E-Commerce in Russia

Study insights

Study contents

E-Commerce in Russia is the first international study offering:

- **Comprehensive and precise market data**
- **Trend analysis** with mid and long term forecasts
- Deep analysis and insights on **regional e-commerce**
- Full coverage of **local aspects of operations,** from marketing to payment, fulfillment, HR and consumer rights issues.

Study contents

- 10 chapters
- 200 pages
- Date of issue: June 2012

Participating experts

The study is published by **East-West Digital News** in partnership with **Data Insight** and Moscow's **Higher School of Economics.**

Also participating are experts from leading Russian and international consultancies, universities, media and specialized providers

East-West Digital News

DATA insight

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The E-commerce Chair of the University of Telecommunications and Informatics of the Volga Region (Samara)

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Russia BEYOND THE HEADLINES

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Participating companies

Service companies

Investment funds

About the publisher

East-West Digital News is **the first international information resource dedicated to Russian IT industries.** The site offers news, information, professional analysis, market data and in-depth studies.

Publishing partners:

Data Insight is **the first consultancy fully dedicated to Russian e-commerce.** It offers regular reviews, statistics and on-demand industry studies as well as studies on any particular segment or region.

The Higher School of Economics (HSE) is **Russia's leading university in economics, management, other social sciences and IT/computer sciences**. HSE is actively developing business innovation and entrepreneurship programs in different Russian cities.

Study insights

Market data
& trend forecasts

Market data & Trend forecasts

Europe's leading Internet market

In September 2011, Russia overtook Germany as **Europe's largest Internet market** by number of users

As of Q1 2012:

58 million

Monthly users 18+ in Russia

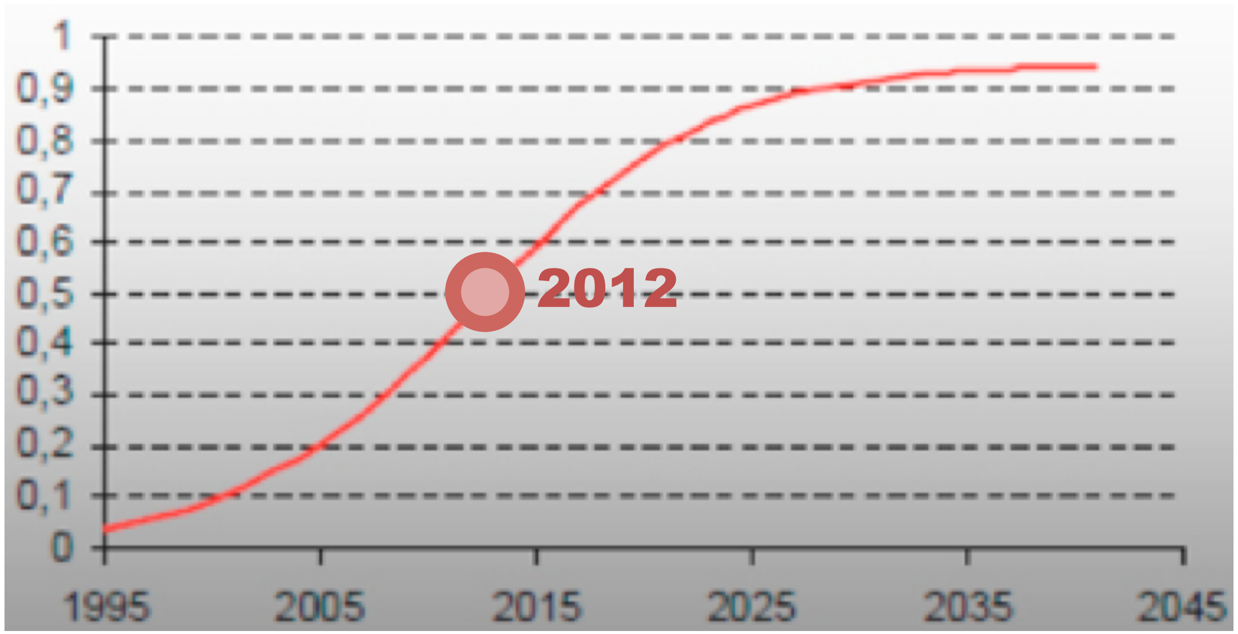
80 million

Russian speaking Internet users (Russia + aborad)

Europe’s leading Internet market

Russian Internet penetration expected to **double** in the next 15 years!

