



E-COMMERCE IN RUSSIA

What international merchants, service providers and entrepreneurs must know to succeed in a fast-changing market

MARKET INSIGHTS – SEPT. 2017

RESEARCH PARTNERS



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Personal data storage in Russia (English): <http://publications.ewdn.com/personal-data-storage>

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E-COMMERCE IN RUSSIA

KEY TRENDS & FIGURES

To request more detailed data and analysis, or strategic advice, on the Russian e-commerce market, please contact East-West Digital News at contact@ewdn.com



RUSSIAN E-COMMERCE IN 2016

Source: Data Insight unless otherwise stated

Total market size for physical goods:

**800 bn
rubles
(approx.
\$12bn)**

Domestic sales of physical goods, not including cross-border sales; food deliveries, C2C, MLM, tickets, coupons, etc.

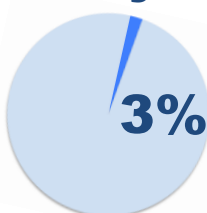
**Up +23%
from 2015**
(or +14% in USD)



**Cross
-border sales:
\$4.3bn**

Source: NAMO

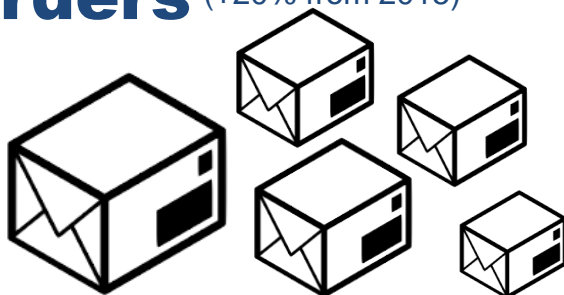
or approximately



**of the total Russian
retail market** (or 4% if
including cross-border online sales)

Nearly

**195 million
orders** (+20% from 2015)



were made by up to

**50 million
online consumers**

AITC (AKIT)



**Russian
online
consumers
makes
purchases
via
smartphones**
(Yandex GfK)

AOV Approx.
in 2015: **4,050 rub. (\$65)**



KEY MARKET TRENDS

1

The domestic market generally grew in 2016 in real terms, but certain segments were still affected by the crisis

2

Becoming more mature and competitive, and facing a less favorable macroeconomic environment, the industry is now entering a period of optimization and consolidation.

3

Some pure players are still witnessing fast growth, while others are facing financial difficulties with some even going bankrupt.

4

Most major offline retailers and manufacturers keep developing online and mobile sales channels and the related infrastructure.

5

Since 2014, venture investment activity has decreased considerably – but some investors are still interested in e-commerce related services.

6

Most large and mid-sized cities are served by shipment companies in satisfactory conditions, while the Russian Post is reforming itself to improve service.

7

Cash-on-delivery is the rule for physical goods and will remain so for a long time, even though the use of electronic payments is increasing slowly.

8

The lack of qualified human resources appears to be one of the most painful issues, hampering the entire Internet industry.

9

Cross-border flows from China are increasing dramatically while most western online retailers have seen their sales to Russia fall due to the ruble's depreciation since 2014.



E-COMMERCE IN RUSSIA

MARKET INSIGHTS

To request more detailed data and analysis, or strategic advice,
on the Russian e-commerce market, please contact
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1. The Russian Internet market

1.1. Internet penetration

Russia, which lagged far behind most other European countries in terms of Internet penetration in the recent past (with a 37% penetration rate in 2010), caught up rapidly until 2015.

During that year, according to surveys by GfK and Yandex, Internet penetration in the country reached some 70%, with some 84 million Russians aged 16 or more — up 4 million from 2014 — declaring that they use the Internet. These numbers were stable in 2016.

However, mobile Internet audience keeps growing, with 56 million Russians aged 16 years and more accessing the network via smartphones and tablets in 2016, up 6 million from the previous year. Growth was driven exclusively by smartphones. GfK expects this trend to continue in 2017.

1.2. Regional contrasts

Russians in bigger cities and primarily Moscow are more practiced Internet users. The Internet penetration in Moscow and St. Petersburg (79% among inhabitants aged 18 and more, according to surveys by the Public Opinion Foundation or FOM in summer 2016) exceeds country average (68%).

Russians from places with smaller populations are less practiced Internet users, but even in small town and villages the penetration rate reached 57% in 2016, according to FOM. This is due in part to mobile accessibility, with lower costs of mobile connectivity encouraging Internet use.¹

Among the key factors explaining these regional contrasts are differences in the standard of living, purchasing power and development of broadband and wireless Internet access, as well as computer and Internet literacy.

In 2015 almost three quarters of all Russian Internet users lived in the European part of Russia.

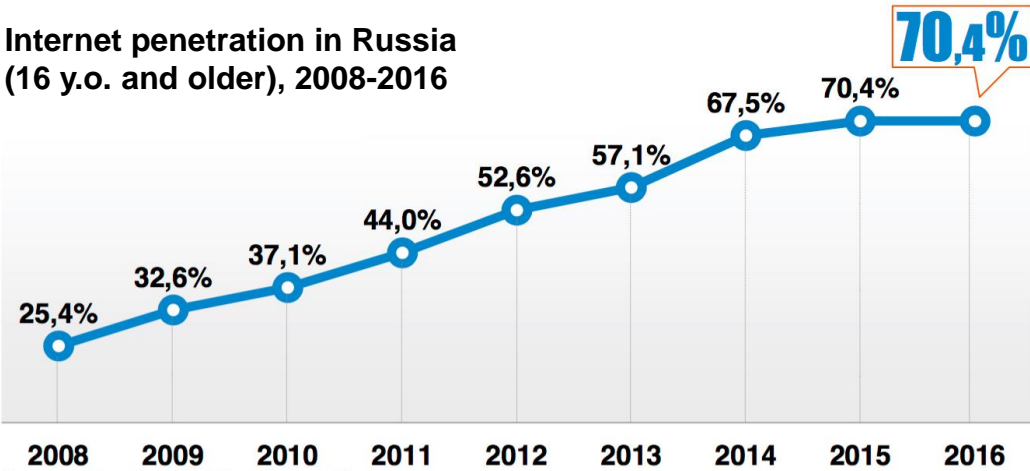
1.3. Russian audience worldwide

Total Russian-speaking audience nears 110 million users, taking into account an approximate 25 million Russian-speaking users in the former Soviet republics, Western Europe, Israel and North America

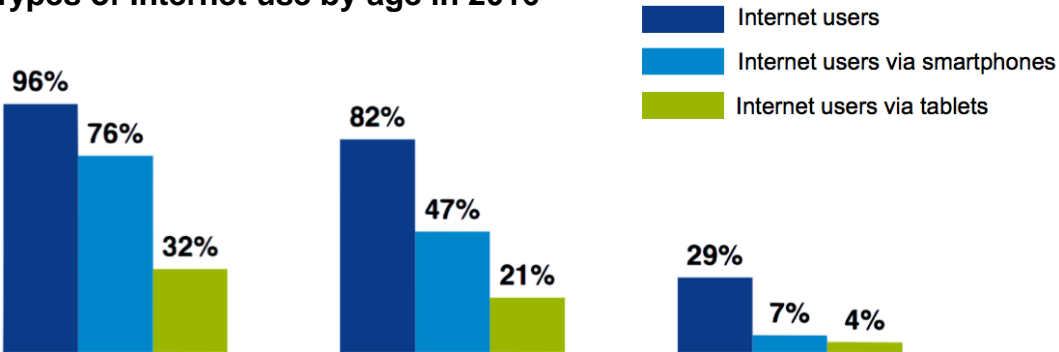
1. <http://goo.gl/zQoUOU>



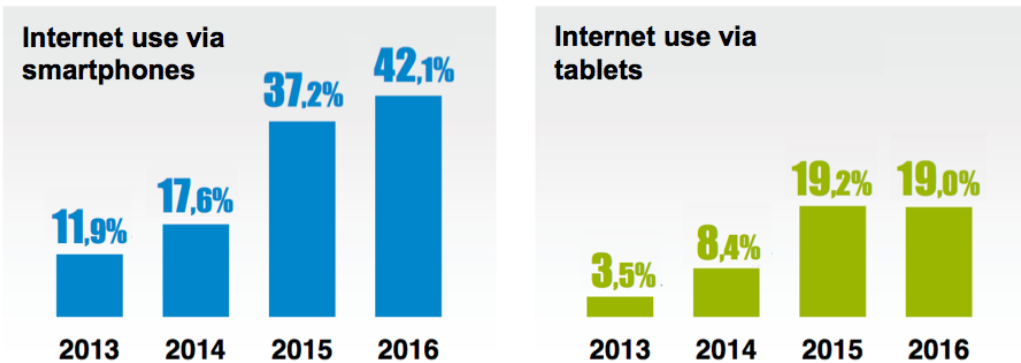
**Internet penetration in Russia
(16 y.o. and older), 2008-2016**



Types of Internet use by age in 2016



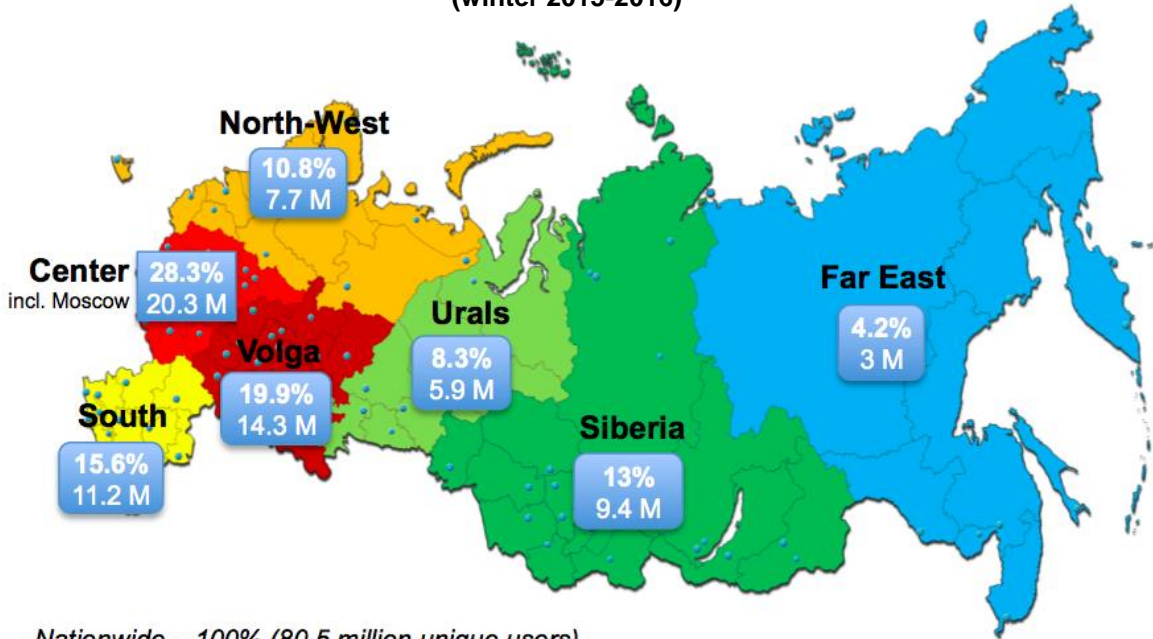
Mobile Internet penetration (16 y.o. and older), 2013-2016



Source: GfK Omnibus survey 2016, all Russia, 16+



**Distribution of Internet users by federal district
(winter 2015-2016)**



Source: FOM

INDUSTRY REPORT

E-COMMERCE WAREHOUSING & FULFILMENT IN RUSSIA

What e-commerce businesses need to know
to set up and optimize their operations in Russia



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2. The domestic online retail market

2.1. Market size and current trends

With 195 million small packages and parcels sent to online consumers in 2016 (up 20% from the previous year), Russia's domestic online retail market grew in real terms. It also grew in value, reaching some 800 billion rubles (+23%), with an average order value exceeding 4,000 rubles, according to Data Insight.

Given the ruble's depreciation (from 31.5 rub. per dollar in 2013, to 62 rub. in 2015, to 67 rub. in 2016), the picture looks more modest in dollars: in 2016, market size was just \$12 billion for physical goods, up 14% from 2015. These numbers do not include cross-border orders, deliveries of ready meals as well as corporate, C2C, MLM and group purchases.

The fastest-growing categories were sporting goods and leisure items, pet goods, children's goods, clothing and footwear, as well as groceries. Meanwhile, electronic devices, home appliances, cosmetics and perfumes were less in demand than in 2014-2015.

