



AND



PRESENT



E-COMMERCE IN RUSSIA

What international merchants, brands and entrepreneurs must know to succeed in a market that doubles in size every year

PART 1: THE DOMESTIC MARKET

EXECUTIVE SUMMARY – MAY 2014

IN PARTNERSHIP WITH



WITH THE SUPPORT OF





About this study

This short, ad-funded version contains excerpts from a comprehensive research study offered by East-West Digital News, the international resource on Russian digital industries, in partnership with eTail Europe.

The research was conducted in partnership with leading consultancies and universities, and based on interviews with over 120 industry players and experts.

Details on the full version (10 chapters, 420 pages) are available on page 57. To order a copy, please email us at report@ewdn.com.

About the publisher

East-West Digital News is the first international information company dedicated to Russian digital industries. Its website EWDN.COM provides news, market data, business analysis and updates pertaining to the Internet, e-commerce, mobile and telecom industries, digital TV and satellite systems, software and hardware innovation, as well as to the related investment activity and legal developments.

A consulting branch, East-West Digital Consulting, provides international players with assistance for business development in Russia and advises Russian companies on their international strategies.

For more information, please contact us at contact@ewdn.com

Advertising, sponsorship and distribution opportunities

To inquire about advertising and sponsorship opportunities, or if you would like to get involved in the distribution of this study, please contact us at ads@ewdn.com.



Chief editor's note

This research project, which began in 2011, sheds unique light on the Russian online retail market, one of the fastest growing but least known (and understood) on the planet. It is based on **exchanges with more than 120 market players and experts.**

We are pleased to provide international audiences with the first **reliable and precise data on this market**, plus middle and long term forecasts and trends. Much credit for this information is due to the rising Moscow-based consultancy Data Insight, which has developed an impressive methodology integrating a wide range of measurement and analysis instruments.

Beyond capital-centric analysis, **this report also explores the regional e-commerce scene** as the predominance of Moscow and St. Petersburg is coming to an end. We have included a review of e-commerce in the Samara region by the Samara State University of Telecommunications and Informatics, the first in Russia to open an e-commerce department (2004), as well as concrete examples of how e-merchants are expanding their business across Russia.

Yet this document is, above all, a practical guide. In the full version, more than 200 pages are dedicated to analysis of and recommendations for each of the key issues defining the industry – from marketing to payments, from fulfillment to legal requirements and on to little known HR challenges. For example, we show how e-commerce companies may increase their sales by up to 100% without additional costs and save up to 40% on delivery fees and payment commissions by optimizing their delivery strategy in the regions.

Last but not least, entrepreneurs and investors will enjoy a review of the **e-commerce related investment deals** that have taken place in Russia over the last three years, with an analysis of the financial issues pertaining to Russian e-commerce and the exit perspectives in the industry.

Our special gratitude, finally, goes to the sponsors and advertisers behind this study, who provided us with the means necessary for a pioneering, in-depth investigation.

We hope you enjoy this groundbreaking collaborative effort and wish you every success in your e-commerce projects.

Sincerely,

Adrien Henni. co-founder and chief editor
East-West Digital News



Research partners

HIGHER EDUCATION AND RESEARCH



INDUSTRY ASSOCIATIONS



CONSULTING COMPANIES



MEDIA



OTHER ORGANIZATIONS





Participating companies

ONLINE RETAILERS



SERVICE PROVIDERS



INVESTMENT FUNDS





Co-authors and participating experts

- **Jean-Stéphane Bagoëe**

CEO
Intelligent Emails

- **Stanislav Bai**

CEO
Shoppilot.ru

- **Vladimir Belugin**

Marketing director
eTargeting

- **Michael Bozanic**

International business consultant

- **Thierry Cellerin**

Founder
Buzz Factory

- **Mikhail Chentsov**

Head of the Business legal support division
of the Legal department
Otto Group Russia

- **Dmitry Chernichin**

Graduate student
Higher School of Economics

- **Viktor Dostov**

President
Electronic Money Association

- **Alexander Egorov**

Context ad system development director
Alytics

- **Ilja Eisen**

CEO
Flocktory

- **Kirill Filchenkov**

Managing partner
B2C-PL

- **Alexander Gaiduk**

Head of labs in the e-commerce dpt. at the
Volga State University of Telecommunications
and Informatics (PSUTI)

- **Dasha Gileva**

Co-founder
Redis Crew retail community

- **Olga Golovina**

Graduate student
Higher School of Economics

- **Bas Godska**

International expert of e-commerce marketing
Acrobator

- **Timofey Gorshkov**

CEO
InSales

- **Michael Hartleben**

Partner
Egorov Puginsky Afanasiev & Partners

- **Adrien Henni**

Chief editor and co-founder
East-West Digital News

- **Maximilien Jacquet**

Co-founder
eStore Agency

- **David Kovacic**

Senior manager
PwC Russia

- **Maxim Krasnykh**

International director
Intel Capital

- **Andrey Kulikov**

Senior investment manager
Fastlane Ventures

- **Marie Kummerlowe**

Analyst
East-West Digital News

- **Ruslan Kryuchkov**

UsabilityLab



Co-authors and participating experts

- **Evgeny Kulakov**
UX-expert
- **Denis Lenshin**
Student
Higher School of Economics
- **Vladimir Makarov**
Marketing and sales director
Centrobite.ru
- **Ilya Malyarenko**
Senior manager
PwC Russia
- **José Metz**
General manager
La Redoute Rus
- **Igor Nevzorov**
Senior manager of tax and legal services
Head of the IP protection group, PhD (Law)
Ernst & Young Russia
- **Boris Ovchinnikov**
Co-founder
Data Insight
- **Martijn Peeters**
Head of the Deals strategy group
PwC Russia
- **Michael Poetschke**
CEO
Arvato Russia
(Bertelsmann Distribution Center)
- **Nadezhda Romanov**
CEO
Pick Point
- **Tobias Schubert**
COO
Groupon Russia
- **Irina Shekhalay**
Co-founder
Redis Crew retail community
- **Evgeny Schepelin**
Director
eTraction
- **Timofey Shikolenkov**
Director of marketing and business
development
Audiomania.ru
- **Daniil Tkachev**
CEO
Begemota
- **Konstantin Trofimov**
CEO
Centrobite.ru
- **Jérôme Ulrich**
Partner
Atalan
- **Feodor Virin**
Co-founder
Data Insight
- **Igor Subow**
CEO
Qivi Post
- **Konstantin Yakunin**
Co-founder
Express Russian Mail Service (ERMS)
- **Alexei Yurasov**
Head of the e-commerce department
PSUTI
- **Konstantin Zhukov**
Chief Business Development Officer
MultiShip
- **Sergey Zolkin**
Senior consultant
J'Son & Partners