Internet penetration trend in Russia, 1995-2045

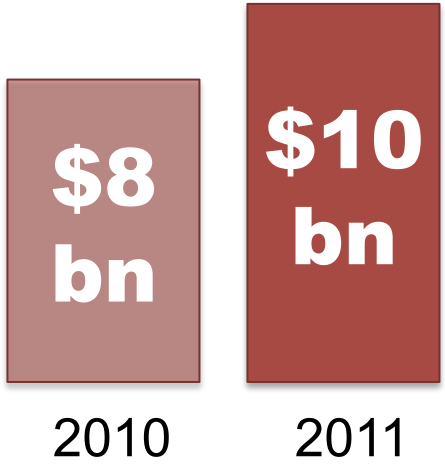


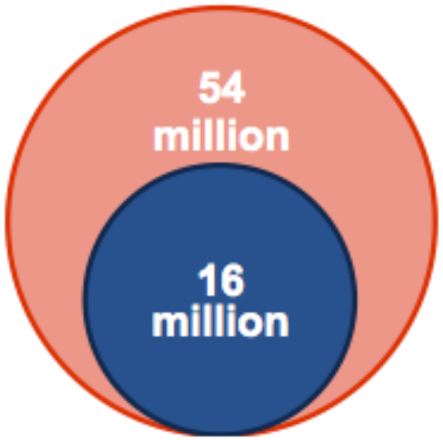
Source: A. Davydov, Sociology Institute of the Russian Academy of Sciences

Market data & Trend forecasts

Russian e-commerce today

- In 2011, the Russian online retail market **amounted to R.310 bn, or approximately $10 bn,** including ticketing and couponing, up 25% from 2010.



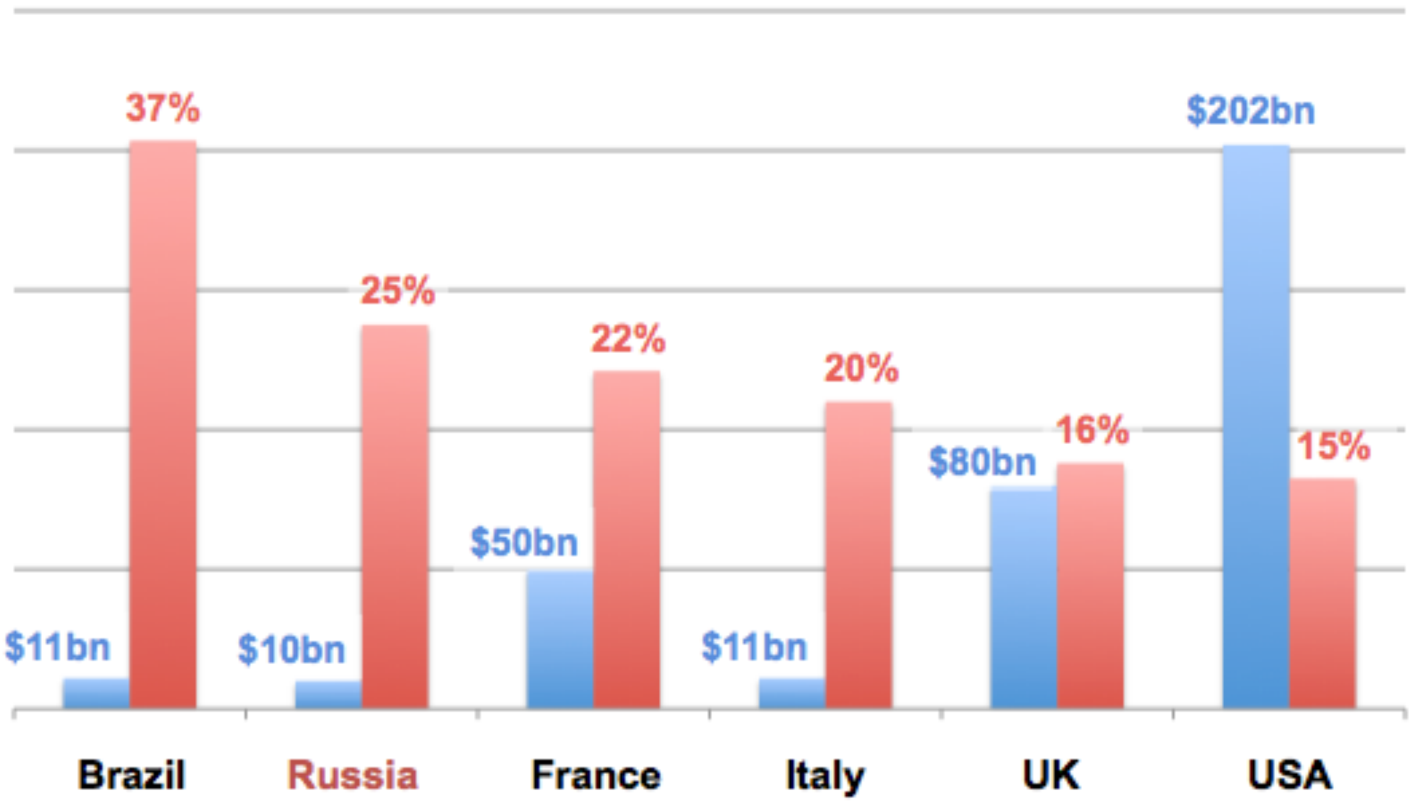


- **16.3 million people made online purchases** over a six month-period, out of 54 million Internet users