The travel segment is estimated to have reached some 700 billion (more than \$10 billion) in 2016, with 10 million online consumers from Russia.

Aggravating their chronic financial issues, the economic crisis led a range of players to suspend their activities. Among them were online auction and marketplace Molotok.ru, one of the country's most established e-commerce sites, and Mamagazin.ru, a kids goods online store launched in 2014 under a \$30 million investment plan.² Of the three entities of the IQ One holding – Utinet.ru, Sotmarket.ru and e96.ru – only the latter survived, following a failed merger attempt. The two former fell victim to internal weaknesses and the impact of the economic crisis. The marketplace Wikimart and the online travel agency Oktogo, which both had enjoyed massive support by western funds, went bankrupt in the spring of 2017.

However, several major players continued to grow in 2015-2016. Ozon.ru, one of the most established Russian online retailers, saw its sales grow by 20% year-on-year in the first seven months of 2016. Its CEO expects a 30% growth in 2017.³ Lamoda.ru, a leading retailer of footwear and clothing launched by Rocket Internet in 2011, saw its net revenues grow to €125.6 million in the first half of 2016 — up 41.1% on a constant currency basis (or 15.4% in euros) from the same period in 2015.⁴ KupiVip, on its side, reported a 50% growth rate in 2015.⁵

Several offline retailers continued to develop online sales channels, like H&M,⁶ Vans,⁷ L'Oréal⁸ and Furla,⁹ which launched online sales in 2015 and 2016, as well as Perekrestok (X5 Group), Magnit and Lenta, which were preparing their own e-commerce projects. Meanwhile, demonstrating their faith in the future, several e-commerce and omnichannel players continued to invest in giant fulfilment centers.

2. <http://www.ewdn.com/2015/08/03/russian-e-commerce-in-crisis-molotok-ru-shuts-down-mamagazin-suspends-activities/>

3. <http://www.ewdn.com/2016/09/01/ozon-not-profitable-yet-but-expects-fast-growth-and-still-considers-western-ipo/>

4. <http://www.ewdn.com/2016/09/20/lamoda-ru-increases-revenues-reduces-losses-in-h1-2016/>

5. <http://www.ewdn.com/2016/02/18/in-2015-kupivip-saw-its-sales-increase-by-50-and-became-a-fully-profitable-business/>

6. <http://www.ewdn.com/2015/09/28/hm-to-open-online-store-in-russia/>

7. <http://www.ewdn.com/2015/09/25/us-brand-vans-launches-online-retail-store-in-russia/>

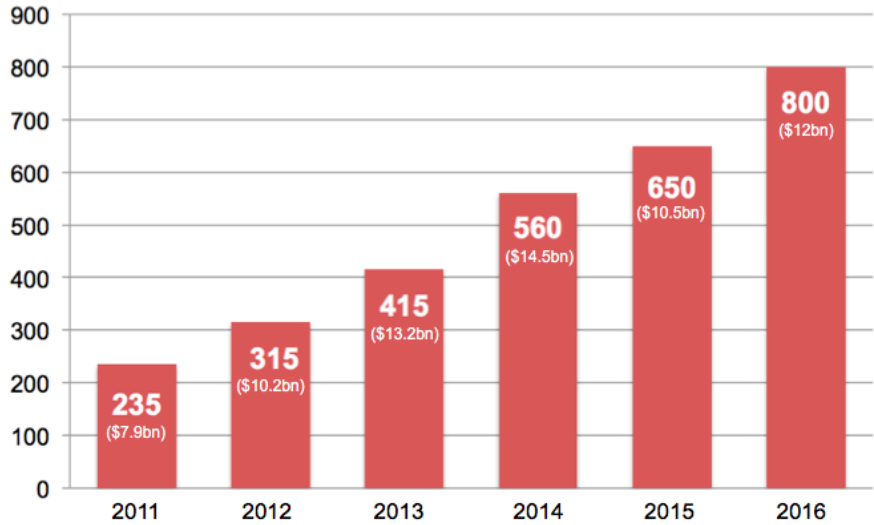
8. <http://www.ewdn.com/2016/08/11/loreal-group-launches-mono-brand-e-commerce-sites-in-russia/>

9. <http://www.ewdn.com/2016/10/17/italian-luxury-brand-furla-launches-online-sales-in-russia/>



Russia's domestic online retail market

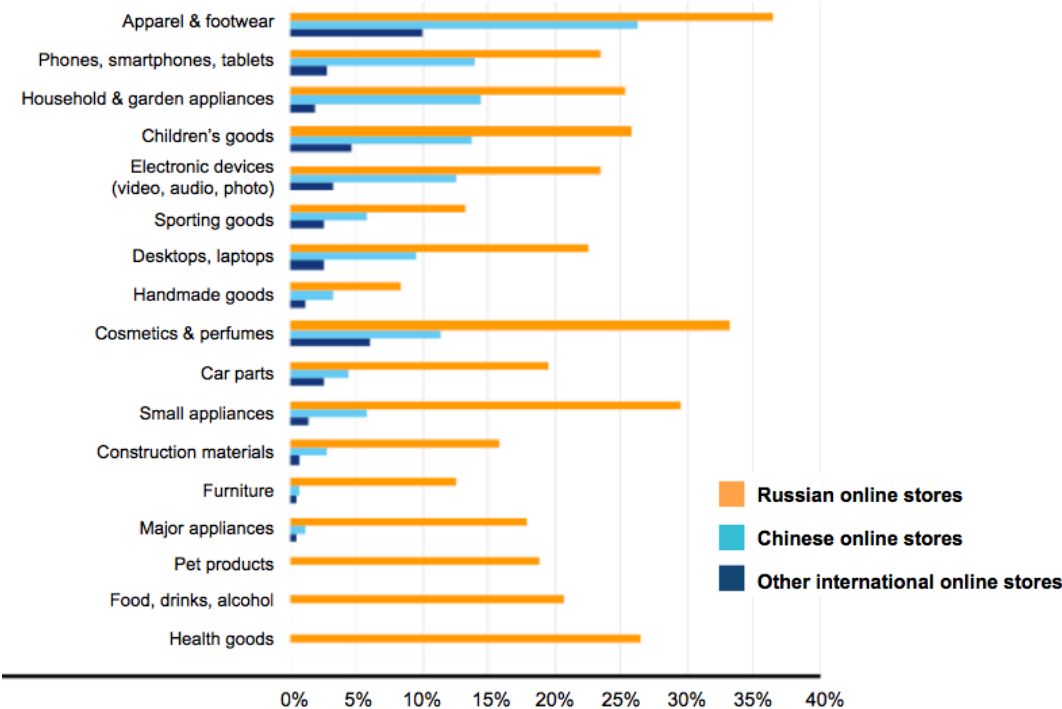
Physical goods 2011-2016, in billion rubles



These numbers concern only physical goods. They do not include cross-border orders, deliveries of ready meals as well as corporate, C2C, MLM and group purchases – Source: Data Insight

Goods purchased from Russian and foreign online stores

Share in all online buyers in percentage in Sept. 2016

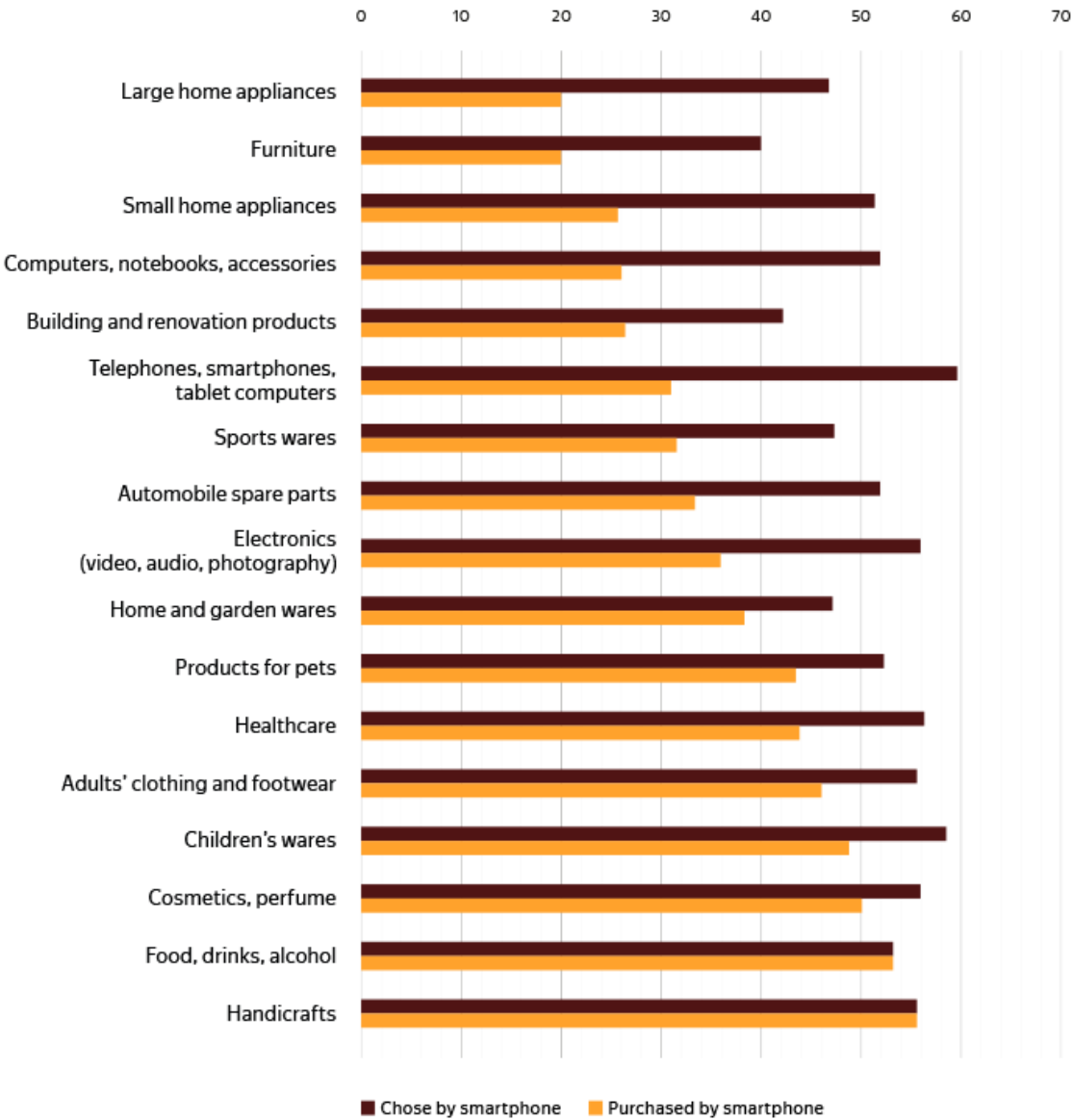


Survey by GfK – Yandex Market



Shopping by smartphones: Product categories

Percentage of those having chosen and bought products via a smartphone over the past 12 months



Survey by GfK – Yandex Market in Autumn 2016.

The survey was based on online interviews. It involved 2,022 online consumers of 16 to 55 years of age living in Russian cities of more than 100,000 inhabitants. The survey targeted specifically those using a smartphone to look for products and having made at least one online purchase in 17 categories over the previous 12 months.



2.2. Prospects

The recent current economic downturn (which reached its peak in 2014-15) affected online retail to a much lesser extent than offline retail; and not affected all e-commerce segments were affected equally. While consumer electronics have been hit hardly, children's goods, for instance, seem to go through the crisis without damage.

Beyond the current ups and downs, it is clear that the full potential of Russian e-commerce market is far from being tapped. Important growth is likely to resume after the current crisis, fuelled by such structural factors as:

- **The growing Internet and e-commerce penetration in Russia's regions;**
- **E-signature and online payments becoming more popular:** mass demand for non- material products such as insurance and tour package offers.
- **Fulfillment infrastructure reaching maturity:** With reduced delivery costs, the scope of e-commerce will extend to cheaper product categories and be made available even to small cities and remote areas.

Thus experts believe that the Russian online retail market – which still accounts for just 3% of total retail – keeps considerable growth potential for both domestic and foreign players.

2.3. Number of users; user profiles and behavior

Online shopping has already become a rather common method of consuming for active Russian Internet users, particularly those with upper middle and high incomes living in Moscow, St. Petersburg and large Russian cities. This is why online shopping penetration in Russia, which is still weak compared to some Western European countries, is expected to catch up in the long term with the most advanced countries like the UK, where up to 85% of Internet users are involved in online shopping.