Table of contents

of this short version

PART 1: THE DOMESTIC MARKET

Forewords	9
Key market trends and figures	14
1. The Russian Internet market	19
1.1. Internet penetration	21
1.2. Regional contrasts	23
1.3. Russian audience world-wide	23
2. The online retail market	25
2.1. Market size	25
2.2. Market growth forecasts	25
2.3. Number of users; user profiles and behavior	26
2.4. International comparisons	29
3. Online retailers	31
3.1. Number of sites	31
3.2. Market fragmentation	31
3.3. Gradual involvement of offline players	32
3.4. Gray e-commerce	32
3.5. Foreign players	32
4. Investments in Russian e-commerce	34
5. Operations	38
5.1. Logistics	38
5.2. Payments	41
5.3. Marketing and sales channels	44
6. Legal aspects	45
7. HR: The most painful issue	46
8. The regional scene	49
About the full version	54

Free summaries of EWDN's report on Russian e-commerce

PART 1: The domestic e-commerce market

<http://www.ewdn.com/e-commerce/summary-part1.pdf>

PART 2: Cross-border sales

<http://www.ewdn.com/e-commerce/summary-part2.pdf>

PART 3: Interviews

<http://www.ewdn.com/e-commerce/summary-part-3.pdf>



E-COMMERCE IN RUSSIA

FOREWORDS

To receive the full version of this research study
on e-commerce in Russia (10 chapters, 400 pages),
please contact us at the following address: report@ewdn.com



Maëlle Gavet

Although OZON was among the very first online retailers to launch in Russia, today we still feel – more than 15 years after launch – that we are just at the beginning of a long and promising story.

By all measurements, Russian e-commerce is, indeed, still in its early days. The country currently has the largest number of Internet users in Europe, but the number of online shoppers – it takes a certain amount of time to turn users into actual shoppers – doesn't yet reach 20 million per month.

Some online market segments which were virtually empty just two years ago, are now occupied by strong players, as exemplified by the online shoe retailer Sapato.ru, which OZON acquired in early 2012. But room is still left for growth, especially in the regions, where few players can offer sufficient product assortment or can rely on satisfactory order fulfillment capacities.

While working as a consultant, even I didn't fully realize the appeal and potential of this market. I came to fully believe in Russian e-commerce only when I started understanding it from the inside – when I saw how online sales will jump virtually the day after a new pickup point is opened in some remote city, or when I witnessed how a completely new business branch like OZON Travel can assert itself as a market leader within its first year.

From processing online payments to fulfilment, several obstacles still hamper the development of this market, as analyzed in detail by this research. But there is no doubt that, in the middle and long term, progress in both infrastructure and the mentality of the average online user will make this country a major spot on the global e-commerce map.

I am glad that OZON, which many regard as the barometer and trend-setter of Russian e-commerce, contributed to make this research a true reflection of these market realities and opportunities.

Maëlle Gavet is CEO of OZON Holdings.



Bas Godska

E-commerce and Russia – two words that have one thing in common: growth.

E-commerce and Russia – two previously separated worlds now unified. Unified by the accelerated mindshift of Europe's largest online population – from bricks to clicks, isolation to transparency, bureaucracy to innovation.

It's truly an amazing time in Russia now; never have developments in IT and digital media delivered newcomers and market challengers at such a rapid pace. The beating heart of Digital Europe will be Russia, the Binary Bear is Loose! And all this has come much sooner and more strikingly than we could ever have expected...

A warm word of thanks to Adrien Henni and his team for their pioneering and painstaking work assembling this second edition of the EWDN Russia e-Commerce Study, a much needed vade mecum for any local or international investor, e-commerce aficionado or service provider.

An international online marketing expert, Bas Godska founded Acrobator, a Moscow based accelerator and consultancy.



Vladimir Grankin

Ten years ago, when less than 10 million Russians were using the Internet, it was hard to imagine that this country would become Europe's leading market by number of users with its own national champions – from Yandex, to Vkontakte, to OZON– dominating the scene.

It was also hard to imagine that the cash-in kiosks that began appearing in Moscow's streets would one day be deployed around the world, from India to Peru, and that their instigator (QIWI) would be triumphantly introduced on the New York Stock exchange.

This all has become true – and even faster, in certain cases, than the most optimistic scenarios predicted.

But this is only the beginning of a long, innovation driven growth period that will reshape entire segments of the Russian economy. In the field of e-commerce, little doubt remains that Russia is following the path of more advanced countries and that, consequently, the share of online transactions in overall retail will grow from its current 2% to exceed 10% one day. E-commerce will represent a market of more than \$100 billion in the long term, as shown by this study.

We at Ocean Bank have accompanied these trends for over 10 years already. We have built Russia's number one player in the field of payment aggregation, serving more than 20,000 Internet shops of all sizes via Robokassa as well as via Platron, which we recently acquired.

However, innovation can be even more powerful than organic or external growth. The current innovation maelstrom will not stop, and few of the payment methods we use today will remain unaffected.

This is particularly true in Russia, which has started its slow but irreversible transition from a cash economy to electronic based transactions, creating a huge potential for experimenting and introducing new payment means.