Market data & Trend forecasts

Russian e-commerce today

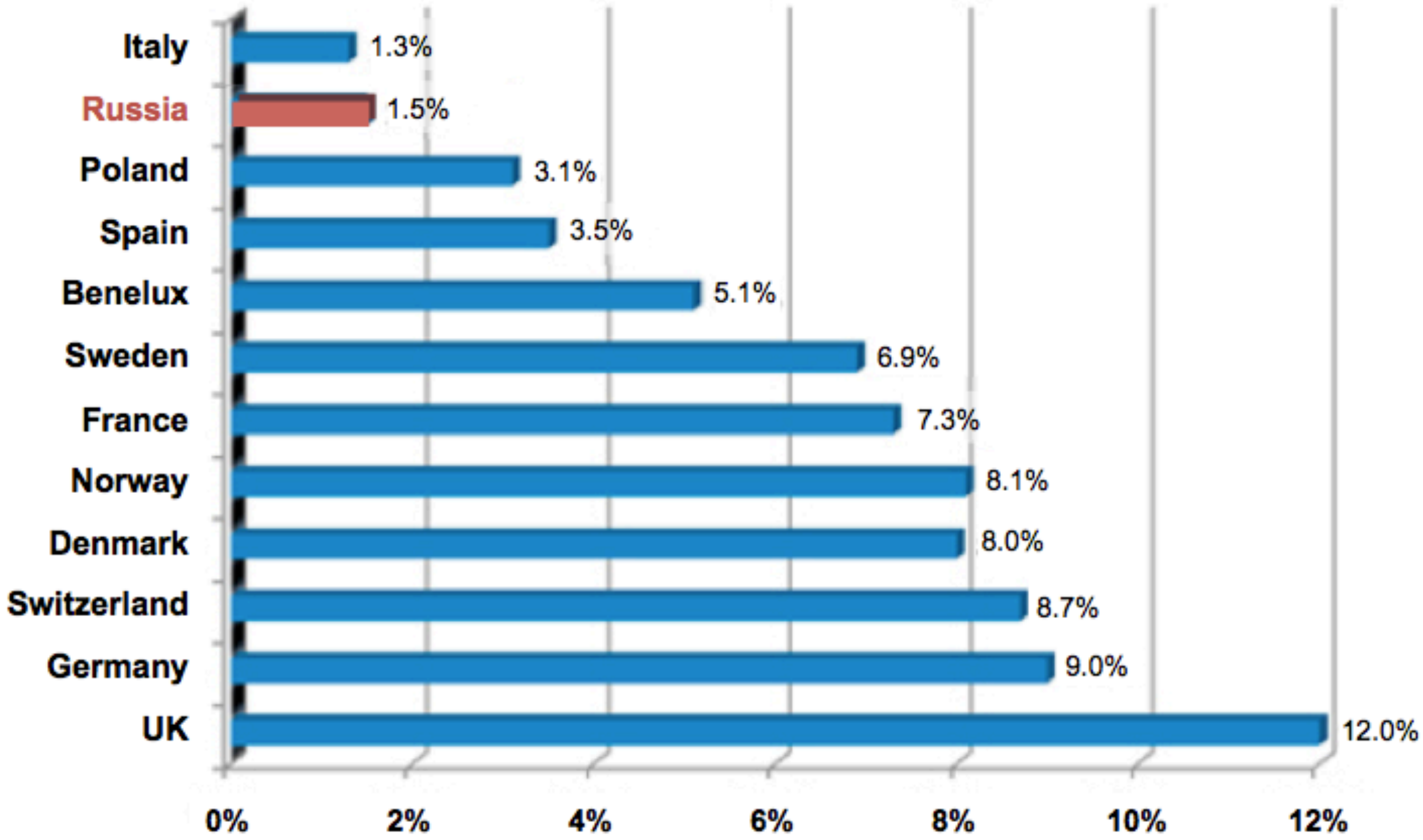
Market size and growth rates 2011*: International comparisons



(*) Growth rates 2011 / 2010 – Sources: Data Insight (Russia), Forrester (Brazil, USA), Netcomm (Italy), CRR (market size UK), IMRG (growth rate UK),

Russian e-commerce today

Online share of retail trade 2011: An international comparison



Online as a percentage of retail sales – Sources: Data Insight, EWDN (Russia), Retailresearch.org (other countries)

