E-COMMERCE IN UKRAINE
2013-2015: From troubled times to future growth

Summary – June 2015
ABOUT THIS STUDY

This short, ad-funded version contains excerpts from a comprehensive research study offered by the Ukrainian Direct Marketing Association, the main platform for communication in the field of mail ordering and e-commerce in Ukraine.

The research was conducted in partnership with leading consultancies and universities, and based on interviews with over 50 industry players and experts.

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PUBLISHER

This research was conducted by the Ukrainian Direct Marketing Association (UDMA), specialized association in the sphere of distance selling, e-commerce, and their infrastructure (logistics, payment systems, fulfillment & letter shops, contact centers, etc.). The Association has extensive experience in conducting qualitative research in Ukraine, including: research of direct marketing and distance selling market, postal logistics and contact centers.

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Ukraine Digital News is the first international information company dedicated to Ukrainian digital industries. It provides news, business analysis and industry reports pertaining to the Internet, e-commerce, mobile, software and hardware innovation, as well as IT services. Ukraine Digital News is part of the EWDN network, which offers international coverage of Eastern Europe’s digital scene.

The research was conducted with the assistance of one of the largest venture capital funds in Ukraine - Aventures Capital, which invests in companies at the growth and early stages of development. The main focus of the fund is digital economy. Its projects include: B2C (including e-commerce) and online Internet services, enterprise and consumer software, mobile technology, payment systems, and projects related to social media and IT.
For the first time, this study sheds full light on the Ukrainian online retail market – one of the least known and understood on the planet.

Both local and international business circles will enjoy reliable data and forecasts on this market. What’s more, with a nearly comprehensive review of key operational issues – from deliveries, to payments, to marketing – this report comes as an invaluable tool to acknowledge and prepare for present and future business opportunities.

There is no doubt that, as soon as the political situation in Ukraine stabilizes, strong growth will resume on the local e-commerce scene. This market – which has not exceeded a modest $2 billion per year so far – could become one of the largest and dynamic ones in the CEE regions.

Credit for this study is due to the Ukrainian Direct Marketing Association, who dedicated a large part of their team to complete this report – and to the sponsors and advertisers, who provided the means necessary for a pioneering investigation. It has been a great honor for us to associate ourselves with this effort.

We wish you every success in your e-commerce projects.

Sincerely,

Adrien Henni
Chief Editor
East-West Digital News
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2.8 million people online consumers

Retail trade market volume amounted to $110.6 billion

Including $2.2 billion (2%) Distance trade market volume

E-commerce market volume $2 billion
Catalogue sales volume $200 million

The market grew by 25% compared with 2012
Key trends:

Before 2014, e-commerce grew by at least 25% annually, and some online stores showed a doubling or even tripling of sales.

Traditional offline retail is going online, applying a variety of hybrid models. Market places are becoming more and more popular.

There are new categories online: users often buy goods, previously looked for offline, on the Internet (for example, building materials, food, etc.). Ukraine e-commerce market is growing in account of that.

E-commerce has developed in a greater degree in Kyiv and big cities, but the main part of forecast market growth will take place at the expense of the regions. To this effect, delivery service needs to be improved.

Before users buy a product, they first look for information about it on the Internet. Reviews, comments and Q&As remain the most popular user-generated content.

Credit cards and other electronic payment systems are used increasingly frequently. However, cash remains the most popular payment method. Further development of electronic payments are being hindered by underdeveloped payment infrastructure.

E-commerce companies’ most sensitive issues have proven to be: customer service, logistics and price policy. In particular, even big players underestimate the importance of loyalty programs, the introduction of new standards of service, and the expansion of payment methods.
INCOMING CALLS PER DAY 49,000
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In 2014, political turmoil and economic crisis, as well as an international conflict and a civil war in the East of the country, led to a significant drop in the national currency and a decrease in its purchasing power. These woes were not fatal to e-commerce: sales volumes increased by 19% in hryvnias – but decreased by about 20% in dollar terms, due essentially to the hryvnya’s fall.

In 2014, Ukraine’s online retail market amounted to $1.6 billion

<table>
<thead>
<tr>
<th>Positive trends in 2014</th>
<th>Negative trends in 2014</th>
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<tr>
<td>E-commerce market lost ground in dollar terms, but some segments witnessed growth (e.g. fashion incl. footwear - in the first half of 2014 increased by about 10% in hryvnya terns.)</td>
<td>E-commerce sites lost about 17% of their traffic due to the annexation of the Crimea and military operations in eastern Ukraine.</td>
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<td>Some Ukrainian e-commerce projects received important investment. Among them was Zakaz.ua, which raised $2.5 million.</td>
<td>The cost of the goods increased, essentially due to the fall of the national currency.</td>
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<tr>
<td>Some new players entered the market (e.g. British clothing store Next).</td>
<td>The purchasing power of the population fell sharply: the population’s nominal income remained at pre-crisis level, or increased insufficiently to compensate for the fall of the hryvnya and inflation.</td>
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<td>The legal framework for regulation of e-commerce was improved.</td>
<td>Delivery has been made impossible in the war-torn areas in the East (approximately 15% of the entire territory of Ukraine).</td>
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<td>The general trend of transition companies from offline to online.</td>
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<td>Alternative methods of delivery are developing (e.g. delivery by bicycle, self pickup points in the offices of Privat bank).</td>
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The dramatic developments in 2014 led to the total destabilization of the national economy and a currency crisis in Ukraine. In addition to falling purchasing power in the Ukrainian market, representatives of online retail were faced with delivery complications in 2014, costs increased due to rising petrol prices, and efforts were suspended in the war zone. Experts predict that, in the future, e-commerce will remain the main driver for logistics sector companies in Ukraine.