While some technologies will come from abroad – or be cloned by local startups – a number of solutions will be home-grown to address the country's specific present and future needs. To date, several dozens of startups currently operate in Russia in the fields of payment and banking technologies alone.

Our future lives will be shaped by these innovations. We at Ocean Bank are glad to share our deep expertise and investment capacities with national and international startup teams, incubators and investors. Let us join forces to create together tomorrow's e-payment and e-commerce industries, in Russia and across the world.

Vladimir Grankin is the President of Ocean Bank, a leading player in the Russian payment industry.



David Waroquier

Since we began investing in Russia back in 2006, we have experienced continuous improvements and positive trends on this market that was once considered as one of the least penetrable on the planet.

Among these trends is the considerable development of the online consumer industries. While Russia stands now as the largest European market by number of Internet and mobile users, the country's online retail market – which represented almost nothing just a few years ago – already matches in volume that of some European countries like Italy or Spain.

The market is quickly moving to even larger orders of magnitude: with a growth rate among the highest in the world, we should not be surprised if Russian online retail exceeds \$50 billion before the end of the decade.

Driving the trend is the development of the underlying infrastructure, from broadband, to electronic payments, to logistics – a process that is slow and difficult, but brings significant improvements in operating conditions year after year.

As an investor in such leading Russian online retailers as KupiVip.ru and OktoGo.ru, we at Mangrove Capital Partners are proud to take part in building the future of a country that is striving to modernize and diversify its economy.

But for foreigners to succeed in Russian e-commerce, it is important to be fully committed to the country. This requires frequent presence on the ground and a strong knowledge of local conditions.

Not only does this research offer valuable market data, it is the very first one to provide international players with a detailed analysis of the key issues of this industry – including little known HR challenges and shrewd marketing recommendations.

There's no doubt this report will become a daily guide for those running an online retail business in Russia and will help finetune the strategy of those who consider investing in this promising industry.

David Waroquier is Partner at Mangrove Capital Partners.



E-COMMERCE IN RUSSIA

KEY TRENDS & FIGURES

To receive the full version of this research study
on e-commerce in Russia (10 chapters, 400 pages),
please contact us at the following address: report@ewdn.com

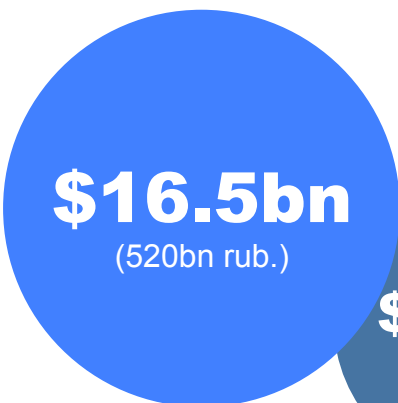


Key trends and figures

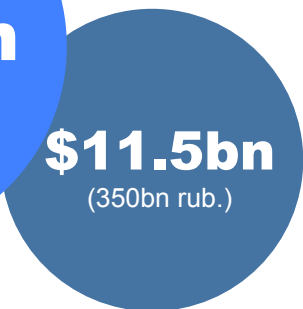
Russian E-commerce 2013 THE NUMBERS

About **30 million** Russians shopped online or **23%** of the population 18+

Total market size:



of which



was spent on

physical goods...

Average spending per year reached \$550 (17,600 rub.) or \$390 (12,500 rub.) for physical goods only

...while **cross-border sales** reached approximately **\$3bn**

Online retail accounted for about



of the total Russian retail market...

...and grew by at least



Insales counted

39,000 Internet shops

up from **32,500** in 2012

of which less than



20

made **\$100m** or more in sales (physical goods only)



Russian E-commerce **THE TRENDS**

1

The market is growing by at least 25% each year; some sizeable online retailers are even seeing their sales double or triple.

2

Still lagging behind the capital, the regions are catching up fast, and pioneering retailers already generate more than two thirds of their sales in the regions.

3

Major offline retailers are now coming to e-commerce, while online-offline concepts multiply.

4

Maturing and becoming more competitive, the industry is now entering a period of optimization.

5

There is a high level of investment activity, but M&A are still exceptions and are likely to remain so at least in the short term.

6

While the Russian Post's performance is deteriorating, alternative delivery providers now serve most large and mid-sized cities with satisfactory conditions. Retailers can thus increase sales in the regions very significantly.

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 sales are growing dramatically, but foreign e-merchants have to carefully localize their site, adapt their marketing approach and deal with customs clearance and delivery issues.



arvato
BERTELSMANN

Your E-Commerce Service Provider

16 years of experience in Russia at your service

E-commerce requires an **integrated approach**, combining customer service, marketing, online store management, IT, logistics and financial services.

At arvato we provide **all of the building blocks you need** for a successful e-commerce business. We will develop your online store (both the front and back ends) and take care of the end-2-end fulfillment (B2B & B2C).

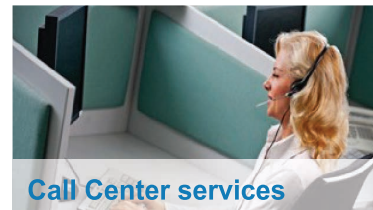
We give you all of the services you need for a successful e-commerce business that's **tailored to your clients, widely scalable, reliable** and efficient.