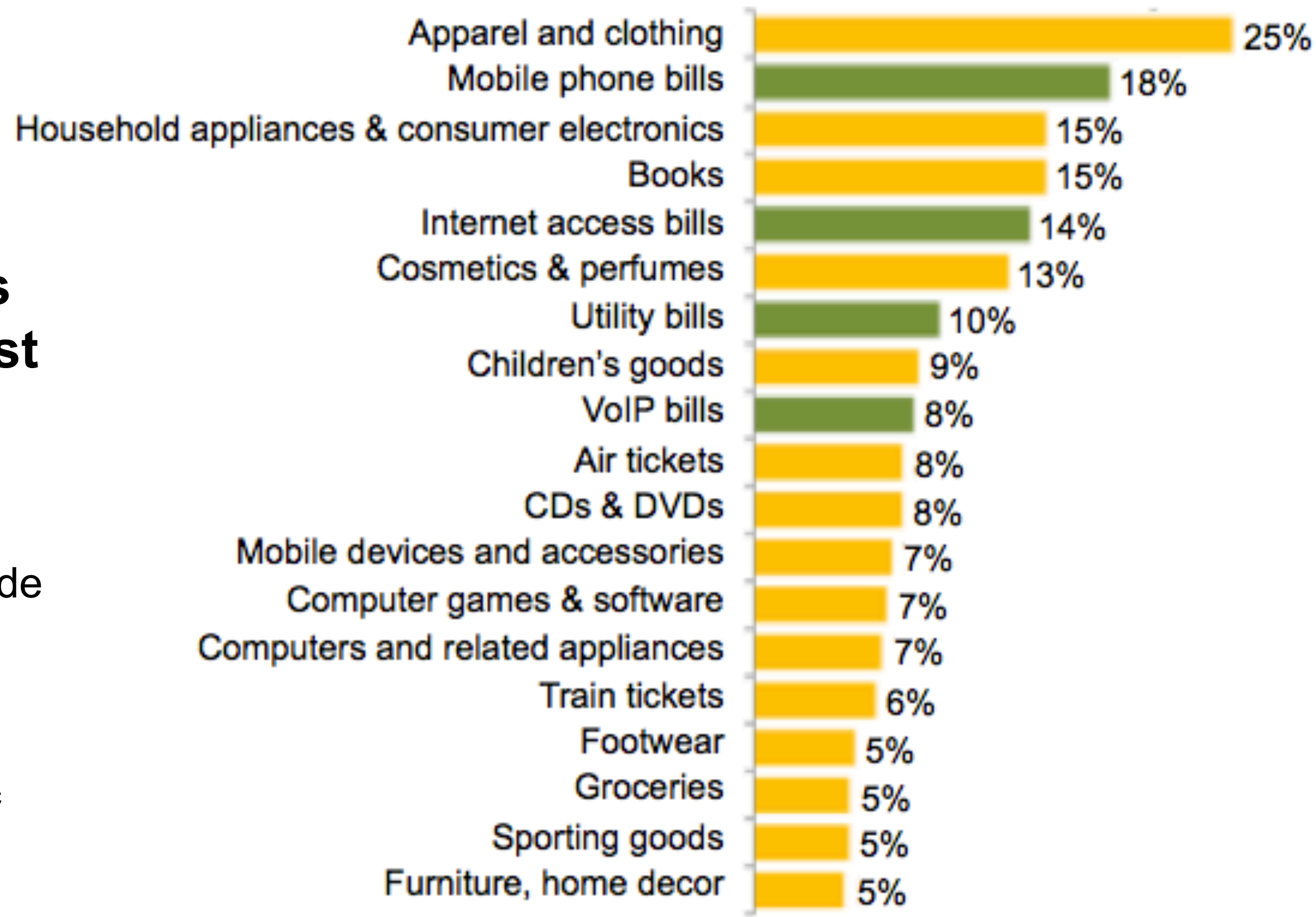
Market data & Trend forecasts

Russian e-commerce today

What Russian online shoppers bought in August 2011

(Percentage of poll respondents who made online purchases)

