



Country factsheet - March 2014

Russia

Russia and its incredible figures:

- shares borders with 14 countries
- a population of 141 million inhabitants
- a falling unemployment rate, estimated at 5.7% (well below the European average of 11%)
- an Internet penetration rate which has not yet reached 50%
- the largest online community in Europe, currently made up of 71 million Internet users, and which is still growing at a rate of 10% each year
- 48 million Internet users who have not yet made an online purchase
- estimated growth in e-commerce of up to 50% for 2013

These figures are extremely attractive to many European e-traders, who are keen to gain a share of the market. You still need to know how to act and establish a presence in the country, which is as vast as it is complex, in full transition from a centralist and socialist model to a market-oriented economic model.

1. The Russian consumer

E-commerce has not yet been entirely democratised in Russia and online purchases are much more widespread in households with higher revenues. **The typical Russian e-shopper is quite highly educated and a technophile.**

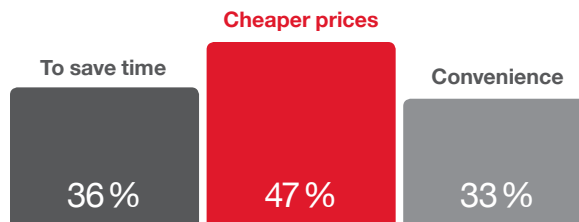
Online shopping tends to be more popular among women (64%) than men (36%) and the average age of online shoppers is 44.

The average annual shopping basket was €515 in 2012 and estimates for 2013 predict that this will increase to €596.

Russians spend 60% of their income before tax on shopping, which is the highest percentage in Europe. There is a favourable context to this, as accommodation costs are relatively low there, there is a socialised healthcare system and a fixed income tax rate of 13%.

The categories most commonly purchased from are **electronic goods, clothing and accessories and spare car parts.**

The reasons why Russian e-shoppers purchase online



The expectations of Russian e-shoppers

English is not widely spoken and consequently Russians expect to find **e-commerce sites in their own language**.

Most Russians expect to receive their purchases between 7 and 10 days after they place their order

In terms of delivery, most Russians expect to receive their purchases between 7 and 10 days after they place their order.

Russians place a lot of importance on being able **to make purchases “from human beings”, or at least being able to contact a person in the event of a complaint**.

This is borne out by the fact that large sites such as Ostrovok and Ozon invest heavily in their call centres to ensure customers benefit from an indispensable human touch.

To reassure e-shoppers, it’s advisable to display customer service and call centre information prominently on the homepage of your site.

A final characteristic of **Russian e-shoppers** is that they **are not very loyal**.

The widespread usage of cash payment and payment upon delivery

For many reasons, a large majority of **Russians still prefer to pay in cash and only once they have received their order**. These reasons include firstly, the relative precariousness of the supply chain in Russia (we will come back to this in our analysis of the market); it is still the case that packages quite frequently do not arrive at their destination or are lost in the volume of dispatches. Secondly, e-shoppers often feel there is a lack of transparency with regard to the actual availability of the product in stock, which sometimes creates a long waiting time for the order.



Payments via automatic kiosks or from pick up points are also very common.

2. The market

Import tax is currently still quite favourable for foreign exporters. It does not apply for purchases under €1000 (the calculation being performed on a monthly basis). However, it must be pointed out that this threshold is being reviewed by the government, which may result in a change in the very near future, and that import inspections are quite frequent and strict. **Currently, between 10 and 15% of total e-commerce sales in Russia are made through foreign sites**.

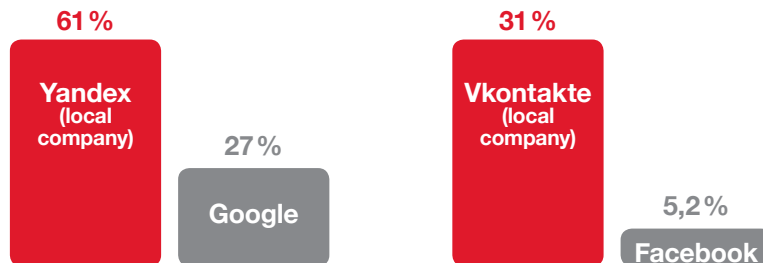
Historically, local traders had a reputation for fraud, which means that foreign traders may be looked upon more favourably by Russian consumers. As with their counterparts in other emerging countries, the Internet also enables Russians to obtain products which are both exotic and difficult to find locally.

The privileged local market

Despite these factors which are favourable to international traders, the Russian e-commerce map is today composed very much of Russian colours. Payment and marketing encourage local purchases. In fact, 70% of purchases are paid for upon delivery and **the results of searches on Yandex** (that is essentially Google with a Russian flavour) **favour local companies and sites translated into Russian**. This is because Google only possesses 27% of market share, compared to the 61% held by Yandex. The social media used are also local versions of those found elsewhere. V Kontakte, with 31% of market share, comes far ahead of Facebook, with its 5.2% share, which represents 7.4 million Russian inhabitants.