According to Data Insight, e-commerce involved 26 million active Russians in 2014. The figure has nearly doubled in 2017, and continues growing each year. Three groups are driving this growth: individuals in the regions (especially in small towns), individuals with low incomes and individuals newly connected to the Internet.

Significant differences regarding online purchases can be observed between different population groups. For example, men to spend more online than women; they more actively purchase car parts, mobile phones and computers, while women are more attracted by such categories as clothing and children's goods. Generally speaking, people from younger age groups, with higher revenues and that have completed higher education, tend to consume more online than those from the opposite groups.



Market insights

In a survey of its customers conducted in February 2015, fashion flash sales site KupiVIP found that a new online consumer behavior had emerged in the current unstable economic context. Only 5% of the respondents said they were going to increase their spending on clothing, footwear and accessories this year.

No less than 83% of clothing and footwear buyers were looking primarily for discounted products — a proportion 1.5 times higher than in early 2014. As many as 58% had more than half of their clothes bought at discounted prices. Price had thus become the key factor in purchasing decisions for KupiVIP's clients. Well-known brands, new collections and exclusiveness tended to be less important, if of any importance at all.

Russia online shopping trends in 2016

In June 2016 SimilarWeb, a major global web and mobile traffic data provider, released a report about trends in Russian traffic to shopping websites. Among the key findings:

- The share of Russia's mobile and web shopping traffic seriously lags behind retail traffic in most western countries.
- Organic search is a key traffic driver for Russia's e-retailers, with 12 of the 15 Russian online shopping categories researched securing more than 40% of their desktop traffic from organic search in April 2016.
- Site visits from mobile devices in Russia saw significant decrease from April 2015 to April 2016. The average visit duration and average pages per visit declined more than 11% each, while the bounce rate climbed almost 4%.
- During the same period, Russian e-commerce sites saw increases in visitor engagement. The bounce rate had the biggest improvement, decreasing nearly 23%.

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2.4. Russian online retailers

• Number of sites

In 2014, payment aggregator Robokassa and analytics company Openstat identified 1.17 million “commercial sites” (i.e. sites that offer payment functions) in the .ru, .su and .pb domains out of more than 3 million sites on the Russian Internet in total. Of these “commercial sites,” just a small part can actually be considered e-commerce sites as far as physical goods are concerned. In 2014, InSales estimated the number of e-commerce sites (with a shopping cart function) at 43,000. Of these sites, a mere 50 generated more than 4 billion rubles (approximately \$100 million) in sales revenues per year, and 950 reached or exceeded 200 million rubles (\$5.2 million).

• Market fragmentation

A consequence of the limited size of the market itself Russian online retailers are noticeable for their small sales volumes in comparison with major foreign players. The order of magnitude is simply different: the turnover of leading Russian players do not even reach \$1 billion, while in Germany only Amazon generated more than \$14 billion in 2016.

In certain segments, there are no major professional players due to a lack of significant investment, while existing small e-merchants generally offer poor service. This situation particularly affects the fields of construction materials, furniture, plumbing and small niche industries.

• Growing involvement of offline players

Large domestic retail companies began to enter the Russian e-commerce market much later than in western countries, and many are still absent. As for international players several still do not sell online in Russia even though they have strong e-commerce experience in other countries. However, a clear move toward online-offline integration has been noticeable over the last few years. While traditional retailers are developing e-commerce activities, several online players, in a reciprocal move, have gone offline.

The crisis that hit Russian retail in 2014-2015 has not stopped the trend. For several offline retailers, the stagnation of offline sales has made it more difficult to keep developing their offline chain in a financially sustainable way. As a result, these retailers have got more money and management resources available for their e-commerce projects. In certain non-food segments, however, the crisis has led some players to refocus on their offline channel, which appears to be more competitive.

• Gray e-commerce

In certain market segments, a significant part of online retail – anywhere from 20% to 80%, depending on the estimates – goes through unofficial schemes of varying scale. It can even not be ruled out that even some of the largest Russian e-commerce players keep part of their cash revenues undeclared. According to a controversial theory, it is virtually impossible for legitimate e-commerce businesses to be profitable in the current Russian market conditions.¹⁰

10. <http://www.ewdn.com/?p=35696>



Top 25 Russian e-commerce sites in 2016

Rank	Change from previous year	Site	Specialization	Sales volume		Nb of orders	AOV	
				Rubles (mln)	USD equivalent* (mln)		Rubles	USD equivalent*
1	+1	WILDBERRIES.RU	Clothing, footwear and accessories	45 600	681	29 000	1 570	23
2	- 1	ULMART.RU	Non specialized site	38 800	579	7 820	4 970	74
3	=	CITILINK.RU	Non specialized site	31 600	472	3 230	9 790	146
4	=	MVIDEO.RU	Electronic appliances	25 900	387	1 900	13 620	203
5	+1	ELDORADO.RU	Electronic appliances	23 200	346	3 900	5 960	89
6	+5	LAMODA.RU	Clothing, footwear and accessories	22 300	333	5 870	3 800	57
7	+2	OZON.RU	Non specialized site	18 000	269	5 700	3 160	47
8	- 3	EXIST.RU	Car parts	17 800	266	6 100	2 920	44
9	- 2	SVYAZNOY.RU	Electronic appliances	15 400	230	1 460	10 550	157
10	- 2	KUPIVIP.RU	Clothing, footwear and accessories	15 100	225	1 400	10 760	161
11	+3	UTKONOS.RU	Groceries	15 100	225	2 980	5 050	75
12	+1	BONPRIX.RU	Clothing, footwear and accessories	13 700	204	3 240	4 240	63
13	- 1	DNS-SHOP.RU	Electronic appliances	13 600	203	1 070	12 660	189
14	- 4	KOMUS.RU	Office items	11 700	175	997	11 740	175
15	+2	ONLINETRADE.RU	Non specialized site	11 200	167	1 670	6 710	100
16	+2	PETROVICH.RU	Items for the home, DIY	9 540	142	731	13 050	195
17	- 2	HOLODILNIK.RU	Electronic appliances	8 940	133	351	25 470	380
18	+8	VSEINSTRUMENTI.RU	Items for the home, DIY	8 700	130	1 090	7 970	119
19	=	TEHNOSILA.RU	Electronic appliances	7 910	118	905	8 740	130
20	- 4	MEDIAMARKT.RU	Electronic appliances	7 460	111	556	13 410	200
21	- 1	SHOPPINGLIVE.RU	Non specialized site	6 580	98	1 050	6 280	94
22	+3	SPORTMASTER.RU	Sporting goods	5 560	83	926	6 010	90
23	+10	APTEKA.RU	Beauty and health	5 550	83	3 610	1 540	23
24	- 1	SHOP.MTS.RU	Electronic appliances	5 160	77	618	8 350	125
25	- 3	220-VOLT.RU	Items for the home, DIY	5 070	76	574	8 830	132

* The dollar calculations by EWDN are based on the average exchange rate in 2016

METHODOLOGY

This index, published in July 2016 by Data Insight and Ruward, ranks Russian e-commerce sites by sales volumes, number of orders, average order value and other criteria, over the course of 2015. The full ranking (100 sites) is available on this site: <http://datainsight.ru/top100/>

Data Insight says that it has used advanced monitoring and measurement methods to complete this research, and that the concerned companies were invited to check and comment on the numbers.

The ranking only includes companies whose e-commerce activities in Russia are run by a legal entity registered in the country. Marketplaces, which the researchers have defined as sites where sales, or the major part of them, are made by third parties, are on their part excluded from the ranking. This is why key players such as eBay, Yandex.Market and Wikimart, as well as China's AliExpress and JD.COM, are not integrated in the ranking.

Data Insight counted only online sales. Thus the sales generated by Ulmart's 'Cybermarkets' were not included, since these sales involve an important offline dimension. As a result, this site's position in the ranking is significantly lower.

Most importantly, the ranking concerns e-commerce sites, not companies. Thus, the online sales activities of Otto Group, for example, are not ranked as such, but are classified via the group's distinct brand sites BonPrix.ru, Otto.ru and Quelle.ru.

Source: Data Insight

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2.5. The regional scene

Although still partially true, the traditional view of a 'digital divide' between the 'capitals' (Moscow and St. Petersburg) and the regions does not sufficiently take into account new or emerging realities in market geography and delivery conditions.

Not only is the division of Russia into two segments, "the capitals vs. the regions," little accurate in itself, but the macro-economic truth that these two segments represent approximately equal market volumes says little of an e-commerce company's actual potential in each of them.

As a matter of fact, some nationwide players have already more than two thirds of their sales generated from the regions, while some regional e-commerce companies (e.g. e96.ru) have asserted themselves as major players on the national scene.

Moscow-focused e-commerce companies will probably be surprised by the fact that many nationwide e-commerce companies have recorded higher purchase activity in cities with a population between 300,000 and one million than in Moscow.

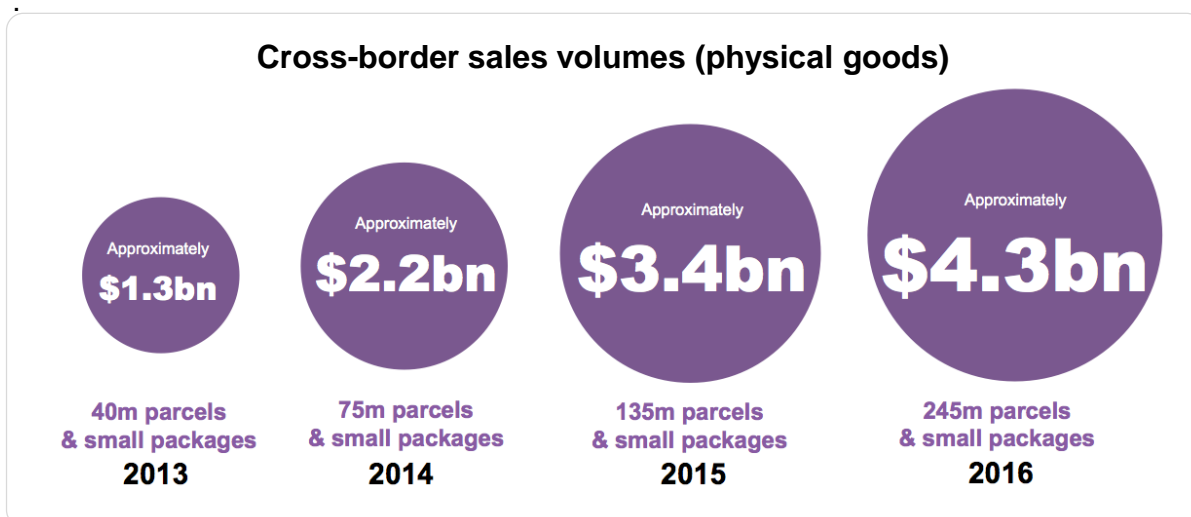
For all these reasons, Moscow and St. Petersburg are no longer areas to focus on exclusively. It cannot be ruled out that some cities will appear to be even more appealing than Moscow, taking into account their inhabitants' online consumption habits, lower local competition as well as newly available delivery conditions.



3. Cross-border sales

3.1. Market size

Foreign retailers' online sales of physical goods to Russia have grown considerably over the past few years. The market reached around \$4.3 billion in 2016, up from some \$3.4 billion in 2015 and \$2.2 billion in 2014.



Source: NAMO

3.2. Growth drivers

Even taking into account delivery costs, many products are still cheaper if bought abroad than on the domestic market. These price differences explain much of the attractiveness of Chinese online retailers, especially in crisis times. Meanwhile, many western retailers lost their competitiveness as the ruble lost half of its value in 2014-2015. This is why cross-border flows from western countries decreased sharply during that period, while sales from China reached ever higher levels.

Another factor behind the popularity of foreign online retailers among Russian consumers is that many products are simply not available, or are hard to find, on the domestic market. This concerns not only obscure collectables, but other items such as a number of spare automobile parts and accessories, which when related to rare or little known car brands are virtually nonexistent in Russia, especially in the regions.

3.3. A favorable tax regime

Orders received by inhabitants of the Customs Union (including Russia) are not subject to customs taxation if they do not exceed 31 kg in weight and 1,000 euros in value per month, for each recipient. If weight or value do exceed these numbers, customs duty amounts to 30% of the value of the part in excess, with a minimum tax fare of 4 euros per kg.

The authorities' plans to lower this taxation threshold and introduce VAT on cross-border purchases are unlikely to be confirmed in the near future.