Poll conducted by the Public Opinion Foundation (FOM) in large Russian cities

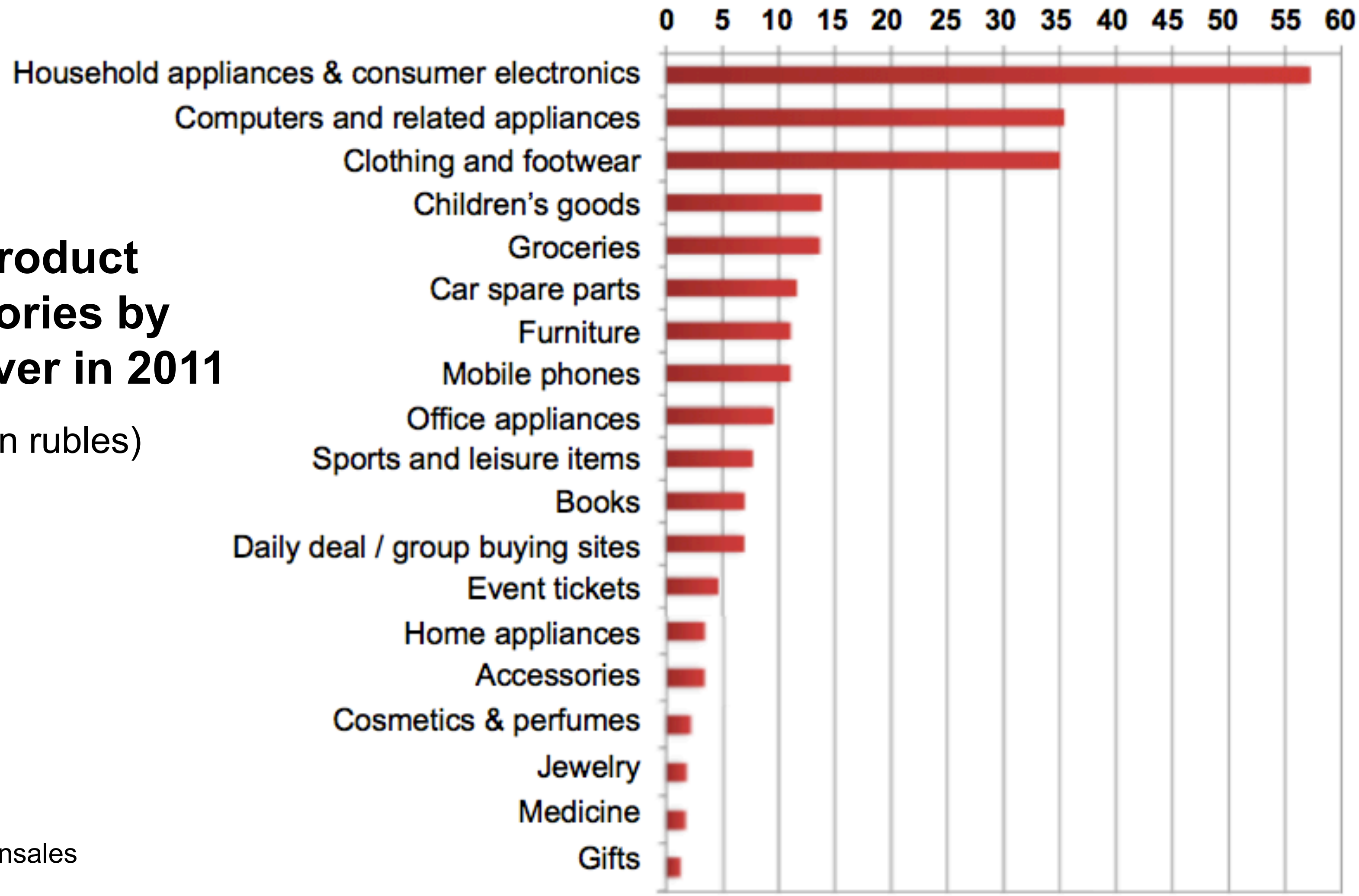


Market data & Trend forecasts

Russian e-commerce today

Top product categories by turnover in 2011

(in billion rubles)