**The electronics segment** continues to lead best-selling products online. According to the UADM, by the results of 2014 the volume of this segment was $750 mln. The fall of this category in 2014 was 25% in dollars relative to 2013 (thus, growth in in hryvnya was 11.3%). According to the market experts, conversion of visits in purchases for this segment has decreased on average by 30% in 2014 relative to 2013. Average order value has grown by 80% in hryvnya.

**The fashion segment (clothes and shoes)** is on second place in monetary terms. According to the UADM, the volume of the segment in 2014 was $131 mln. The fall of segment in 2014 was 13% in dollars relative to 2013 (thus, growth in hryvnya was about 10%).

In 2014 the volume of online sales of **kids goods** grew by 48% in hryvnya relative to 2013. According to the UADM, the volume of the segment in dollars is on the same level – $10 mln. Despite the fact that in 2014 purchasing power of population has decreased significantly, the category "Kids goods" remains the segment for which customers will save their money the last.

During the first half of 2014 at the marketplace Prom.ua three times more online orders were placed than in the same period of 2013. There has been a rapid growth in products that belong to the category "Safety and security" (personal protection equipment, security systems and alarm systems, etc.). According to Allbiz there is increased interest in the product categories providing heating premises (potbelly stove), weapons (hunting guns, pistols), uniforms (camouflage, body armor).

Among the major trends in the development of delivery may be noted:

1. Domestic reform and the further development of private operators (shipment service providers); market liberalization.

2. The market will enlarge – in the battle for survival, weaker players will be eliminated. These are private operators who cannot withstand the competition, will be absorbed / bought by larger players, or will leave the market in general.

3. Optimizing their expenditure, many operators will begin using outsourcing services for "last mile delivery" from local players.

4. Transferring warehouse logistics operations to outsourcing will stimulate the development of market fulfillment in Ukraine, leading to the emergence of new players, increasing competition and the quality of service.

5. Compared with the rest of Ukraine, in large and economically active cities, such as Kyiv, there will be more customer demand for delivery and for predicting the exact time of this delivery.
MARKET SIZE IN 2013 AND 2014

Graph 1. E-COMMERCE VOLUMES IN 2013 AND 2014 (in million USD)

- Electronics & household appliances: 1000 in 2013, 750 in 2014
- Food, Homeware, Furniture**: 497 in 2013, 437 in 2014
- Air tickets***: 762 in 2013, 197 in 2014
- Clothing & Shoes: 150 in 2013, 131 in 2014
- Automotive goods**: 28 in 2013, 30 in 2014
- Kids goods*: 10 in 2013, 10 in 2014
- Cosmetics & Perfumes: 25 in 2013, 27 in 2014
- Events: 10 in 2013, 10 in 2014
- Books: 10 in 2013, 9 in 2014

*The evaluation of segments includes online stores’ volumes and the marketplace rozetka.com.ua. It excludes all other marketplaces

**The evaluation of segments includes online stores and the marketplaces

*** The evaluation of segments includes air tickets, which were sold via internet in 2014
The following trends may be noticed in 2015:

- Development of mobile versions of e-commerce sites; growth of sales via mobile apps
- Development of fast and reliable mobile payments systems
- Continued development of multichannel marketing
- Growth of marketplaces
- Automation of marketing processes (automated analysis, testing pages, posting, etc.)
- Development of content marketing (articles, posts in blogs)
- More personalization in customer relationship
- Interface personalization by the use of Big Data
- Improved usability
- Improvements in logistics
- Emergence of showrooms
- More product reviews in video format
Taking into account that the military actions affect approximately 15% of the territory, if it continues, we will expect the stagnation of economy in general and e-commerce market in particular.

Hryvnya devaluation and low income will lead to increase in demand for second-hand goods.

When military activity ends, the economy will stabilize in the coming years, the market will return to the previous pre-crisis levels and will continue its rapid growth.

For so long as the war continues, the market is unlikely to grow significantly:

When peace is restored, the e-commerce market will grow dramatically as normal business life resumes:

The local e-commerce market is only at an early stage, but with a growing number of Internet users making purchases online – and more and more offline players moving online.

When the political and economic situation stabilizes, Ukraine is likely to follow the path of such countries as Poland, Latvia or Russia, where e-commerce has witnessed dramatic growth over the past years.