3.4. The predominance of Chinese players

In 2014-2015, only Chinese players took advantage from the growth of the Russian cross-border market, leaving some of their western counterparts in the dust. In 2016, deliveries from China accounted for more than 80% of total fulfilled cross-border orders.

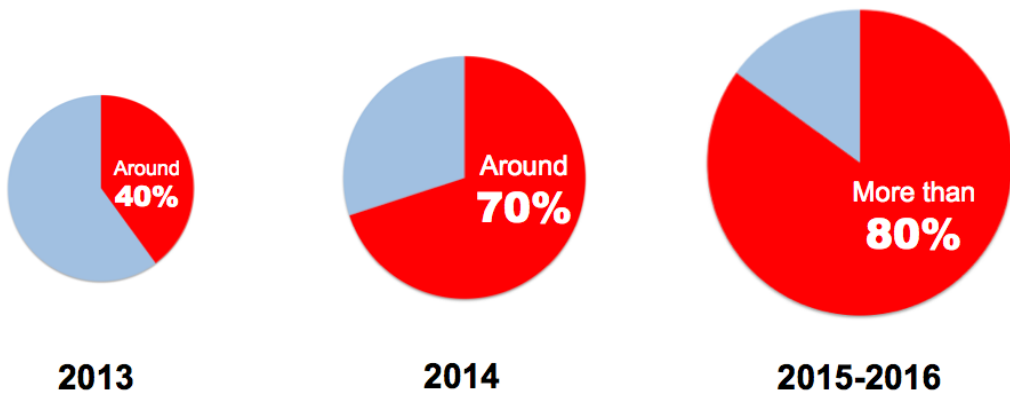
Not only do Chinese sites offer unbeatable prices and assortment. Parcels are now delivered to Russia relatively fast, in a couple of weeks on average vs. up to several months in the past. Also explaining the growth of the e-commerce flows between the two countries is Russian consumers' growing trust in Chinese e-commerce sites. This is reflected in the rapidly-growing share of electronics goods in these flows (24% according to SPSR Express).

AliExpress, which had become in 2014 the number one e-commerce platform in Russia,¹² multiplied initiatives to strengthen its leadership, selling not only Chinese products but also Russian ones. Thus in the spring of 2017 the platform introduced a same-day delivery option for Russian products as well as a purchase on credit option. AliExpress also launched a live e-commerce video service.¹³ The platform's traffic in Russia exceeded 23 million in March 2017, far ahead of any Russian or international competitor.¹⁴

In mid-2015, JD.COM launched a Russian version of its platform with the stated goal of conquering a 20% share of the Russian e-commerce market. Six months later, the company already claimed 2 million registered users in Russia, who generated 300,000 orders per day.¹⁵ However, the site seemed to lose its traction in 2016.

Among other major Chinese players having entered the Russian market over the last couple of years are LightInTheBox.com and DealeXtreme.com. Even more recent Chinese entrants are DHgate.com, TradeEase and Umkamall.com, which began operating in Russia in August and September 2015;¹⁶ LeEco and RuMall, which started in September 2016.

Estimated share of fulfilled orders from China



Source: NAMO and EWDN

12. <http://www.ewdn.com/?p=32192> 13. <http://www.ewdn.com/?p=44226> 14. Mediascope cited by Kommersant <http://www.kommersant.ru/doc/3281401> 15. <http://www.ewdn.com/?p=38287> 16. <http://www.ewdn.com/?p=37145>



Market insights

By no way, however, Chinese players' current predominance means that the Russian cross-border market is closed to retailers from Western or other countries. Russia remains a large market with opportunities in many segments.

For example ASOS, iHerb, Next and Yoox, to name just a few, have a thriving cross-border sales business with Russia, while a variety of new players – from Spanish El Corte Ingles, to perfume maker Yohji Yamamoto, to Australia's HoneyFlow – are starting sales in 2017.

3.5. From cross-border sales to market entry

Some foreigners assume that they can start selling significant volumes to Russian consumers by simply extending their existing businesses. This is possible, as shown by the experience of eBay, Aliexpress, Amazon, ASOS and a number of other e-merchants. However, cross-border sales in large volumes are possible only if the foreign e-store or brand is perceived by local consumers as having significant and distinctive advantages (in terms of price and product assortment in particular) and adapted to the specifics of the Russian market and the expectations of local consumers.

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At a certain stage, a stronger local presence – or full market entry – may be required to tap the Russian market's true potential. On the domestic e-commerce scene, five foreign companies – or Russian companies with foreign shareholders and management – are among the top 20 players (Otto Group, Ozon, Lamoda, and KupiVIP). These cases show that foreign retailers can succeed on the local market at a significant scale when relying on a strong local team and taking into account local specificities – including, in certain cases, the development of their own local fulfillment capacities.

4. Operations

4.1. Logistics

Combined with an ailing road and rail infrastructure and a landscape of professional logistics providers that is just developing or undergoing its modernization, Russia's exceptionally vast geography makes the country challenging for anyone who wants to deliver goods to or within Russia.

However, delivery options have improved significantly over the past few years. While the Russian Post began reforming itself, several new providers emerged with higher quality service and shorter delivery time to large and mid-sized cities across the country. Their tariffs, which used to be significantly higher than those of the Russian Post, now tend to be more competitive.

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Market insights

Meanwhile, pure online players like KupiVIP, Lamoda, Ozon and Ulmart have deployed their own warehousing and delivery processing facilities across the country. Others, like multi-channel retailers Auchan, Leroy Merlin, Otto and Svyaznoy, have developed existing logistics systems to serve the growing needs of their e-commerce branches.

Much remains to be improved and built, however, for e-commerce infrastructure to meet today's and tomorrow's needs (see EWDN's special report on e-commerce warehousing and fulfilment: <http://www.ewdn.com/e-commerce/russian-warehousing-fulfilment.pdf>).

4.2. Payments

The ever changing Russian payment landscape, which some confused foreigners call a jungle, displays some specific features:

- In Russia, more so than in most developed or emerging countries, cash has remained the predominant payment method to date, although its share is decreasing slowly in retail, both offline and online.
- Various forms of electronic payment are on the rise, even though used only by a minority. In addition to bank cards, the use of which is growing slowly, several new solutions and offers appear each year, and some of them are intended to create a universal means of payment.
- Large segments of the electronic payment market are led by domestic players, from payment terminal operators to mobile carriers to electronic currency companies.

Russian online retailers find more or less satisfactory ways to cope with the widespread practice of payment on delivery – which does not always have a negative effect on returns or the financial condition of a company.

In the field of cross-border sales, even though pre-payment by electronic means remains the rule, experiments with payment on delivery have been conducted over the past few years. These experiments have shown that, in many cases, the increase in refusal rate is overbalanced by the increase in number of orders.

Thus in November 2016 LeRee (LeEco) introduced options to pay on delivery by cash or bank card, in partnership with delivery service provider SPSR Express and payment company QIWI. The Chinese retailer has estimated that these options – which were used by 45% and up to 78% of online shoppers during special sales days in late 2016 – generated a 30% increase of its sales to Russian online consumers.

QIWI plans to extend these payment options to other foreign online stores selling to Russia in the course of 2017.



5. Legal aspects

Unlike many other business spheres in Russia, e-commerce is not subject to specific legislation. In most cases, so far, this industry has been subject to rules contained in Russia's Civil Code and a range of federal laws, which were designed to regulate larger sectors, sometimes even in a non-electronic context.

Since 2011, several important laws have been adopted in the field of personal data and electronic payments. In certain cases, these efforts to improve the legal framework have resulted in significant complications for market players.

In particular, many aspects of the legislation on personal data collection, storage and use have become particularly demanding and its implementation may be fastidious and costly, especially for players operating from abroad.

INDUSTRY REPORT



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6. HR: The most painful issue

The lack of qualified human resources appears to be one of the most difficult issues faced by the fast growing e-commerce industry in Russia. All key positions are affected, from general managers and project managers, to e-marketing specialists to IT and fulfillment teams.

Key positions affected by HR shortages as experienced by Moscow e-commerce companies

Marketing	Acute shortage
IT	More or less acute shortage, depending on specialties
Sales	Available, but mainly from offline
Logistics	Available, but mainly from offline
Project managers	Acute shortage
General managers	Acute shortage

Source: EWDN interviews

Due to the shortage of skilled employees, important positions may be filled with insufficiently skilled employees or left vacant for months. Some Moscow companies try to recruit in the regions or abroad.

Whereas positive developments are witnessed year after year in the fields of electronic payments and fulfillment, the acute HR imbalance may even worsen in the foreseeable future. The demand for qualified employees by e-commerce sites, as well as from other categories of Internet sites, fueled by massive investment, is likely to continue growing at the same high speed as the growth of the Internet and e-commerce markets themselves.

On the supply side, it will take a long time for the Russian educational system to solve its problems, most of which are chronic, in order to provide the e-commerce industry with a new generation of adequately trained professionals. Some universities are trying to fill the gap, in Moscow as well as in some cities in the regions. However, these resources remain insufficiently known about or appreciated by market players.

On a positive note, however, the first generation of native Russian e-commerce entrepreneurs already has a strong track record. Among the most impressive figures are Ulmart founder Sergey Fedorinov, KupiVip CEO Vladimir Kholyaznikov, Okotgo founder Maria Kolesnik, Viktor Lysenko and Elena Masolova, who built a leading daily deal site in just six months before selling it to Groupon Inc., and many others.



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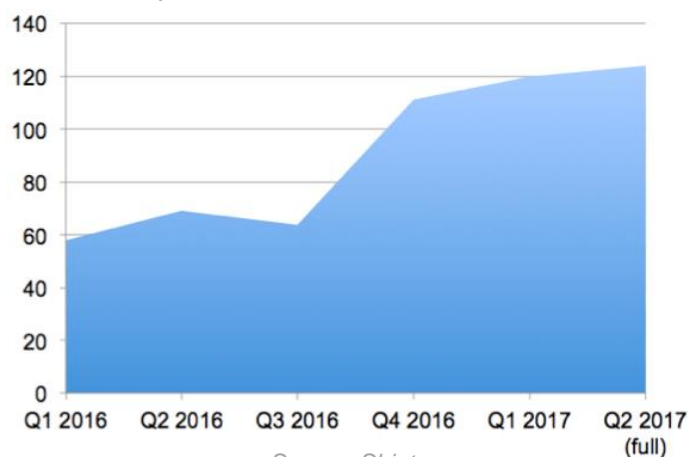
In 2016-17, Western e-commerce companies see cross-border sales to Russia resume dramatically

After almost three years of fall or stagnation, Western retailers' sales to Russian online consumers are resuming – in certain cases dramatically. Thus ASOS saw its sales to Russia grow by more than 200% in the period between September 2016 and February 2017 compared to the same period one year before.

"Russia is a very attractive market for e-commerce companies at the moment. Consumer confidence seemed to have returned, and the strengthening of the rouble was a major factor. Russian customers want the same fast fashion as the Western customer, so ASOS and Wiggle were both working at improving delivery speed, and ASOS had improved its proposition significantly," the company's chairman Brian McBride told East-West Digital News.

"With a large population and with e-commerce, in general, having a smaller share [around 3%] of retail than many other countries of that scale, and with sales via smartphones being much smaller than in the West or China, then Russia will be a very attractive market as these key metrics start to resemble Western markets. My only real concern is the strength of the currency which is something we cannot affect," McBride added.

**Monthly shipments to Russia (in thousands)
by Shiptor's Western clients**



Source: Shiptor

In the first half of 2017, the number of units shipped to Russia by service provider Shiptor almost doubled, reaching some 120,000 parcels and packages, up from some 60,000 monthly in early 2015 – without any substantial changes affecting Shiptor's client portfolio during this period.

On its side, Russian payment giant Qiwi expects that the e-wallet payment volume generated by one of its clients, a US health and beauty site, will double this year. This site may receive more than 900,000 euros in sales revenues from Russian online consumers in 2017.

Affiliate network Admitad noted that some of its western clients saw their revenue in the CPA channel grew substantially in 2016 — by 82% and 25% in the case of two apparel sites.

The traction of the Russian market is also being confirmed by the traffic numbers of iHerb, with Russia generating more traffic (18.8%) than the USA on this US site. Russia ranks second (15%) after Italy for Yoox, second (10%) after the USA for Farfetch, and third (7.7%) after the UK and the USA for ASOS, according to June 2017 SimilarWeb data.

After a few golden years, Western retailers' traction in Russia decreased in 2014-2015. During these years, the ruble's fall and the economic depression did not put an end to market growth – but Chinese players captured it almost entirely, overwhelming the Russian market with cheap offers and service improvements. Western retailers keep all their chances on the Russian market, however, if their positioning differs from that of Chinese sites in terms of product offering and pricing.