Source: Insales

Market data & Trend forecasts

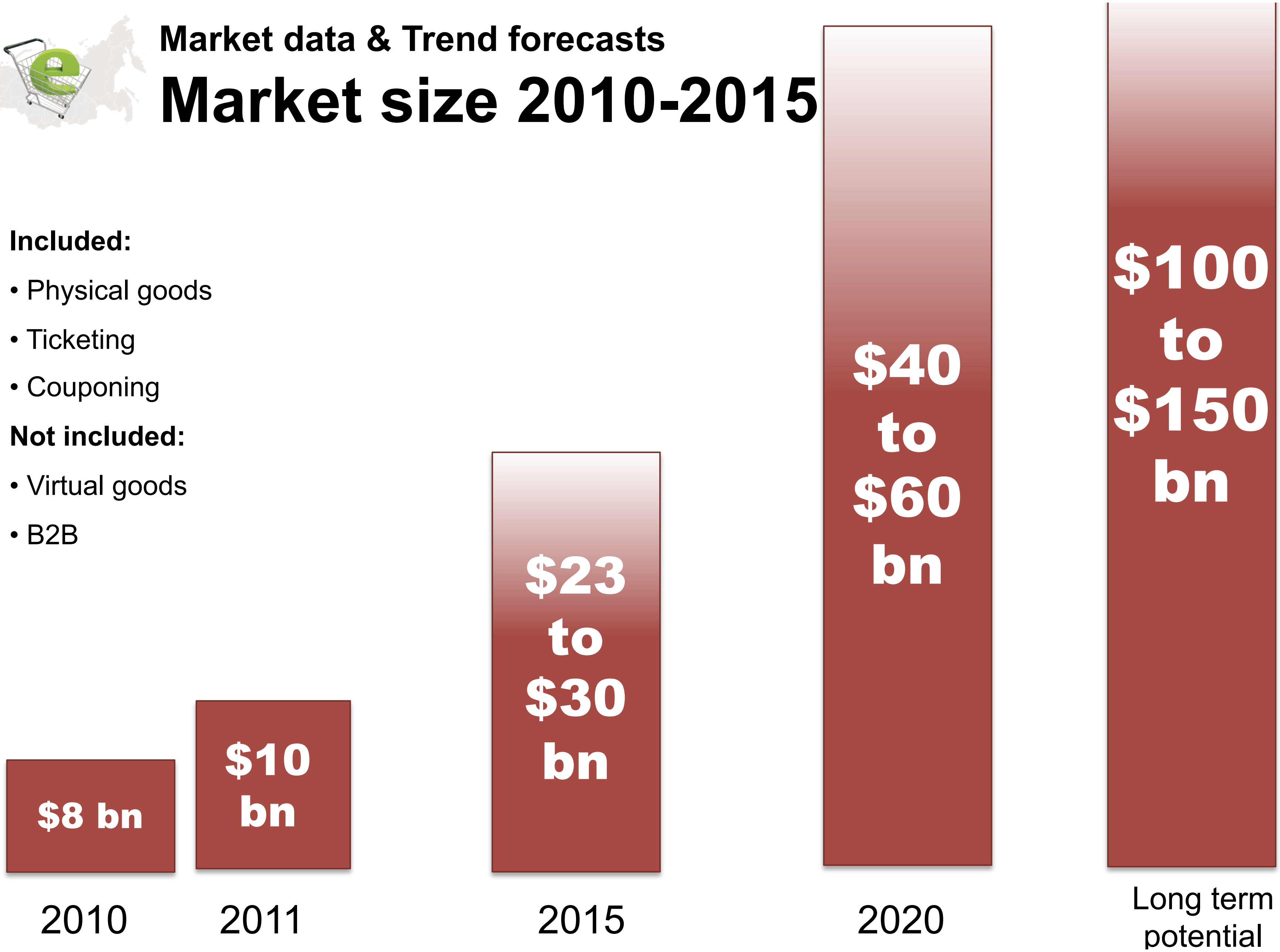
Market size 2010-2015

Included:

- Physical goods
- Ticketing
- Couponing

Not included:

- Virtual goods
- B2B



Market data & Trend forecasts

Growth drivers 2012-2015: More shoppers

13.9 million

2010

16.3 million

2011

28.3 million

2015

The potential market growth in Moscow and St. Petersburg in terms of new shoppers is reaching its natural limit. **Most new shoppers will come from the Russian regions,** typically recent Internet users from larger cities making initial online purchases.

Number and proportion of online shoppers by recency of Internet usage in the capitals and the regions

		2010	2015
Moscow +St. Petersburg	Started using the Internet before 2011	5.6	5.1
	Started in 2011 or after		2.5
	Total	**5.6**	**7.5**
Regions	Started using the Internet before 2011	8.4	7.6
	Started in 2011 or after		13.2
	Total	**8.4**	**20.8**
	TOTAL RUSSIA	**13.9**	**28.3**