Ecommerce



IT solutions



Call Center services



Customer care



Data management



Marketing



Loyalty



Financial services



Fulfilment

arvato

...the spirit of solutions

www.arvato.ru



E-COMMERCE IN RUSSIA

EXECUTIVE SUMMARY

To receive the full version of this research study on e-commerce in Russia (10 chapters, 420 pages), please contact us at the following address: report@ewdn.com



1. The Russian Internet market

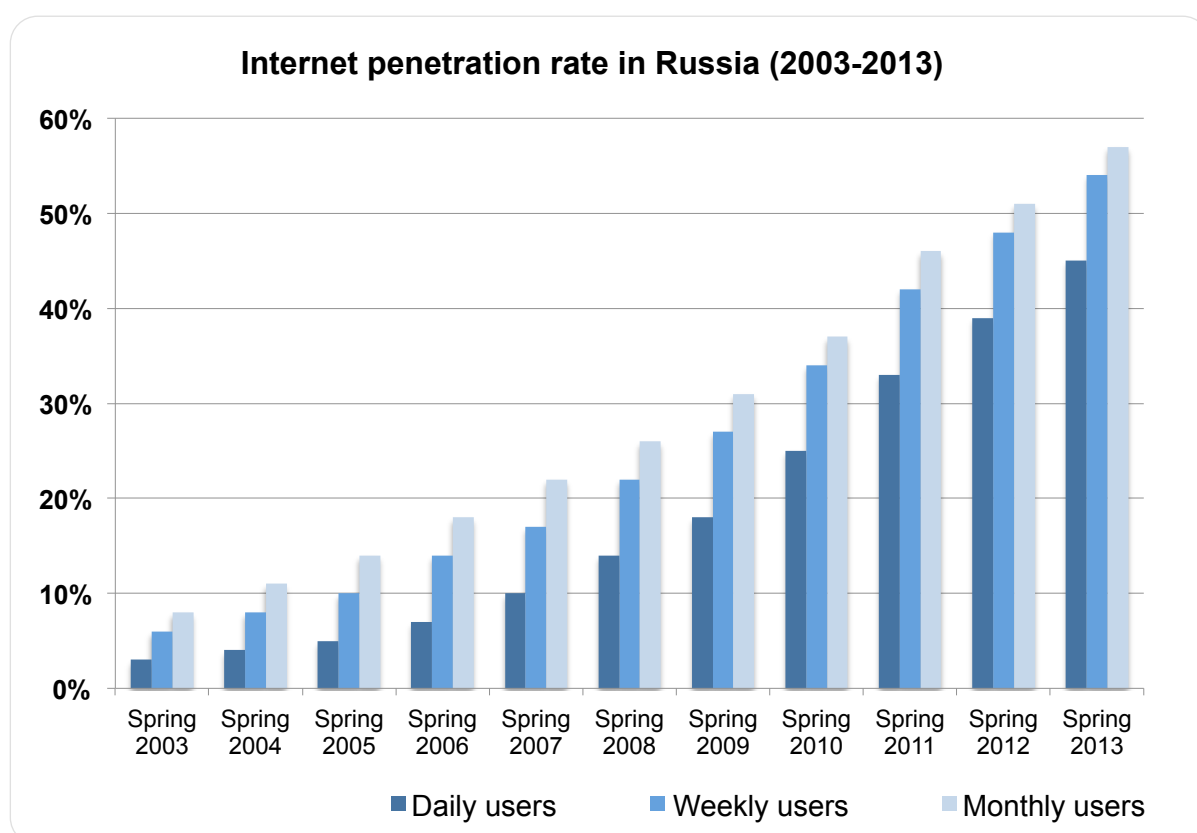
1.1. Internet penetration

As of early 2014, 59% of the adult population, or 69 million people, were connected on a monthly basis, according to the Public Opinion Foundation (FOM). Of them, 56.3 million people – 48% of the adult population – used the Internet daily.

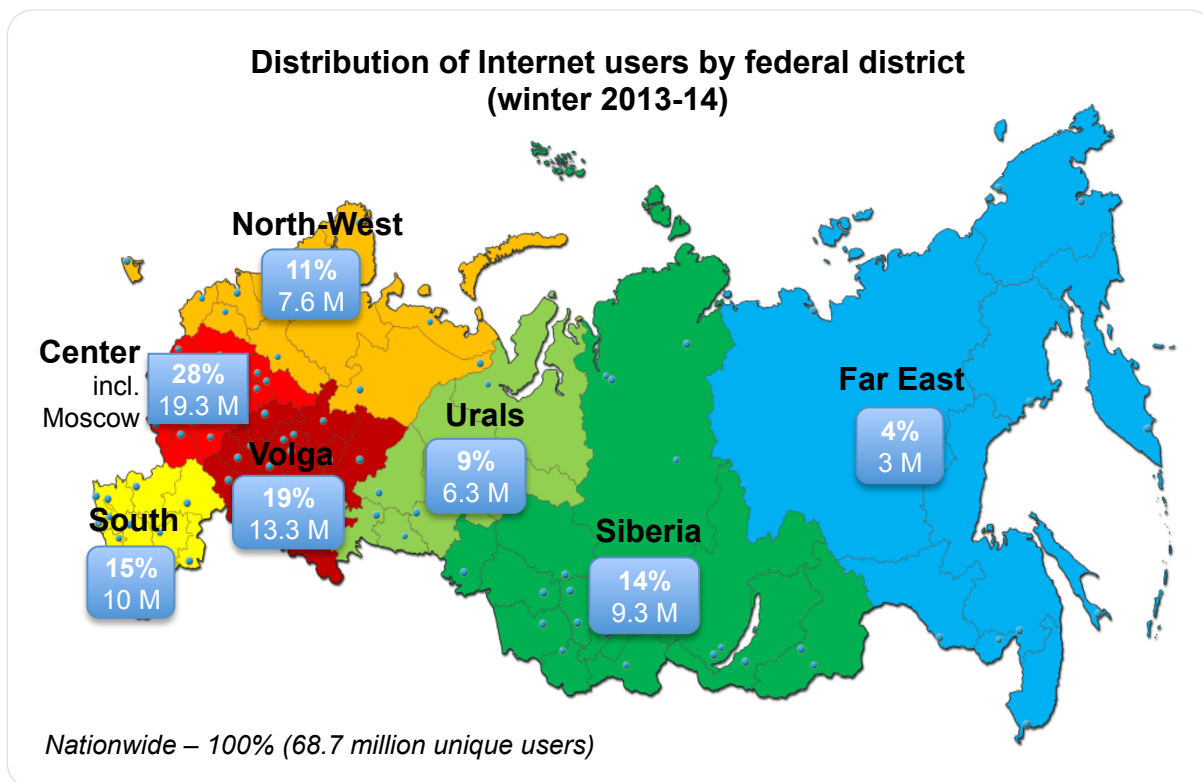
The Internet became popular in Russia significantly later than in advanced European countries, with a mere 10% of the adult population connected in 2003 and 20% in 2007.