Cross-border sales: Adapting payment options to Russian online consumers

Russian payment specifics should be considered carefully by foreign online retailers. So far, not all of them have adapted their approach — which certainly stands as an obstacle to attracting more Russian consumers.

The more adapted payment options you will make available to Russian Internet users, the higher the chance to transform them into your customers. It is not by chance that Russia-focused mail forwarders, as well as large international sites selling a significant fraction of their products to Russia, have all made available one or several localized payment means. Even cash-on-delivery – Russian consumers' favorite option when it comes to physical goods – may be used in a cross-border context, as shown by several successful cases over the past two years.

• Main payment methods in a cross-border context

Payment method	Penetration	Main players
Bank cards	<ul style="list-style-type: none"> • 240 million units in 2014 (mostly debit cards) • Low level of use for offline or online purchases (40 million active users) 	<ul style="list-style-type: none"> • Mostly Visa and MasterCard • UnionPay on the rise
Electronic currencies	Over 20 million accounts for each of the three main operators; 1.5 million for PayPal (2014)	<ul style="list-style-type: none"> • Yandex Money • VISA Qiwi Wallet • WebMoney • PayPal (since 2013)
Mobile payments	Used essentially for services and virtual goods. First attempts in cross-border sales by AliExpress in early 2015	<ul style="list-style-type: none"> • Beeline (Vimpelcom) • MegaFon • MTS
Cash	<ul style="list-style-type: none"> • Used overwhelmingly for purchases of physical goods in domestic e-commerce • Emerging payment method in cross-border e-commerce 	<ul style="list-style-type: none"> • Russian Post (42,000 outlets across Russia) • SPSR Express for cash-on-delivery in a cross-border context • QIWI and Yandex.Money for offline cash collection networks

• International PSPs and local aggregators

While some international PSPs have developed a deep relationship with Russian payment operators, not all of them integrate Russia's local payment methods to a sufficient extent, if at all. So, if you feel that your PSP is not good enough working with Russian specifics, you may deal with a Russian (or Russia-oriented) payment aggregator. This will spare you the task of dealing with each Russian payment operators individually. These aggregators act as subcontractors to process the transactions, regardless of the payment methods chosen by the customers, and manage all technical and administrative issues. Among the main Russian aggregators are: DengiOnline, PayAnyWay, PayU, Robokassa, RBK Money and Yandex.Money.

• Fraud and refusal issues

Russia is commonly associated by foreign operators with a high level of such payment issues as fraud and refusals. The data and expert opinion collected during this research do not support this view. To put it shortly, "the Russian market is not that different than any other market when it comes to the card payments main indicators, be it fraud or the decline rate," notes the Merchant Risk Council (MRC).



E-COMMERCE IN RUSSIA

INTERVIEWS

To request more detailed data and analysis, or strategic advice,
on the Russian e-commerce market, please contact
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Iurii Popolitov of Shiptor: "The Russian market is not reserved for Chinese players: Western sites have all their chances, too"

In spite of the economic crisis in Russia and the ruble's depreciation, Russia is still a land of opportunities for foreign players — Chinese and Western ones alike, — believes Iurii Popolitov, Development Director at Shiptor. In this interview, he shared with East-West Digital News his vision of the market, and provides advice to Western e-commerce companies.

– Over the past few years, the Russian market seems to have lost a bit of its appeal from the point of view of western players. Do you think this is a “lost market”?

Indeed, due to the ruble's fall and other factors, many western players has seen their sales to Russia grow more slowly, or even fall, from 2014 to 2016. Simultaneously, Chinese players' sales (especially via marketplace AliExpress.ru) have grown extremely fast.

However, the Russian market is not reserved for the Chinese: there are big opportunities for Western players, too. People interested in branded items still buy them, and now that the ruble has stabilized, or even regained some value, the market is far from being dead.

Witnessing this, Shopotam, our B2C cross-border marketplace, has seen its sales grow noticeably in 2017 after two years of decrease. Another example is iHerb, a US site selling natural products. Now Russia generates even more traffic (17.7%) than the USA, according to the freshest stats from Similarweb. And Russia stands second (15.7%) after Italy for Yoox, second (9.7%) after the USA for Farfetch, third (7%) after the UK and the US for ASOS.

Regarding ASOS, I believe that their Russia sales might be in the range of \$100 million per year, if extrapolating from the data they have announced at a recent conference and from the traffic they generate from Russia.

In contrast with these players, Amazon's sales in Russia account for a small proportion of their total business.

Chinese e-commerce players are doing fine on their side, but we're talking about different product categories (e.g. electronics), different product classes, or different levels of quality in similar categories (e.g. clothing).

– Which segments or niches are the most promising for Western retailers?

Branded clothing and shoes, quality electronics, cosmetics, perfumes, a variety of niches like vitamins and supplements, sporting supplements, etc.



– Should an e-commerce company to localize its site in Russian or try to sell via local marketplaces?

Both strategies should be considered, or perhaps combined. Marketplaces will provide you with traffic, but you should check their capacity to sell in your particular product category. For example, via Yandex Market you are more likely to sell big quantities of small electronic appliances, audio and video, than clothing or footwear items. Lamoda, KupiVip or Mamsy are better places to do so.

You should also look closely at the marketplace's financial terms (commission fees) as well as their technical and legal requirements. These may be even more demanding, in the case of certain Russian players, than those of Amazon.

One of our clients, El Corte Ingles, will soon enter the Russian market. We studied all options together: from localizing their existing site, to building a dedicated Russian site, to dealing with Russian marketplaces. They liked the third option, which may reduce their marketing costs. We did the required integration works for them. We'll also provide support in terms of logistics – from first-mile pickup in Madrid to delivery to Russian customers – and payment acceptance. We'll spare El Corte Ingles any complexities : they will receive only euros from our German entity.



In Shiptor's warehouse in Claymont, Delaware.. (Photo credit: Shiptor)

**– What about international marketplaces: Are they efficient to sell to Russian consumers?**

Amazon doesn't sell a lot to Russia. eBay has significant traffic in Russia, but their Russian site mixes domestic and international offers, making the latter insufficiently visible. By the way, this is why our platform Shopotam.ru, which helps Russian consumers make orders on eBay, is popular.

As for AliExpress, it is theoretically possible to sell via them to Russian consumers even if you're not a Chinese company. We are conducting such an experiment with AliExpress, but the integration process is very hard and it's too early to say what the results in terms of sales will be.

– Do you think that international e-commerce sites should offer their Russian customers a cash-on-delivery option?

COD is the rule in domestic e-commerce. In the field of cross-border, this option is still rarely offered, but the first experiments over the past few years have shown that it may bring positive results, with the number of orders increasing much more than the refusal rate.

We have organized this option for our client El Corte Ingles and another one selling beehives. Another client, a US apparel retailer, expects that 80% of their Russian customers will opt for COD. The returns rate may be significant, but this is part of their business model.

– Please tell us a bit about your service offer.

As a provider of cross-border express shipment services, we tend to go beyond the standard service offer in this field. While most providers will just receive your parcels or packages and organize shipment to Russia, we can organize pickup from your warehouse and provide the subsequent fulfilment operations in Germany or the USA.

For example, El Corte Ingles will send their euro pallets to our Berlin warehouse, where orders will be fulfilled by ourselves. We also have a warehousing and fulfilment facility in Claymont, Delaware. All storage and fulfilment options are also available at our Moscow warehouse.

This type of service is not common on the cross-border shipment market – even though some big online stores, like Amazon, do consolidate orders themselves. But for companies that do not generate huge quantities of orders, it may be a pain to adapt their processes to Russian orders, and it would be a none sense to build a warehousing and fulfilment infrastructure in Russia.

In addition to fulfilment and shipment services, we can provide assistance for site localization, integration to Russian marketplaces (e.g. Yandex Market and Lamoda), payment processing, customer support, marketing, COD, returns management and other essential services. We have our own courier delivery service in Moscow and cooperate with a variety of strong Russian last-mile delivery companies.

Compared with international shipment giants, we're certainly a smaller company – but this allows us to serve our customers in a very individual and tailored way. All the integration goes seamlessly with an API protocol.

(March 2017)



How Next switched from cross-border to domestic fulfilment operations

An interview with Olga Evteeva, Site Manager at Next Russia

– Please tell us a bit about Next's "Russian story"

Next has been present in the Russian market since 2011. From 2011 to 2015 Next delivered to customers directly from the UK. During this time Russia grew to be one of the largest markets amongst all the international countries for Next Directory, our online channel. In 2015 Next launched its in-country warehouse to improve the service to Russian online customers. There are also 24 stores that sell the Next brand in Russia working jointly with a franchise partner.

– Did you feel a significant impact from the latest crisis?

We dispatched over 2.2 million items during the last two seasons (from August 2015 to July 2016). Russia used to regularly be in first place in our internal country sales rating in 2013 and 2014. Right now we are moving between 2nd and 4th places with sales volumes amounting to some 9% of the total Directory international sales volume. The Russian volume has dropped when the pound-to-ruble rate changed dramatically and our goods became more expensive for Russian customers.

So, yes, the crisis has impacted us. But the last thing people will stop buying is food and clothes, especially if it is for kids. We continue to develop our business in Russia and expect the volume to grow in future.

– During the cross-border phase, until 2015, how did you organize fulfilment operations?

The cross-border phase lasted until the end of March 2015. We have been working, and still do work, with SPSR-Express. This provider is responsible for the clearance of our parcels at the Domodedovo airport [serving Moscow] and further delivery across Russia.

We experienced a few issues with customs clearance of our parcels, in particular with regards to capturing customer ID during the online order procedure, but we managed to solve them successfully with our partners. Someone said, "to be able to conquer Russia you need to conquer the Russian customs."

– Why did you decide to switch to domestic operations?

Next is known in the UK for fast delivery. One of the key issues for cross-border operations with Russia was the long shipment time from the UK to the end-customer delivery point in Russia.



Interviews

Most of the time was taken up by shipping from the UK and customs clearance. As we were using the SPSR-Express premium delivery service already, we couldn't improve the delivery speed much further. So the best option was to put a hub in Russia and therefore significantly reduce the delivery time as well as the cost.

When we decided in 2014 to open a warehouse in Russia, there was another reason. First, Russia was considering – and is still considering – to lower considerably the tax free threshold for goods purchased from outside of Russia. We wanted to avoid this risk by having our operations done within Russia.



With these thoughts in mind, the project started in 2014 and we launched the warehouse on March 25, 2015.

Having done this, we hope to expand our business and restore Russia's first place in our Directory sale volume.

– What have been the challenges in this transition, and how did you solve them?

The challenge was actually to switch from cross-border to domestic operation without a transition period. We did this overnight when we were fully ready. The next day the goods were delivered from our Russian warehouse. The customers didn't notice anything except the delivery time became much shorter.

We delayed the switch a few times as we needed to ensure that we held sufficient stock in our Russian warehouse – which took longer than expected due to various reasons, including, in particular, delays with customs clearance.

As we are a bit unique in the Russian market, the customs needed some time to get used to us and to our stock. Also, we needed some time to adapt our processes to all the customs requirements.

What differs us from the rest of retailers in Russia is that we have only an online channel in Russia, which makes our fulfillment rules different. Our shipments contain many different types of items for our Russia customers. They are based on our sales forecast, so there is a variety of product types mixed up in each shipment, which make the work of the brokers and customs officers much more complex.

Another key challenge was that Russian product certification rules are much stricter than in the UK, in particular for children's clothing. Some of our items were not compliant with Russian standards, so we had to remove them from the website.



Our customers saw this when we switched from cross-border to domestic operation. However, since April 2015, our team has worked hard to address this issue, and managed to put back on sale the majority of the removed items.

– Do you aim to offer same-day delivery to your customers?

We also worked on offering more time flexibility for online orders. When we launched domestic warehouse operations, orders had to be made before 18:00 for next-day delivery in Moscow or for Moscow region, and before 13:00 for delivery across Russia in 2-7 days. After a year of operations, latest ordering time have been moved to 23:00 and 14:00, respectively. Now we aim to push the latest ordering time until even later, to 24:00. We don't offer same-day delivery yet, but this will be our next goal.

– To which extent are Russian warehousing and fulfilment conditions different from those in your other countries?