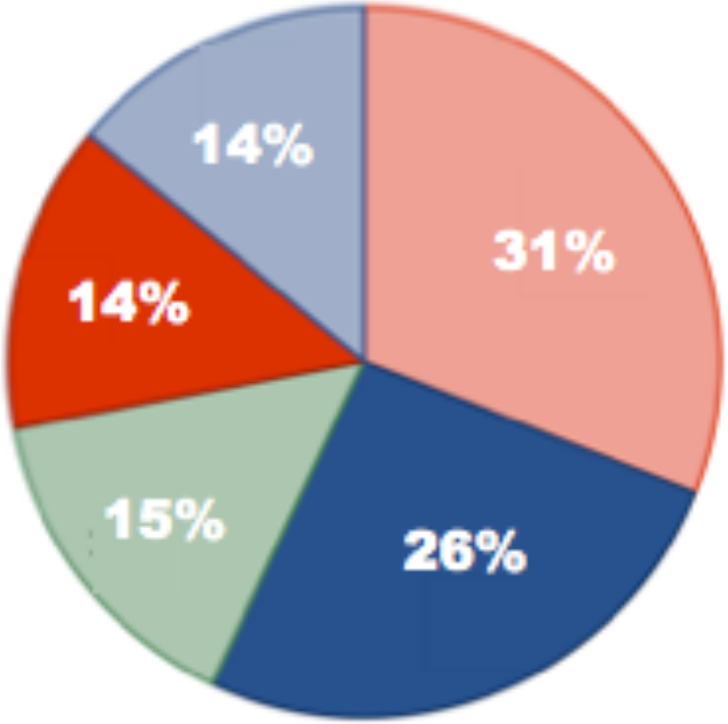
Other growth drivers 2012-2015

- More diversified offerings, more active shoppers: **purchases in a larger number of product categories**

- More diversified offerings, more experienced shoppers: **more frequent purchases**

- Higher per capita revenues, more diversified offerings, more experienced shoppers: **higher average order value**

Growth drivers 2012-2015



Forecast of drivers of Russian e-commerce, 2012-2015:

- Higher average order value
- Higher per capita revenues
- More diversified purchases
- New Internet users
- New Internet shoppers

Mid and long term growth drivers

$30 billion in 2020 = just 5% of Russia's total retail market. Further strong growth will be fuelled mainly by such structural factors as:

• Fulfilment infrastructure reaching maturity: With **reduced delivery costs,** the scope of e-commerce will extend to cheaper product categories

• E-signature and online payments becoming more popular: **mass demand for dematerialized products** such as insurance and tour package offers

Study insights

Social commerce

Social commerce

Social networks in Russia

Vkontakte: Over 150 m accounts, 26 m monthly users*

Odnoklassniki: Over 100 m accounts, 21 m active users*

MoiMir: 20 m users*

Facebook:
5 m active users

- Russian Internet users are **highly engaged in social networking**: 9.8 hours per month (compare with UK: 7.3, Spain: 5, world average: 4.5)**
- Vkontakte #1 among 3 dominant players
- Facebook, Twitter and Foursquare lag behind as latecomers on the Russian market

Sources:
* TNS Russia, Dec. 2011 ** Comscore, Aug. 2010

Social commerce

The gray face of Russian social commerce

In March, 2012, **over 150 Vkontakte groups counted over 100,000 users,** generating mostly informal and undeclared exchanges

Number of informal commercial groups on Vkontakte.ru

Mobile devices and accessories	19,000
Fashion	104,079
Watches	38,600
Children's goods	69,300
Cosmetics and perfumes	69,000
Wedding items and services	98,000
Jewelry	26,500

Social commerce

A variety of initiatives (2010-2011)

- **Vkontakte Search by product**, a joint project with Ozon.ru*
- **Odnoklassniki Shopping club**, with up to 20,000 daily users and but low conversion rates
- Online offer catalog **Glavmarket** launched on Odnoklassniki and Vkontakte
- **Groupon** deal for exclusive association with Odnoklassniki
- **Sony** integrates shop with Vkontakte
- **Jizo** social application for air tickets on Facebook
- Social commerce enabler **Ecwid** and marketplace **Magazinga** launched in 2010 and 2011, respectively

*The application did not generate significant sales compared to Ozon's overall turnover. It was stopped in late 2011 following new legislation for online payments, but Ozon launched a social commerce application on Facebook.

Social commerce

Perspectives

- Social networks may show good results for brand building and marketing purposes, but **sales volumes are not significant yet***
- **Informal social commerce groups to become legal entities** as means of managing large scale operations more efficiently
- Vkontakte and Odnoklassniki to integrate **new payment instruments,** including virtual currencies, bank cards, and Qiwi…
- **Major retailers to launch or re-launch social shopping sites** as adequate payment systems are made available
- **Thematic aggregators** to appear as social apps in corresponding groups

* In late 2011, most retailers generated just a few thousand US dollars monthly in sales through Magazinga's social marketplace.

Study insights

Cash based e-commerce

Payments: Cash-based e-commerce

A variety of payment methods

Payment method	Best suited for	Main operators
Cash on delivery	Physical goods in all price ranges	• Delivery companies
Cash by transfer (for pre-payment)	Goods or services in all price ranges	• Sberbank • Russian Post • Mobile retailers Euroset and Svyaznoy • Money transfer company Unistream (coming soon)
Cash via electronic payment terminals	Virtual goods or services in all price ranges up to R.15,000	• OSMP (Qiwi), the leading operator • Cyberplat • Elecsnet
E-wallets of electronic payment terminals	Virtual goods or services in all price ranges up to R.15,000	• OSMP (Qiwi)
Electronic currencies	Virtual goods or services in all price ranges up to R.15,000	• Yandex.Dengi • Webmoney • Paypal (coming soon)
Mobile payments	Virtual goods or services in low price ranges (up to R.500)	All major mobile operators through banks or specialized providers such as Mobi Dengi
Bank cards	Virtual goods or services in all price ranges	Banks or specialized providers such as: • Chronopay • Assist • Payonline
Internet banking	Virtual goods or services from R.500	• Alfabank • Promsvyazbank • Sberbank • VTB 24
Bank transfer	Goods or services in all price ranges	Any bank operating in Russia