Today, Russia still lags behind most other European countries in terms of penetration, with roughly half of the adult population connected. But Russia is catching up quickly, with an average annual growth in Internet users exceeding 10% over the last few years. In September 2011, Russia overtook Germany as the market with the highest number of unique Internet users in Europe.

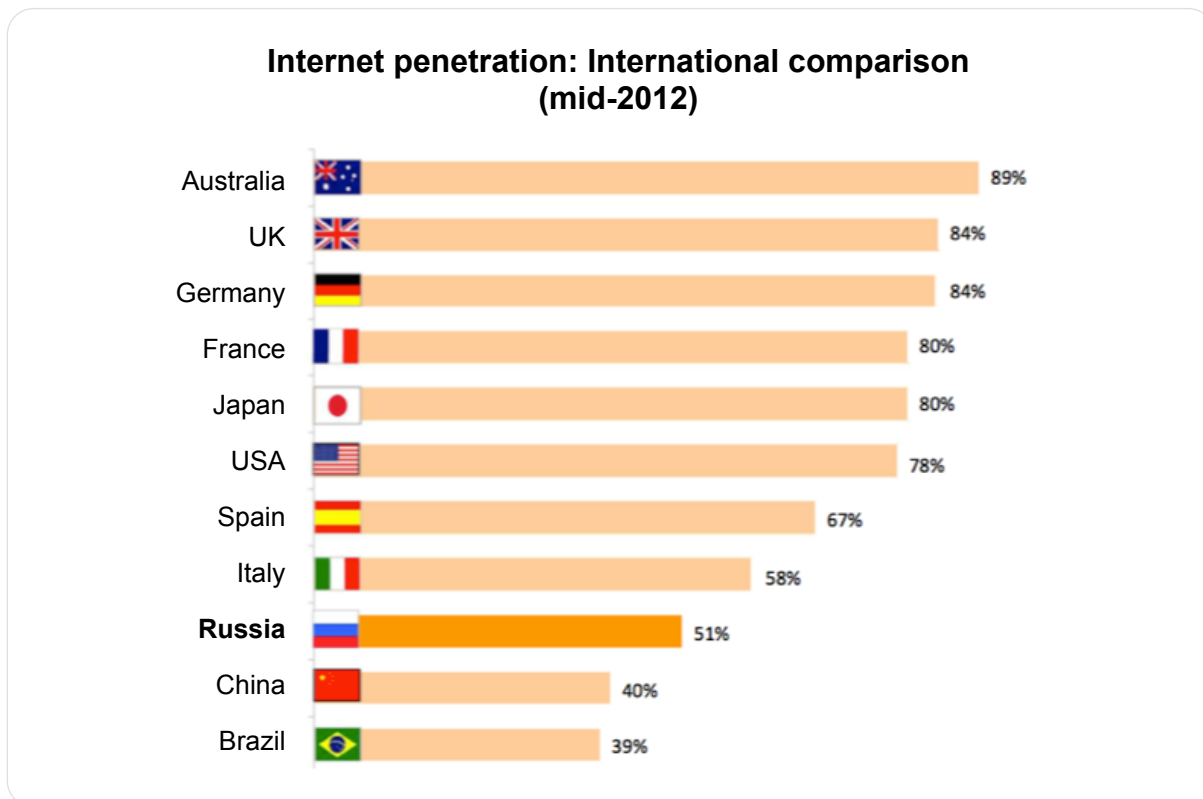
If growth continues at its current rate, it will take Russia less than a decade to reach the current levels of Europe's most connected countries.



Source: Public Opinion Foundation (FOM)



Source: FOM



Sources: FOM (Russia), Internet World Stats (other countries)



1.2. Regional contrasts

Internet penetration in Russia is still uneven. There is a two-fold difference in the percent of Internet users on a monthly basis between the capitals, Moscow and St. Petersburg which have over 75% Internet penetration, compared to 45% in Dagestan and 42% in Mordovia, according to a FOM report from February 2013. The average across Russia was 58%.

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.

The differences between regions by usage intensity are even more profound. Internet penetration and usage intensity are interconnected: the higher the percent of Internet users, the higher the level of Internet activity and vice versa.

As of summer 2013, just 11% of Russian Internet users lived in Moscow, 4% in St. Petersburg and 9% in cities with more than 1 million inhabitants, while 20% lived in rural areas. Almost three quarters of all Russian Internet users live in the European part of Russia.

1.3. Russian audience world-wide

The Russian-speaking audience is in the range of 90 million users, including an approximate 20 million Russian speaking users in the former Soviet republics, Western Europe, Israel and North America.

IN THE FULL VERSION:

- Internet penetration data by Russian region and type of city;
- An analysis of the regional contrasts in Internet penetration and usage intensity.

ADVERTISEMENT

DM FORWARDING

- Freight forwarding, multimodal, air transportation
- Logistics for e-commerce, express delivery
- Cargo consolidation in China, Hong Kong, USA, Germany, Lithuania, Italy
- Customs clearance
- Customized logistic solutions, 3PL

DM Forwarding Co. Ltd TIN 7726623907 Postal license of RF №112683

Telephone: +7 495 589 78 31
E-mail: service@freight-expert.com
www.freight-expert.com



CDEK

13 years in the courier
delivery market
5 years in the e-commerce
delivery market



100+ divisions and warehouses in Russia & Kazakhstan
300+ cities served
1000+ cities with cash-on-delivery service
service is available
700+ staff members
3000+ online stores work with us



CDEK



Our services include delivery from
the online store's warehouse to the final
recipient's door, or to a pick-up point.
We serve e-commerce and distance selling
companies from Russia and all over the world



CDEK

SERVICE FOR INTERNET STORES

Try-on
Partial delivery
Insurance
Invoice printing
Call recipient before delivery
Parcel returns
SMS service
Full tracking and tracing ability
Delivery on Saturdays, Sundays and public holidays



CDEK

CDEK's API data exchange
system allows for order
origination and tracking.