The fraction of online in total retail could grow from the current 2% to some 10%, comparable to in advanced countries.
All is possible to send
E-commerce has become the most popular e-commerce in large cities: Kyiv, Kharkiv, Dnipropetrovsk, etc. However, due to the latest political developments and the war in the Luhansk and Donetsk districts, an important fraction of the local population has been moved from the East to Central and Western Ukraine, so the target audience of online stores in these regions has significantly increased.

According to Prom.ua analytics most small and medium-sized businesses which deal in e-commerce are concentrated in Kyiv, Kharkov and Dnipropetrovsk regions.

Future e-commerce growth in the country will be driven, first of all, by users from the regions where penetration is lower and market niches are still unoccupied.
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and get 100 UAH for your online store improvement!

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Barriers to online purchases:

- Fear of fakes, lack of trust in online stores;
- Lack of necessity to buy online;
- Need to see the product personally.

However, according to surveys, a significant fraction of consumers do trust quality and merchant guarantees. Very few say that they will definitely never buy online.

What stimulates Ukrainians to buy online:

- Lower prices;
- Positive comments about the store or advice of friends;
- Opportunity to evaluate the product before purchasing;
- Fast or free shipping.

The proportion of those attracted by bonuses / discounts, and of those interested in the possibility of evaluating the goods online before purchase, is constantly growing.
Everything sells!
Payments:

In spite of legislative weaknesses and ineffective regulatory policy, the Ukrainian online payments market is an emerging market, and it will continue to grow. Even today, it continues to show positive growth dynamics in the order of 30-40% per year.

On the other hand, the growth of the e-payments market will also contribute to the overall trend, according to which electronic payments will occupy an increasing share of the settlement system, and Ukraine will be no exception to this global trend.

The number of users who use credit cards to pay for goods on the Internet is increasing. However, Ukrainians find it hard to give up on cash. In payment for online purchases, cash is still dominant as far as physical goods are concerned (over 70%) with bank cards amounting to 20% at most.

Logistics:

The leader in the postal logistics market is Ukrposhta, the national postal operator, with its share of 42% in sector revenues in 2013.

Private carrier "Nova Poshta" has seen its activity grow significantly in recent years, which in 2013 received 20% of the revenues across the sector.

The growth of other private companies are small but steady. For example, the company "Meest Express", which specializes in express delivery, closes the top three with a market share of 7% and shows about 1% annual growth.

Table 2. POSTAL LOGISTICS MARKET VOLUME 2012-2013

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<thead>
<tr>
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<th>Totally, UAH mln*</th>
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<tbody>
<tr>
<td></td>
<td>2012</td>
</tr>
<tr>
<td>Postal items around Ukraine</td>
<td>2 450</td>
</tr>
<tr>
<td>International postal items</td>
<td>195</td>
</tr>
<tr>
<td>Total:</td>
<td>2 645</td>
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* Taking into account Ukrposhta
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APPENDIX: THE UKRAINIAN INTERNET MARKET

According to Gemius, in June 2014 there were nearly 18.8 million people in Ukraine aged 14 years who at least once a month go online. Interestingly, almost 90% of users surf the Internet daily. Number of internet users in Ukraine increased by almost 14% from June 2013 to June 2014, which is more than 2 million people.

However, Internet penetration is still rather low – just over half of the population is 15+. Typically, the level of penetration depends on the size of inhabited locality: in big cities, more than half of the adult population is connected, in small towns - about half, while in rural areas - about one third.

Inverse dependence between age and use of the Internet remain in Ukraine: the younger internet users - the higher Internet penetration *.

According to sales.admixer.net, in cities with a population of 50,000 people more than 77% of households have a computer (14.6 million people) and 70% are connected to the Internet (13.4 million people). Thus, the level of internet penetration among those who have a computer is 91%.

The lowest level of internet penetration (~ only 34%) is among age group 55+, who share 29% of the total population in Ukraine. That is a significant influence on average figures over the country. In large cities with a population of 50 thousand people, the situation is better – here, the 55+ group has undergone an “internetization”, with already 45% of this age having access to the Internet. Nevertheless, it is almost two times lower than among the group 15-44 (83%).

Table 1. LEVEL OF INTERNET PENETRATION, 2013

<table>
<thead>
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<th>Ukraine</th>
<th>Russia</th>
<th>Europe</th>
<th>USA</th>
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<tr>
<td>56% *</td>
<td>58%</td>
<td>77%</td>
<td>85%</td>
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</table>

* The result of the survey, conducted by the Kyiv International Institute of Sociology (KIIS)
APPENDIX: THE UKRAINIAN INTERNET MARKET

Graph 2. AGE STRUCTURE OF UKRAINIAN INTERNET USERS
(in percentage, Dec. 2013)

Graph 3. REGIONAL STRUCTURE OF UKRAINIAN INTERNET USERS (in percentage, Dec. 2013)
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2. Sell tickets
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   - Tickets sale on any website or social network
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