Even Amazon has not yet established itself officially in Russia. In its place, there is OZON.ru, which is the king of local e-commerce. eBay has a presence in Russia but it has suffered severe competition from Molotok.ru.

Market shares



The top 5 e-tailers in Russia

Utkonos	Groceries	€230 mill.
Wildberries	Fashion	€223 mill.
OZON.ru	Shopping centre	€207 mill.
Holodilnik.ru	Household appliances	€201 mill.
KupiVIP.ru	Fashion	€197 mill.

A sizeable logistics challenge

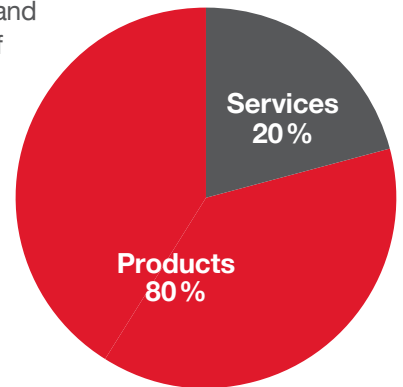
For 8 Russian e-shoppers in 10, shipping alternatives are crucial in their decision to purchase

A country of over 17 million square kilometres, crossed by 9 time zones, represents a serious logistical challenge in itself. In addition, there is the slow speed, the lack of reliability and the high costs of local postal services. Alternative operators are not really any more affordable. The Logistics Performance Index (the LPI) which measures logistics infrastructures on an international scale has positioned Russia 95th out of 155 countries. Russian e-shoppers also consider it important to have alternative delivery options: 8 out of 10 online shoppers take this into consideration before deciding whether to purchase from a particular online store. During 2012, of the 108 million packages shipped across Russia, half of them were shipped by alternative companies to the postal network.

The problem of shipping particularly affects the «regions», which consist of everything not covered by the underground zones of Moscow and St. Petersburg. While the highest volume of e-commerce orders comes from e-shoppers living in Moscow or St. Petersburg, this is now starting to change.

In light of this, it is interesting to look at the Ozon, which is classed as «the Russian Amazon», whose business model is in fact close to that of the international giant, and which has developed its complete logistics network. The weak penetration of credit cards has forced companies such as Ozon and KupiVIP to build their own fleet of delivery trucks from which **the drivers collect payment at the time goods are delivered.** KupiVIP even goes as far as to wait until the person accepting the goods has checked the purchases and where necessary, returns the goods immediately if they are not suitable.

It is therefore necessary to have solid ambitions in order to launch an offensive on the Russian market. The main companies present respond to this logistical challenge by putting in place their own delivery network, an indispensable initiative given that in 2012 the proportion of online purchases was 80% in favour of products, compared to only 20% for services.



Delivery Club :
annual growth of
300 %

Food, a market to watch

As indicated above, the number one among the top e-tailers is a grocery site. There is also «Delivery Club», **a food delivery service based in the capital, which already covers 18 large cities in Russia and 22 cities in the Moscow region,** and which plans to continue its expansion to other regions. This start-up founded in 2009 by pooling almost **2000 independent delivery services,** manages approximately **7000 orders per day,** taking 10% commission from each order. The site has a monthly revenue of almost €8 million and recently posted annual growth of 300%. Delivery Club's competitors include Foodik.ru, a site which merged with the German Delivery Hero last year. **Some experts estimate the income from Russian food delivery to be almost €700 million** with there still being potential for growth in the coming years.

However, just because the sector is flourishing does not mean that success is guaranteed; in 2012, the site Izrestorana.ru, launched by the Turks of Yemeksepeti.com, ceased its activities.

3. Trends

Russian e-commerce is in the midst of **a real boom**. This explosion is leading to **tremendous growth** in all areas related to online shopping, but it is mainly on the international resonance of this growth that we will focus.

Incredible appeal

The various reasons specified throughout our analysis explain why Russia holds so much appeal for foreign companies. The inhabitants of large cities are most attractive to e-commerce traders, owing to the logistical considerations mentioned on the one hand, but also because of the heavy concentration of purchasing power that they represent. Today, there are more billionaire Moscovites than billionaires in Manhattan. However, it must be remembered that contrary to their counterparts in BRIC (the acronym given to Brazil, Russia, India, China), **Russia has an additional linguistic difficulty. Whilst Chinese or Indian businessmen speak English, this is not the case with Russian businesses.** Although things are evolving rapidly, currently, only 12% of Russians speak English.

In 2012, Russians had already purchased over €287 million worth of goods on ebay

International companies vying for access to the market

Aware of the enormous potential of Russia, we will see more international companies establishing themselves in the country. ebay and PayPal have already made this a priority and numerous companies are following suit. In 2012, Russians had already purchased over €287 million worth of goods on ebay. Asos launched its expansion into emerging markets in 2013, starting with Russia.

Aware of the still low rate of «**non-physical goods**» and the **logistical problems**, this may be the basis on which companies such as Amazon establish themselves in Russia, by presenting products such as Kindles.

However, it would seem that these logistical barriers, which have been looked at many times in our analysis, are not a foregone conclusion and local awareness is growing.

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