Moscow
☎ +7 (495) 66-55-8-99
multichannel

Saint Petersburg
☎ +7 (812) 320-95-00
multichannel

Novosibirsk
☎ +7 (383) 20-222-50
multichannel



2. The online retail market

2.1. Market size

In 2012, according to Data Insight, Russian online retail accounted for a total market volume of nearly 400 billion rubles (approximately \$13 billion), up 27% from the previous year, including 290 billion rubles (\$9.5 billion) spent on physical goods.

In 2013, the market neared 520 billion rubles (\$16.5 billion), not including cross-border sales to Russia which totaled up to \$3 billion.

On a yearly basis, in 2013, 30 million Russians bought physical goods online.

Regarding market segments, the general picture is rather clear, although different methodologies from different sources reflect some differences. The categories of physical goods most in demand are apparel and footwear, household appliances and home items, consumer electronics and computer hardware as well as car parts and children's goods.

Turnover by segment (2013, in billion rubles)

Segments	2013	Growth/2012
Household appliances & electronics	107	34%
Clothing, footwear	76	34%
Computer, notebooks, computer parts	56	23%
Car parts	26	43%
Mobile phones	26	32%
Children's goods	24	29%
Home items	22	97%
Furniture	20	36%
B2B equipment	19	55%
Construction materials	15	40%
Sports, tourism, leisure	14	42%
Groceries	13	-1%
Office appliances	12	30%
Cosmetics, perfumes	9	31%
Accessories	7	37%
Books	6	3%
Gifts	5	50%
Medicine	3,5	63%
Pet goods	3	95%
Flowers	3	31%

Source: InSales



Executive Summary

On daily deal and group buying sites – which have lost some of their traction since 2011 – the five types of services or goods most in demand are related to beauty services, entertainment and sports, dining and travel.

Among virtual goods and services, the most popular appear to be airline and train tickets as well as event tickets, and software.

IN THE FULL VERSION:

- **More detailed segment analysis by sales volumes, number of buyers, spending amount and average order value;**
- **User segmentation by gender age, income level, education and occupation;**
- **User segmentation by gender and age applied to different product and price categories, with highlights of geographic contrasts and variations.**

ADVERTISEMENT

Yandex money

Yandex.Money is the easiest way to start sales in Russia.

We'll provide your online store with the means of accepting all payment options popular in Russia - cash, bank cards, and e-money. Unique benefits of a PSP contract with Yandex.Money:

- the widest network of **cash deposit points (150,000+)**
- payments made with **any local Visa or MasterCard**, including Maestro
- **settlements to any country**, in any currency

Yandex.Money is a joint venture of Sberbank, the largest bank in Eastern Europe, and the Internet company Yandex, operator of Russia's leading search engine. We service over 50,000 online stores and 14 million users. Every day hundreds of thousands of transactions are made through the service.

We'll make your launch on the Russian market quick and successful!