Payments: Cash-based e-commerce

Bank cards still under-utilized

Use of bank cards on some Russian e-commerce sites

(as of late 2011 – early 2012)

Site	Segment	Percentage / total number of orders
RZD.ru (National railways company)	Train tickets	100% (Only available online payment method)
Anywayanyday.com	Air ticket and hotel booking	84%
Bay.ru	Cross border sales	70% (Cash on delivery not available)
Oktogo.ru	Hotel booking	55%
Daily deal sites (average)	Coupons	50%
Travelmenu.ru	Travel services	40%
Svyaznoy.ru*	Mobile devices and consumer electronics	12%*
Wildberries.ru*	Fashion and clothing	Less than 0.1%*

* The difference between Svyaznoy.ru and Wildberries.ru could be explained by the fact that Svyaznoy has made payments by bank card available not only online, but also during delivery, with couriers equipped with bank card payment terminals.

Bank cards: Both customers and merchants are reluctant

- **On the customer's side:**
  - Lack of trust in bank cards
  - Objectively more rational to pay cash on delivery
  - Bank cards not that easy to use: account balance of debit cards, pre-authorization required, card information cannot be stored on sites
- **On the merchant's side:** high commission fees and related costs; some merchants favor alternative payment methods

Payments: Cash-based e-commerce

Perspectives

- **Cash** will remain the main payment method for physical goods in the foreseeable future.
- **Offline electronic payment terminals** (e.g. Qiwi) will remain popular essentially for services or virtual goods.
- **Bank cards** will be used more and more for services, virtual goods, and e-content, while integrating further with other systems (e.g. Qiwi+Visa).
- **E-currencies** are likely to develop further mainly for goods and services at lower price points.
- **Mobile payments,** with commission fees now suitable for e-commerce, could develop for goods and services at lower price points.
- **Recurring payments,** now emerging, could become an option for certain businesses.

Study insights

HR: The most painful bottleneck?

HR: The most painful bottleneck?

“Perhaps just a hundred people in the country have a thorough understanding of e-commerce processes.”

"Most job applicants are people with limited skills who write nice resumes and demand extravagant salaries.”

“Well trained e-commerce professionals coming out of the Russian educational system? Are you kidding? Next question, please.”

(From interviewed companies)

HR: The most painful bottleneck?

Labor shortages: Affected positions

Skilled labor shortages affect almost all functions:

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, 2011

HR: The most painful bottleneck?

Demand exceeds supply . . .

- **Growing demand**
  - More and more pure players
  - More and more online projects from offline players
- **Educational offer still weak**
  - Young, competent teaching staff attracted to corporate sector
  - Internet sphere still too young to attract serious attention
  - Difficulty in staying up to date on rapidly evolving issues & trends
  - Universities trying to fill the gap still insufficiently known or appreciated by market players
- **Insufficient applicant experience**
  - Small ecosystem with few experienced people on the market (e.g. marketing agencies)
  - Many in labor force not prepared to work in startups after experience in large corporations

HR: The most painful bottleneck?

High salaries

- **Salaries significantly higher** than in most Western cities
- Salary levels strongly affected by **well financed startups** hiring hundreds of people and **Internet groups after IPOs**

Current average monthly salary range in Moscow e-commerce companies

Source: EWDN interviews, NESS Group, 2011 - 2012

No previous experience	From $1,000 to $1,300
Sales manager	Up to $5,000
Programmer and other IT specialist	From $3,000 to $4,000
Online marketing director	From $5,000 to $15,000
Site general manager, E-commerce dpt. director	From $10,000 to $20,000

HR: The most painful bottleneck?

Solutions

- **Finding people**
  - Hire people from close offline fields
  - Hire inexperienced people and train them
  - Hire foreign specialists (cons: language barrier, Russian market specificities, expatriation costs)
- **Motivating people**
  - Stock options (rare in Russian companies)
  - Bonuses / KPIs
  - Attractive career perspectives
  - Motivating project (especially for programmers)
  - Human environment (team, management)
  - Non material advantages (“Y generation”)

Most appreciated work perks

Free training programs	54%
Health insurance program	41%
Paid Lunch	39%

Source: SuperJob online poll, 2011.

Thank you for your attention!

The study will be available in June 2012,
based on 2011 and 2012 data.

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