Stock fulfilment rules are very different from our Ireland warehouse, for example. As Russia is far away from the UK, getting the stock to our warehouse takes longer. This is why we need to have more stock of each item in the warehouse. But on the other hand, if we don't sell the stock in a season or during the clearance/sale period, it's not an easy task to return the goods to the UK. So the allocation the quantity of stock for the Russian warehouse is a subtle exercise, balancing the risk of having too much or too little stock in Russia. If we have too much stock and don't sell it before the clearance then we have quite a large sale. This is good for the customers but not so good for the company as the goods are sold at reduced prices.

If there is not enough stock then we have to send the stock to Russia by air to fulfill customers' orders, which this is much more expensive than bulk road freight.

– Why did you split the online and offline channels in terms of logistics?

Next UK have a long-standing relationship with their Russian franchise partner. But this remain a completely separate business.

(Sept. 2016)





Leonid Zondberg of DPD Russia: "Only large courier service providers can address the needs of giant e-commerce players"

This year DPD is celebrating its 25th anniversary in Russia. The company started its operations by transporting large-size equipment for the oil sector. In 1998, the Swedish post acquired a share in the company. In 2004, GeoPost – an international holding which is part of Groupe La Poste – acquired it. The company started serving online stores four years ago, and as of today cooperates with all the leading Russian e-commerce players. In early 2017, DPD Russia announced a merger with SPSR Express, a leading B2B and B2C shipment company and a key player in cross-border operations (see article in next section).

DPD Russia's Commercial Director Leonid Zondberg shared with East-West Digital News his vision of the latest and future developments of e-commerce delivery in Russia, including the growing role of innovation in the field of logistics.

– Do you consider the Russian e-commerce delivery market to be essentially different from that of Western Europe? Do you consider it to be “mature?”

Probably there are no fundamental differences. However, there are some peculiarities - for example, cash-on-delivery and partial returns are widespread practices in Russia, which leads to increasing delivery costs. In Russia, there are fewer delivery options – it is not natural to leave a parcel at neighbors, in boxes by the house, in a secret place or in a trunk. Thus, a German courier makes more than 100 stops per day vs. 30 for his Russian counterpart.

Moreover, delivery time differs depending on a country. For example, in Europe it usually takes one or two days to deliver a parcel by car. Meanwhile, in Russia, because of its huge territory, poor-quality roads and unfavorable weather conditions, delivery time is usually longer.

Another difference is that in most European areas, DPD organizes the delivery within a one-hour slot, while in Russia we'll offer a two-hour slot, using our service Predict, starting from 2017.

It is worth noting that the rates, which have been decreasing steadily over the past few years, are today comparable to those in Europe, regardless of the distance difference. Pickup point networks are growing very fast. Recently, for example, our partner network has reached nearly 1,000 pickup points in Russia and in the countries of the Customs Union.



– What about innovation?

In this field, western companies tend to be quicker at testing new delivery tools and implementing new services – but Russian industry players quickly adopt and localize all the innovations. Thus GeoPost has recently acquired a share in Stuart, a UK crowdsourcing platforms operating with motorbikes in London, Paris and Barcelona. In Moscow, we have been cooperating successfully with Bringo. So far, such services operate in the capital exclusively, however, they will expand to other major cities sooner or later.

Most significant recent innovations in shipment services are on the IT side. They affect internal processes (analysis and forecast of traffic and pickup points occupancy rate, etc) as well as client services (web interfaces for senders and addressees, online change of delivery terms, parcel tracking, etc.). These online services allow better integration with the retailer's IT system and closer interaction with end users.

As driverless transport is expected to develop in the future, it is quite possible that the Internet-of-Things will allow the logistics industry to reach a new level of development.



DPD claims to deliver orders from the USA to Russia “at low prices.”

– How do you envision the development of the Russian e-commerce shipment market in the future?

Since online consumers in Russia's regions are getting more and more active, logistics both inside and across regions is developing. Retailers' capacities need to be adapted accordingly, [which may lead to] thorough changes in the nearest future. As a major improvement, delivery time will be reduced to up to one day, at least in major cities. Such a system will require retailers to build a network of intermediary warehouses, from where goods can be delivered to customers within one day. This is done already by Amazon [in other countries] as part of Amazon Now.

Another visible trend is the progressive extension of the shipment service offer to new product categories. This concerns, in particular, large-size goods such as household appliances and furniture. We'll launch a pilot project to ship such goods in Moscow in the nearest future. Another niche is the delivery of groceries, which requires special equipment for transportation and storage.

**– Which types of customers does DPD serve in the field of B2C e-commerce in Russia?**

We are mostly focused on Russian businesses, however, we also deliver from more than a hundred of foreign stores. For example, we deliver sporting goods from Europe and China for one of the world's largest sportswear brand. In cooperation with them we've introduced an international returns service.

We serve many other renowned brands and online stores from the US. Among our other partners are Chinese logistics service provider SF Express and marketplace Nazya.com.

– DPD saw its B2C deliveries increase by 59% in terms of parcels in 2016. Why such figures amid relatively moderate market growth?

As a market leader, DPD partners with almost all major online stores. If a new strong player enters the market – as a rule, an offline retailer launching online activities – we are always short-listed as a delivery service provider. Major clients, including western ones, often hire several service providers.

Therefore we seek to extend the scope of our existing contracts both geographically and in terms of new services. For example, in November 2016, MediaMarkt started using our pickup point network in Siberia, in addition to our courier delivery services. Other regions will join in a further stage.

– Since last year there have been several cases of mergers or acquisitions involving both domestic players and international ones. Why is the market consolidating in such a way, and how will DPD and SPSR position themselves in this context?

Indeed last year saw a number of such moves on the express delivery and courier service market. Posti [the Finnish post and its dedicated Russia subsidiary Itella] acquired MaxiPost while [Russian service providers] TopDelivery acquired Maxima-Express and Boxberry took control of Axiomus. These companies aimed to strengthen their positions on the e-commerce service market, which has become the main driver of Russia's logistics market. By absorbing even small players, they sought to acquire additional specific resources or competencies – for example, to develop deliveries in Moscow or St. Petersburg, or a pick up point network.

The consolidation of the logistics market is a reflection of the consolidation of the e-commerce market itself. Major online stores tend to develop more actively than smaller ones [which have suffered from] decreasing demand [in certain market segments]. Thanks to strong promotion, these major players manage to attract many of the customers who switch from offline to online. In addition, market leaders often offer better pricing and delivery conditions.

The share of foreign players – including, first of all, AliExpress – is increasing too. Obviously, only large providers are able to address the needs of such customers. Our merger with SPSR Express will allow us to become the leader in all the main segments of the express delivery and courier service market, including B2C. By uniting our material and intellectual resources, we can improve the service offer in the country and, ultimately, stimulate the development of Russian e-commerce.

(January 2017)

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How Wikimart.ru went bankrupt after raising dozens of millions from international investors

By Adrien Henni, East-West Digital News, July 6, 2017

Last month Wikimart, an important Russian B2C e-commerce marketplace, shut down, putting an end to a long agony. Launched in 2008 by Stanford graduates Maxim Faldin and Kamil Kurmakaev, Wikimart had the initial ambition to create a Russian analog of eBay.

The project was heavily funded by Western investors, with Tiger Global Management investing some \$30 million in total in 2010, 2011 and 2012. Business angels Fabrice Grinda, Chris Herndon and Jonty Kelt also backed the startup at an earlier stage, in 2009.

Russian investors joined later with substantial contributions, investing more than \$52 million starting from 2012. The latest investment, led by Finprombank chairman and co-owner Anatoly Goncharov, took place in September 2014 after Wikimart failed to attract Western money again.

India more appealing than Russia

This failure was directly related to the international political climate, claimed Faldin at that time:

“Goncharov was a minority shareholder with 15%, while Tiger had about 50%, and they were actually leading the development strategy. It was necessary to develop the business, to invest in it. (...) In July we agreed on everything – but the Boeing fell in the southeast of Ukraine and the world changed. Only 12 hours after the fall of the Boeing, I had a conference call with New York and they said: ‘We can no longer fund the company, do whatever you want.’ We sat for two months without money and with wage arrears.”

“Then, when I arrived in October to New York, I learned that Tiger Global was raising a huge investment round, and their main investors were representatives of the Republican Party. It all became clear. On the same day, they clinched a \$1 billion deal in India.”

There was no plot against doing any business with Russia, though: “It was rather a question of the business environment: somewhere at a cocktail party someone said something. You’re not going to risk rounds worth billions in order to invest an additional \$15 million in Russia, which then will bring you \$50 million,” Faldin said.

Commercially, the company seemed to develop successfully in the first years on the young Russian e-commerce scene. With thousands of affiliated merchants, the platform’s turnover neared \$130 million in 2013, according to data cited by Oborot.ru.



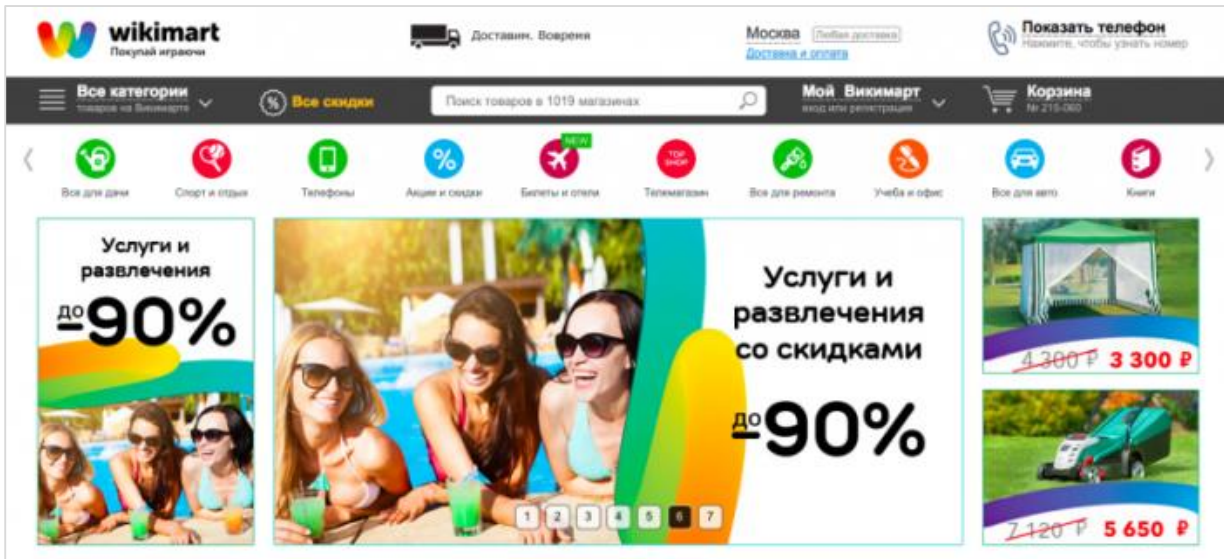
Acquiring loss-making assets

However, the company never broke even, although Faldin hoped this goal could be reached by the end of 2015. This situation is no exception on the Russian e-commerce scene.

In September 2014, Wikimart bought two retailers — Terminal.ru and Mallstreet.ru — to strengthen its offline presence in the regions and use Terminal.ru’s warehousing.

Thus the company inherited a number of offline points of sales — but these were “all terribly unprofitable,” conceded Faldin, who soon after the acquisition was “thinking of what to do with them.”

In the autumn of 2015, Wikimart launched its first 24/7 offline warehouse stores in Moscow and Novosibirsk, which walked back from the twenty-four-hour service in early 2016. Simultaneously, the company built a network of Wikimart’s pickup points called “Wikimart express.”



Meanwhile, Wikimart began developing sales under its own brand, in addition to its traditional marketplace function. The company pivoted even further, announcing its new positioning as an “online commercial and entertainment center.”

In the spring of 2015, to implement the new strategy, the company hired a new general manager, Andrey Klenin, a former executive from leading Russian e-commerce company Ulmart. Faldin kept a seat on the board of directors.

The new strategy did not work well, however, with several key executives leaving the company in 2015 and serious financial issues appearing in 2016. Soon after Finprombank went bankrupt in September 2016, Wikimart stopped paying salaries in time.



Unpleasant truths

On December 16 Faldin told unpleasant truths to Wikimart's employees on his Facebook page. According to him, Wikimart practically did not exist anymore:

"After almost a two-year break, I have spent two days at the company. Majority shareholders abandoned it. The company does not have assets to save and competencies to preserve. Twenty months of my absence have allowed the "professional" top managers to kill the company using the money of rich oligarchs. They have spent (in rubles) twice (!) more than we, Kamil Kurmakaev and I, spent since the company's inception in 2008 till August 2014. And EVERYTHING has been lost or stolen — mostly lost."