Write to us to get started: merchants@money.yandex.ru

For more on ways to connect: money.yandex.ru/eng/
Tel.: +7 (495) 739-23-25



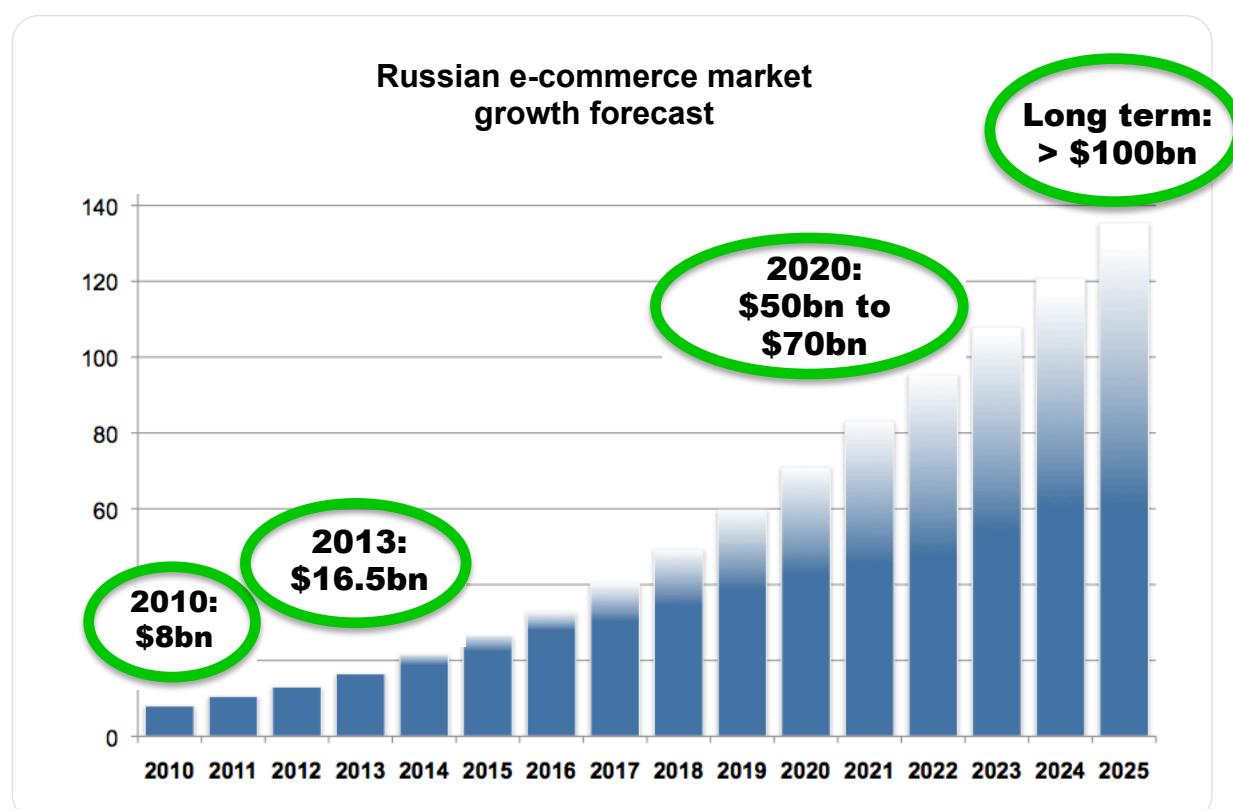
2.2. Market growth forecasts

We anticipate that, in 2015, Russia's total online retail market could amount to at least 845 billion rubles (more than \$27 billion). The fastest growth rate is expected to be found in the regions.

According to moderate forecasts, Russia's online retail market could amount to \$50-70 billion by 2020. In no case should this figure, which represents around 7% of Russia's total retail market, be regarded as a maximum. In the long term, strong growth will be fueled mainly by such structural factors as:

- **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.

Russian e-commerce could thus represent a market of up to \$150 billion within 10 to 15 years.



**IN THE FULL VERSION:**

E-commerce growth drivers are analyzed in full detail:

- **Quantitative factors:** number of Internet users; the proportion of online shoppers among users; the frequency and diversity of online purchases; the average value of online orders, which is linked to both income level and consumer spending growth, as well as growing readiness of online shoppers to buy more expensive items;
- **Qualitative factors:** growing investments in the regions; improvements in service quality; the development of strong brands; improvements in delivery across Russia; and lower online prices.

The research also describes the undergoing shift in market structure, with the predicted future predominance of the regions over Moscow and St. Petersburg.

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, the Russian online retail market could well involve 44 million online shoppers as early as 2015 (doubling from 2012) and tens of millions more by the end of the decade.¹

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.

1. Three groups drive this growth in the number of online shoppers: individuals in the regions, especially in small towns, individuals with low incomes and individuals newly connected to the Internet.



Executive Summary

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.

According to various surveys, online shoppers most appreciate lower prices, easier comparisons and convenient delivery. Variations can occur depending on socio-geographic criteria. For example, more than others, the inhabitants of the capitals and the largest cities appreciate that online shopping allows them to save time and the service level offered by online shopping, when it comes to delivery questions.

Symmetrically, users are very sensitive to price and product information on the website, pricing and delivery conditions, which are among causes for dissatisfaction. Trust is a key issue, with at least 30% of Russian Internet users declaring they never shop online versus 10% to 20% in most Western countries.

IN THE FULL VERSION:

- **A detailed analysis of user profiles with segmentation by gender, age, occupation and education;**
- **An analysis of the recency, frequency and motivations of online shopping with international comparisons;**
- **Developments on the trust issue, with accounts from online players, service providers and industry associations on how they deal with it.**

ADVERTISEMENT

**Human voice.
Better contact.
More sales.**

**Russia's only
call-center provider
specializing in e-commerce**

- Hotline services
- Website moderation
- Database update
- Satisfaction surveys
- Mystery calls
- Telemarketing
- Marketing phone interviews

Astra Page™
Call-center services since 1994

Call us today at +7 495 785 8080 – info@astrapage.ru – www.astrapage.ru



We help FASHION brands successfully launch online!

Our Ecommerce warehouses in Russia manage more than 16 million parcels per year.

Ecommerce success is powered by a scalable and efficient warehousing and fulfillment solution. Every process from quality control to returns management must be optimally supported. Proven operations and reliable IT systems drive your customer satisfaction and business profitability.

eTraction is a member of the OTTO GROUP, the global leader in fashion Ecommerce. We understand fashion and we understand Ecommerce.

For your individual project, we will design, install, and run all necessary services, processes, infrastructure, and IT systems. One provider, all services!

Our services include:

- Warehousing / Logistics
- Web Shop Integration
- Call Center Services
- Online Marketing
- Content Production

CALL US AT +7 (495) 642-26-65



2.4. International comparisons

In 2012, the sales volume of online retail in Russia was similar to that in Brazil, while significantly behind the USA and Western Europe. The share of online retail in total retail amounted to approximately 2%, compared to between 5% and 10% in the USA and most West European countries. In the UK, this share reaches 13%.

Research by PwC in 2012 found that only 43% of Russian Internet users made frequent purchases online, meaning one or more purchases per month, compared to the international average of 60%.

Nevertheless, the low penetration of e-commerce in Russia – in 2013 only about 23% of the adult population shopped online – is primarily due to the relatively low level of Internet penetration. If judging by the proportion of Internet users shopping online, the share of online retail sales in Russia is more or less comparable with the situation in Italy, Greece and the new EU members from Central Europe and the Baltic states, all of which have similar levels of e-commerce.

