account the prospects of the enterprise and the specifics of the specific market.

<sup>13</sup> A business development project may include: the acquisition of principal assets; the purchase of real estate with the goal of completely freeing the enterprise from the burden of leasing facilities; etc.

the modernization of its production assets, the most complete use of all the capabilities of production management activities available through the profile of the enterprise, bringing about other large scale transformations, the creation of a competitive successfully active player in the market<sup>14</sup> and its subsequent resale and providing real benefits for the investors and the business developer.

A principal feature, in itself a point supporting business development techniques is, in the opinion of the author, the repurchase of real estate which makes possible a significant increase of personal capital in the value of the overall capital and to significantly strengthen the creditworthiness and financial independence of the restructured enterprise.

The algorithm for carrying out restructuring on the basis of business development techniques<sup>15</sup> in the case of an investor deciding to buy a small (intermediate) enterprise seems to the author to be represented by the following:

- Step 1: Identification of all explicit and implicit aspects of the problematic small (intermediate) enterprise with the goal of carrying out business development: analysis of previously unused opportunities represented in the profile of the enterprise; estimation (calculation) of the possibilities of producing benefits for the investors and business developer;

- Step 2: Formation of an investment project for the restructuring of the enterprise taking into account the limitations indicated by the profile in the production and management activities of the enterprise and the correlation with the proposed concept: the splitting up of the enterprise into separate autonomous independent production

---

<sup>14</sup> "Business development" techniques, as a rule, involve large risks associated with saturation, instability, temporal concentration of resources, high levels of aversion to changes among staff, etc.

<sup>15</sup> From the practical experience of the author in the restructuring of small and intermediate enterprises it can be concluded that the successful implementation of business development techniques is always a unique creative process dependent only on professionals in the area of business restructuring. Additional difficulties with the application of business development techniques arise from the large variety of small business enterprises, the various forms of production facilities, the broad assortment of final products, etc.

subunits<sup>16</sup> according to functional characteristics; evaluation of the prospects for each production subdivision;

- Step 3: Implementation of the investment project;

- Step 4: Realization of the new enterprise (enterprises): sale on the market (assigning profits to the investors and the business developer); operation of the enterprise by the business developer as the owner (return of invested resources and securing the agreed profits for investors).

---

<sup>16</sup> Each of the created new small enterprises based on separate functionally independent subunits of the previous operating enterprise falls under simplified taxation criteria which is associated with a significant realization of benefits.