As a matter of fact, the company's offices in Moscow and several other cities shut down during the winter, while legal procedures revealed that Wikimart was in debt to suppliers, contractors, and landlords.

Even though the company is not formally bankrupt today, Wikimart.ru has stopped all online activities, while its central office has been sealed, reports Oborot.ru.

Faldin did not answer EWDN's questions.

The highs and lows of market leaders

Wikimart is not the only Western-funded Russian e-commerce having experienced difficulties recently. Oktogo, an online travel agency which received nearly \$40 million in total since 2010 from Mangrove (Luxembourg), Ventech (France), ABRT (Russia) and MCI (Poland), also went bankrupt earlier this year.

Ulmart, a St. Petersburg-based company with a pioneering online-offline concept, was Russia's number one e-commerce company in 2015. That year, its total sales exceeded \$1 billion, including almost \$600 million in online sales. However, the company's IPO ambitions have been made irrelevant by a disastrous shareholder dispute under both Russian and international jurisdictions, not to mention legal procedures initiated by dozens of creditors. Among Ulmart's key shareholders is American-born businessman August Meyer. The Ulmart press service did not answer EWDN's questions.

Exist.ru, a Russian online retailer of car parts, was also affected by a shareholder conflict until this past spring. The company is now owned by one single shareholder, Evgeniya Nazorova, following a transaction which has valued the company at just \$42 million, according to Kommersant. Exist was ranked number one e-commerce company in 2013.

Crippled by debts, Enter.ru, an online-offline network launched in 2011 under a \$300 million investment plan, was at agony six months ago. After a seemingly successful start, the company was affected by the insolvency of its main shareholder Maxim Nogotkov among other factors. In March 2017 an unnamed Russian investor from the e-commerce industry pledged to rescue the company with a 300 million ruble investment (approximately \$5 million) before the end of this year.

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Yandex and Sberbank agree \$500 million JV plan to create “leading e-commerce ecosystem” in Russia

East-West Digital News, August 9, 2017

Yandex, the NASDAQ-listed Russian search giant, and Sberbank, Russia's state-owned national savings bank, announced today their plans to join forces and create “a leading e-commerce ecosystem” based on the Yandex.Market e-commerce marketplace. The deal, if confirmed, would mark the biggest e-commerce investment in Russia's history.

According to a non-binding term sheet — which will ultimately be subject to regulatory approval in Russia —, Sberbank would invest 30 billion rubles (approximately \$500 million at the current exchange rate) in the joint venture. The investment would value Yandex.Market at 60 billion rubles (\$1 billion) post money. The two partners would own equal stakes in the JV, with up to 10% of the shares allocated to a stock option plan for Yandex.Market's management and employees.

Fierce competition

Currently, the platform attracts more than 19 million desktop and laptop users each month (source: TNS Global), giving them access to over 20,000 domestic and international merchants and 150 million product offerings. Yandex.market used to dominate the Russian e-commerce marketplace realm but now struggles with two very strong competitors.

Not only is Alibaba's B2C subsidiary AliExpress by far number one in the Russian cross-border e-commerce flows, but it has opened its marketplace to local sellers too, and its traffic (23 million monthly visits according to SimilarWeb) matches that of Yandex.Market.

Another competitor is Avito.ru, the country's first classifieds site, which allows businesses to operate on its site, and attracts more than 21 million desktop and laptop users every month (source: TNS Global). The company's total revenue reached \$192.5 million in 2016, up 75% from 2015. In October 2015 Naspers announced a \$1.2 billion transaction to become the largest shareholder in Avito.ru. The deal valued the classifieds site at some \$2.7 billion.

Latest evolutions

In this context, Yandex.Market has evolved significantly over the past few years. Inspired by the Amazon model, it has significantly increased its control of fulfilment and delivery processes. Thus two years ago the platform launched the Yandex.Delivery service, aggregating offers from several e-commerce shipment service providers.



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Now Yandex.Market intends to go even further: “We will build [our own] logistics and delivery system to aggregate goods in warehouses and offer the best delivery price conditions to our customers,” said Maxim Grishakov, the CEO of Yandex.Market, in a recent media interview.

The marketplace intends to use Sberbank’s funding to improve these logistics capabilities as well as to implement a checkout function on the site at a large scale, and “enhance its value proposition to domestic and international merchants.”

In addition, Yandex.Market would like to leverage Sberbank’s banking and payments infrastructure to “develop simple and secure payment solutions on the Yandex.Market platform and introduce new features, such as consumer lending,” Grishakov stated this morning.

Good old partners

This is not the first partnership between Yandex and Sberbank. Back in 2009 the state-owned bank acquired a golden share in Yandex – a privileged stake that gives significant control over the Yandex shareholder structure.

In 2013 Sberbank acquired a 75% interest in Yandex.Money, the e-wallet and payment service developed by Yandex.

Sberbank has been considering several options to get more involvement in Russian e-commerce. In late 2016, the bank was already reported to be working on a project to launch a national e-commerce ecosystem. In addition to using its own resources, the state-owned bank considered gathering a variety of organizations around a common technological platform to build a comprehensive B2C and B2B offer. The plan was inspired by the ecosystems which Google, Amazon and Facebook as well as Tencent and Alibaba have set up in their respective countries.

Sberbank initially considered an alliance with Alibaba, or Mail.Ru Group, or an even exclusively in-house development strategy. Today’s announcement of a JV with Yandex, if confirmed, could help the bank realize its e-commerce ambitions.



Loyalty program, mobile payments, personal data storage: How AliExpress conquered the Russian e-commerce market

By Adrien Henni, East-West Digital News, April 28, 2015

Over the past few weeks, AliExpress has multiplied initiatives to strengthen its leadership on the Russian e-commerce scene. The Chinese giant has teamed up with Russian online bank Tinkoff Bank to launch a co-branded loyalty program. Associated with MasterCard credit and debit cards, this program is the first of its kind in the world, said Mark Zavadskiy, AliExpress business development director in Russia.

AliExpress customers in Russia will enjoy bonus points for any purchases made using these cards. The bonuses amount up to 5% of purchase value on AliExpress and 1% for purchases made with any other merchant. Bonus points can be spent on AliExpress. Card holders may benefit from special, up to 30% discounts on AliExpress and from 3% to 9% on Tinkoff's online travel agency.

"Under this program AliExpress and Tinkoff will leverage and develop their large client bases across Russian regions," Zavadskiy said.

AliExpress has also made mobile payment methods available to its Russian consumers, Zavadskiy announced. Alibaba's in-house payment system Alipay has partnered with Russian payment company Rapida and mobile solution provider Soyuztelecom. These payment methods have been made available to subscribers of the four main Russian mobile operators — Beeline (VimpelCom), MegaFon, MTS and Tele2 — with a commission fee of 1% to 3%.

Cheap Chinese stuff paid for by mobile

Mobile payments have been developing fast over the past few years in Russia, with all major mobile carriers launching ambitious mobile payment platforms. So far, however, this payment method has been used essentially to settle utility bills and online services rather than for online purchases of physical goods, as analyzed in EWDN's e-commerce research. "In a certain sense we're pioneers in this field," Zavadskiy commented.

Another announcement concerned personal data storage. Starting from 1 September 2015, according to Russian legislation, businesses will be requested to have Russian citizens' personal data stored exclusively on servers located on Russian territory. Following a meeting with state regulator Roskomnadzor on April 13, AliExpress Chinese and Russian executives confirmed their intent to comply with this rule. The statement came just days after a similar announcement by eBay and its subsidiary PayPal.



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The Chinese company also confirmed its intention to open soon a fully fledged representative office in Russia.

Meanwhile, the AliExpress free Android app has become number one by the number of downloads on Google Play — ahead of social networks and IM services, which traditionally lead the ranking. The AliExpress Apple app, however, is not as successful, noted e-commerce publication Oborot.

The Chinese company has even made an educational animation that helps new users get accustomed to purchases on the site. The cartoon is 1.45 minutes long. Posted on Youtube on April 15, the film has got less than 6,000 views as of today.

Earlier this year AliExpress signed a partnership with SPSR Express to enhance its delivery capacities across Russia. The Russian operator has decided to invest “up to \$10 million” in developing a network of hundreds of pick-up points specially dedicated to AliExpress.

Last year, the Chinese e-commerce giant became the number one e-commerce site in Russia by traffic and the number of orders. The marketplace shipped several hundreds of thousands parcels every day to Russian consumers as of late 2014, according to EWDN’s expert pool.

This story is based on reports from various Russian media and industry sources

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L'Oréal Group launches mono-brand e-commerce sites in Russia

East-West Digital News, August 11, 2016

Now Russian Yves Saint Laurent aficionados may purchase perfumes and cosmetics in the brand's official online boutique, which was launched last month.

Four other mono-brand e-boutiques — Lancôme, Urban Decay, Kiehl's and Clarisonic — have also been launched recently; another one for Armani will be online by the end of this year, Ekaterina Golovanova of L'Oréal Luxe said in an exchange with East-West Digital News.

Previously, these products were available online only via such retailers as Ile De Beauté, Rive Gauche and L'Etoile. "Supporting operations with these e-retail partners remains an important priority," Golovanova said.

The company pursues in Russia the same strategy as in other countries, developing mono-brand e-boutiques and working with e-retail partners — excluding, though, pure players.

"The Group's global ambition is to grow faster than the market," Golovanova said.

Marketing and promotion strategy are supported in-house, as well as part of the boutique's operations.

Orders are delivered within two days in Moscow and up to two weeks in other cities of the countries, in partnership with private shipping company SPSR.

Golovanova could not disclose the amount of investment required by the project. "It really depends on the business model (fulfillment or in-house) and on the cost of supporting the IT platform."

Impact of the crisis

With 160 million small packages and parcels sent to online consumers in 2015 (up 10% from the previous year), Russia's domestic online retail market still grew among the economic crisis in real terms, according to Data Insight estimates cited in EWDN's latest industry report.

As far as physical goods were concerned, the market reached last year some 650 billion (+16%) in rubles. However, given the national currency's sharp depreciation, market size fell to \$10.5 billion in dollar terms (- 28% from 2014).

Cosmetics and perfumes were less in demand due to the crisis (along with such other categories as electronic devices and home appliances). According to a recent ranking, the largest online retailers in this field were Yves Rocher, with an estimated 1.79 billion rubles (\$29 million) sales volume, and L'Etoile (1.57 billion rubles, or some \$25 million at the average exchange rate in 2015).



Mars Inc. sells premium chocolate sweets online

East-West Digital News, Feb. 23, 2017

Mars Inc. has launched an online store of handmade chocolate sweets in Russia. The sweets are sold under the popular Russian brand 'A. Korkunov,' which Mars Inc. acquired in 2008 as a part of Wm. Wrigley Jr. Company.

This brand accounted for 2.6% of the Russian chocolate retail market in 2016, with sales amounting to 12.65 billion rubles (some \$190 million at the average exchange rate of the year), according to Euromonitor data cited by the Russian business daily Vedomosti.

The new online shop offers 12 selections and 14 flavors of sweets, which are manufactured in the group's factory in Odintsovo nearby Moscow. The price varies from 1,399 to 6,549 rubles per selection (roughly \$24 and \$113, respectively, at the current exchange rate).

These handmade sweets cannot be preserved for more than two weeks. This hinders distribution through traditional stores, Ekaterina Eliseeva of Mars Chocolate Russia told Vedomosti.

The company expects the site to generate 700-800 daily views on average, with 5,000-7,000 daily views before Christmas and New Year, as well as in spring.

Currently the sweets are delivered within the Moscow region only, with a minimum order of 1,500 rubles (\$26). In the future, Mars is planning to make delivery available beyond the Moscow region and to enlarge the online assortment.

French kiss from Belgium for Russians

Several other Russian sweet manufacturers already sell their production online via their own site. For example, 'Pobeda,' a popular brand from Soviet times, has been doing so since 2015. Last year, its online store generated more than 5,000 orders with an average order value of 2,500 rubles (\$43), the company told Vedomosti.

Another example is French Kiss, which offers Belgian-made chocolates. This company's online sales accounted for no less than 7% of total retail sales last year, according to Dmitry Shitsle of VIY Management.

The online sales channel will gain even more traction in the future since consumers have got used to buying on the Internet, especially goods they are familiar with, Shitsle believes.

Mon'delez Rus, a competitor of Mars operating under the brands 'Alpen Gold,' 'Milka' and 'TUC,' does not have its own online store, but does partner with such major Russian e-commerce sites as Ozon.ru and Utkonos.ru.

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Russia teams up with eBay to stimulate online sales to foreign consumers

By East-West Digital News, March 30, 2017

The Russian Export Center, a government-backed organization, has agreed with eBay a joint program to help Russian companies reach foreign online consumers, TASS reports. Not only will these sellers have their goods featured on eBay, but the company’s Russian staff will also provide them with free consultations about how to start selling and promote offers via the platform. Russian sellers will also benefit from eBay’s technical support to launch their own online store.

eBay, however, is not the only available channel to reach foreign customers.

“We’re preparing to launch a new logistics chain from the first mile in Russia to end consumers in North America and Europe via eBay, Amazon and smaller marketplaces,” said Iurii Popolitov, Sales Director at Shiptor, a cross-border e-commerce service provider which thus far had served foreign players selling to Russian consumers.

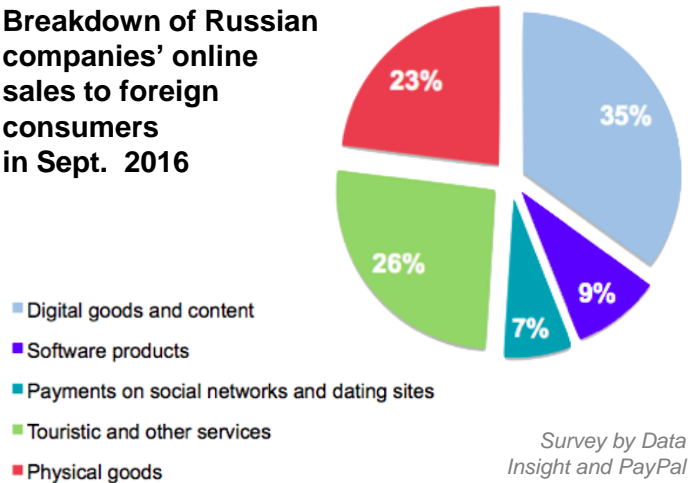
B2C online sales of Russian companies to international customers reached some \$2 billion last year, up 32% from 2015, according to a recent estimate by Russian research agency Data Insight and PayPal. These consumers came essentially from Northern America and Western Europe.

By contrast, Russian consumers’ orders of physical goods on international sites reached some \$4.3 billion in 2016, according to NAMO data cited in EWDN’s e-commerce report.

While certain experts believe that Russian products have virtually no chance to meet international demand in significant quantities, Popolitov sees a potential for certain product categories, for example branded clothing, shoes, some niche food products and crafts.

Nevertheless, online export is still hampered by the lack of logistics infrastructure and insufficient experience in international sales. “Currently, more than 90% of the orders from Russia are registered as C2C parcels due to the complex B2C customs and tax procedures. Market players have been lobbying for simpler procedures for years, but without substantial results so far,” notes Vlad Shirobokov of EWDN.

Breakdown of Russian companies’ online sales to foreign consumers in Sept. 2016





How Russian e-wallet users make payments online

By East-West Digital News, June 14, 2016

While the most popular online payment methods are online banking and bank cards used online, with 80% and 79% of Russian Internet users, respectively, using these methods regularly, no less than 62% pay with e-wallets. Just 47% utilize SMS-payments.

These are some of the key findings of a recently published TNS survey, which was made in 2015 among Internet users between 18 and 55 years of age who live in cities of 700,000 inhabitants or more across Russia.

More specifically, Yandex.Money¹ has studied how online payment behavior differs among particular groups of its customers, breaking their groups down by gender, occupation, mobile platform, and state of indebtedness.²

Mobile platforms (iOS, Android)

Mobile payments are growing in Russia, with almost 40% of Russian Internet users using them, according to the above-mentioned TNS report. Almost one half (49%) of Internet users make payments through SMS, 55% pay with bank cards on their phones, and 61% utilize online banking apps.

On Yandex.Money specifically, the average payment amount made from an iOS smartphone or tablet is 21% more than from Android platforms. However, on average, Android users make four more payments per year than iOS users. Parallel to this, Android users are more likely to pay for computer games via e-wallet than iOS users (20% vs 17% of all Yandex.Money e-wallet users).

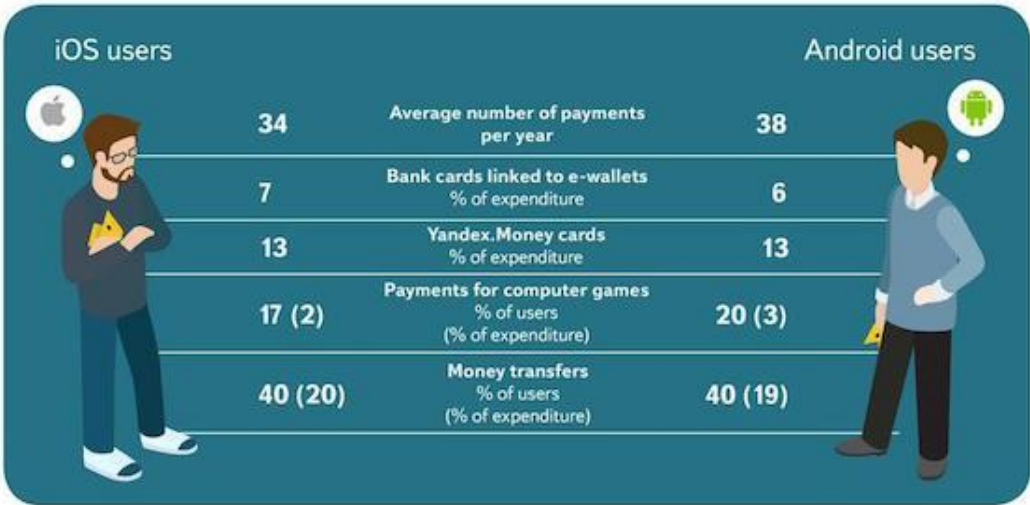
Money transfers occur at the same level of frequency: 40% of online payments for users of either system are money transfers. In terms of share of spending, iOS and Android users both spend 20% of their online budgets on money transfers.

1. Claiming 25 million user accounts — with about 15,000 new accounts opened daily, — Yandex.Money is the largest electronic payment services in Russia in terms of use, according to a TNS report published in May 2016, ahead of the WebMoney, PayPal and the Visa Qiwi payment services. In addition to its own e-wallet service, Yandex.Money offers a B2B payment solution (the 'Yandex Payment Solution').

2. Data collection was arranged through the Yandex's own technology Crypta, which can distinguish clusters according to categories of customers by relying on their online behavior. Data included information about payments made by users via e-wallet, linked bank cards, and the Yandex.Money MasterCard (Yandex.Money has issued more than 400,000 physical bank cards and 10 million virtual cards).



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Source: Yandex.Money



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Loans

Yandex.Money users that have an outstanding loan spend 16% less online than those who have no loans. However, they still complete the same number of transactions. And 40% of each category of user prefers paying online by e-wallet.

In addition, 20% of every group of users' share of transactions through Yandex.Money is made up of money transfers.

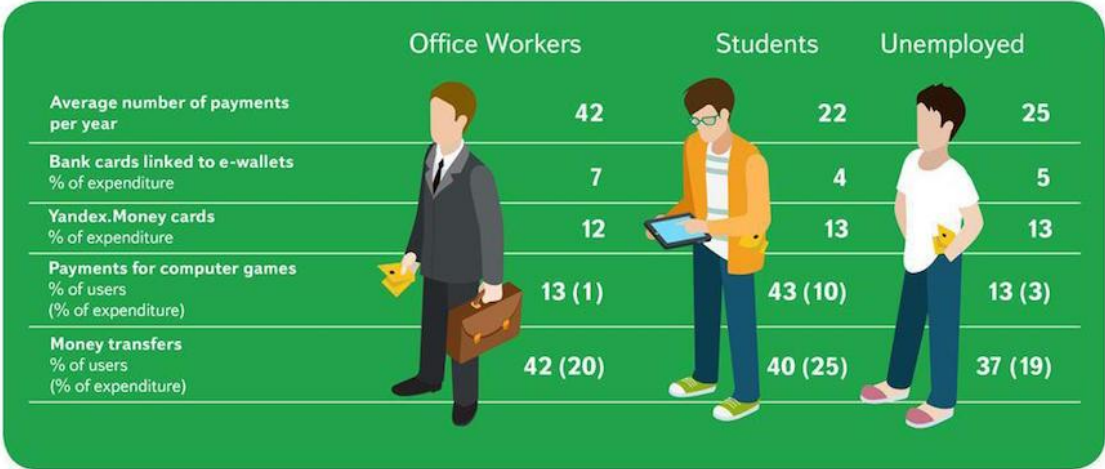
Women and men

The payment practices of Yandex.Money users differ significantly by gender. Women make online payments 1.5 times as often as men. Women also make larger purchases online — 15% more than men — and are more likely to do their shopping at night (55% and 46% of transactions, respectively).

Transfers are more popular among women than men (money transfers make up 23% and 19% of all online transactions, respectively). Interestingly, both categories of users make purchases using their Yandex.Money cards more often than bank cards linked to their e-wallet — women make 5% and 12%, respectively, and men 6% and 12%. All other payments are made directly via their e-wallet balance.

Occupation

Office workers make online payments on Yandex.Money twice as often as unemployed or students. Money transfers are the most popular among office workers (42%), followed by students (40%), and, finally, unemployed (37%).



Source: Yandex.Money

Source: Yandex.Money



GeoPost acquires majority stake in Russia's SPSR Express as local shipping market consolidates

By East-West Digital News, January 31, 2017

Earlier this month GeoPost, a leading player in the European courier, express and parcel market, announced a plan to merge its fully-owned Russian subsidiary DPD Russia with another local service provider, SPSR Express. The French group simultaneously announced a partnership with Italy's BRT and an acquisition in Brazil.

GeoPost expects the Russia deal, which is subject to approval by the Federal Antimonopoly Service, to be completed in the first quarter of 2017.

The financial terms have not been disclosed, but the DPD Russia press service told East-West Digital News that GeoPost will own 70% of the new entity. The remaining 30% will be held by Elbrus Capital — which invested in SPSR in 2012 — and company management.

Aiming at market leadership

"This merger will create a universal service provider operating in all segments of the logistics market. The company's development will be focused on the evolution of new technology solutions that will revolutionize the concept of logistics," said Vladimir Solodkin, who will chair the merged company's Board of Directors and its Strategic Committee.

"Both companies have unique competencies in the B2B and B2C segments, which will allow us to offer the best services in terms of content, quality and cost. We aspire to create a company that will become the market leader not only in shipment volume, but also sets the market standard for customer service and reliability," stated Nikolay Voinov, a former Itella executive and appointed-CEO of the new company.

The merged entity is set to become the leader among private operators in Russia, the press service added, referring to "independent experts."

DPD, which entered the Russian market 25 years ago, claimed in 2015 a 17% share of Russia's B2B shipping market and 11.6% of the B2C segment, putting aside the national operator Russian Post. Currently, the company has over 125 depots, nearly 1000 pick-up points and its own divisions in the Customs Union countries — which include Armenia, Belarus, Kazakhstan and Kyrgyzstan in addition to Russia.

SPSR's market shares amounted to 10.8% (B2B) and 8.4% (B2C) in 2015. The operator claims to have the largest network in Russia with 9 distribution and 15 sorting centers, 200 offices and representatives throughout the country.



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In the short term, DPD and SPSR Express will continue operating under separate brands, but another strategy could be adopted in the course of the integration process.

“This process will take two years, during which all matters pertaining to the new entity will be decided,” the DPD press service said.

If the merger succeeds, the new entity will be so powerful that it could measure itself with the postal operator, believes Konstantin Yakunin, founder of cross-border shipment operator Express RMS.

Serving global giants

The transaction is the latest of a series of recent mergers or acquisitions on the Russian shipment scene. In the course of last year, Boxberry acquired a majority stake in Axiomus and Express RMS bought 50% of Novye Partnery, while Itella acquired Maxipost and Top Delivery bought Maxima Express.

Meanwhile, some service providers shut down amid the economic crisis which affected a fraction of Russia’s offline and online retail markets.

“The market is entering a more mature phase,” commented Yakunin. “This may allow service providers to serve even larger players — such as Alibaba today and potentially Amazon tomorrow — while improving service quality and offering more stable pricing.”

Russian Post still controls more than 90% of the cross-border B2C shipping market, but has a much smaller share in domestic operations.



*SPSR Express has a team of 4,000 employees and more than 1,000 vehicles across Russia.
(Photi credit: SPSR Express)*

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