ADVERTISEMENT

MaxiPost
Courier delivery company

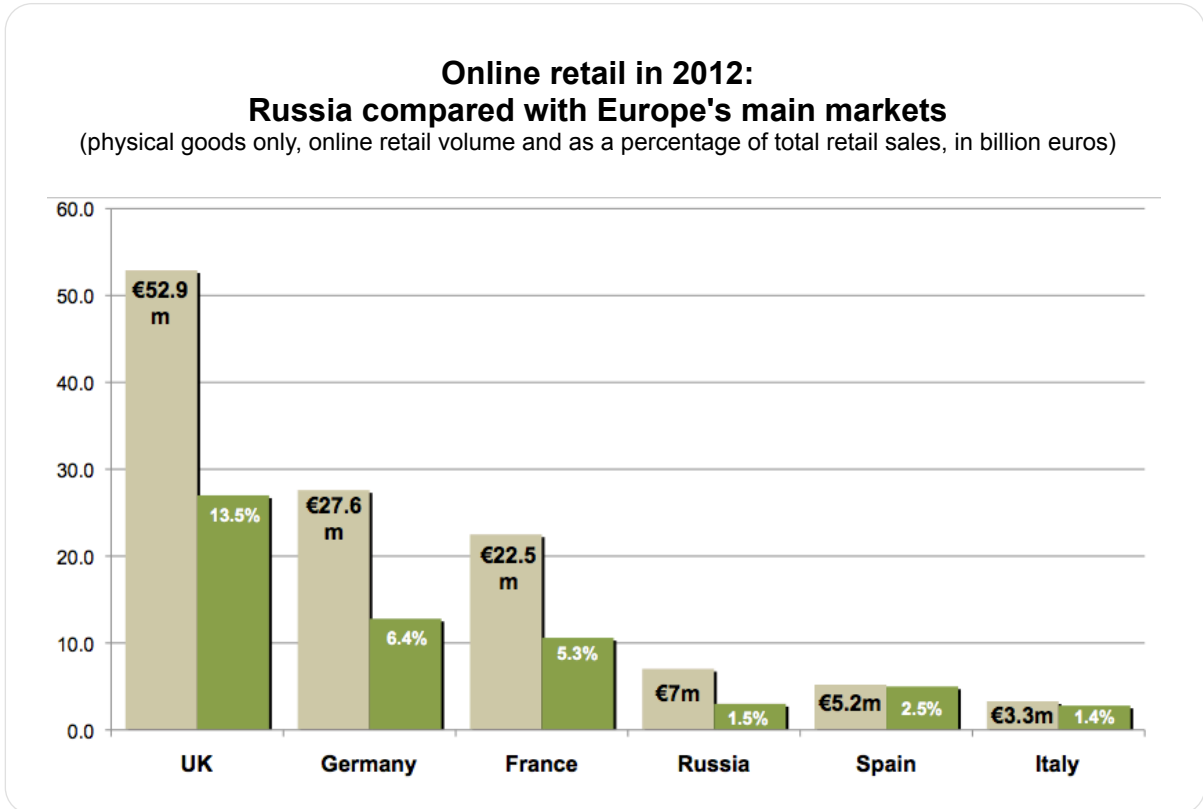
Russia's favorite delivery provider

- 13 years on the market
- Nationwide delivery
- Cross-border sales service
- Pick-up points in more than 70 cities
- Partial delivery and delivery with try-on
- Low percentage of refused parcels
- Full transparency for the merchant and the customer
- End-to-end parcel tracing with 25 delivery statuses
- Flexible, client-oriented service

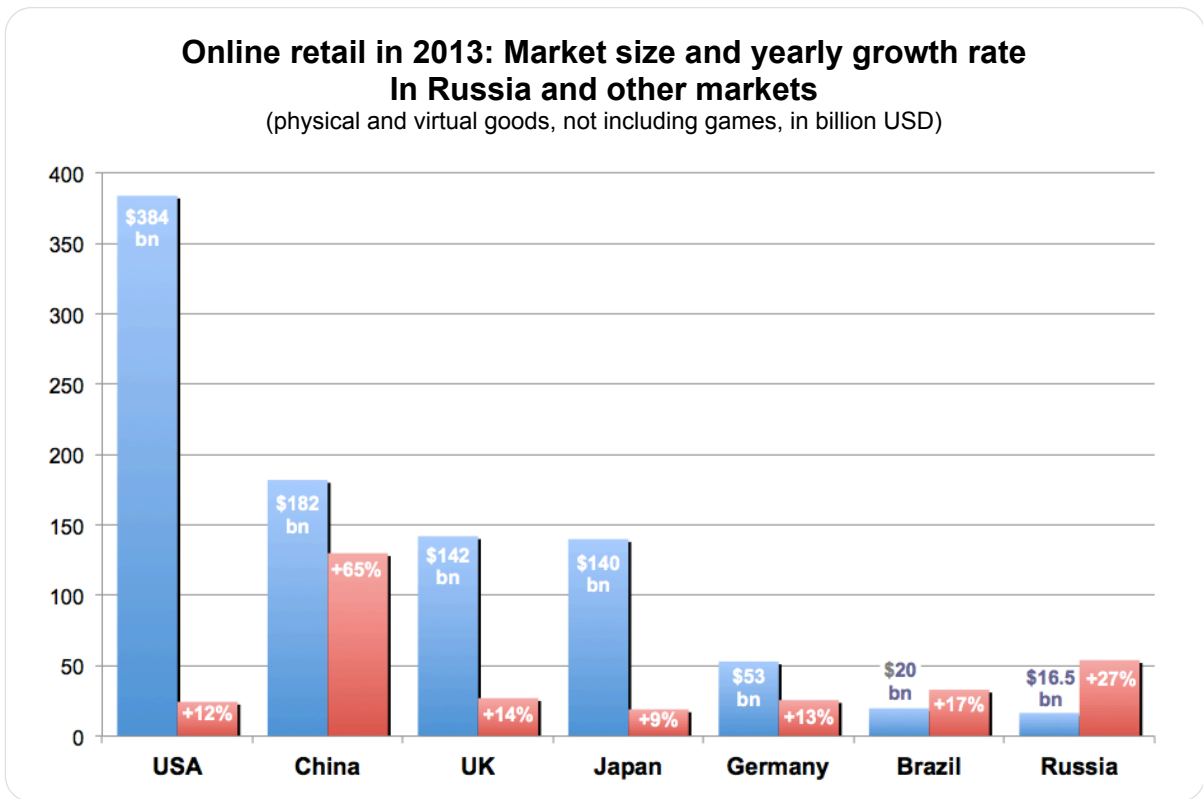
+7 (495) 789 9150
maxipost@maxipost.ru

We'll deliver parcels to your clients anywhere in Russia. To discuss your individual requirements, call us now!

www.maxipost.ru



Sources: E-Commerce Europe Association (EU countries), Data Insight (Russia)



Estimates of Data Insight (Russia), eMarketer (other countries)

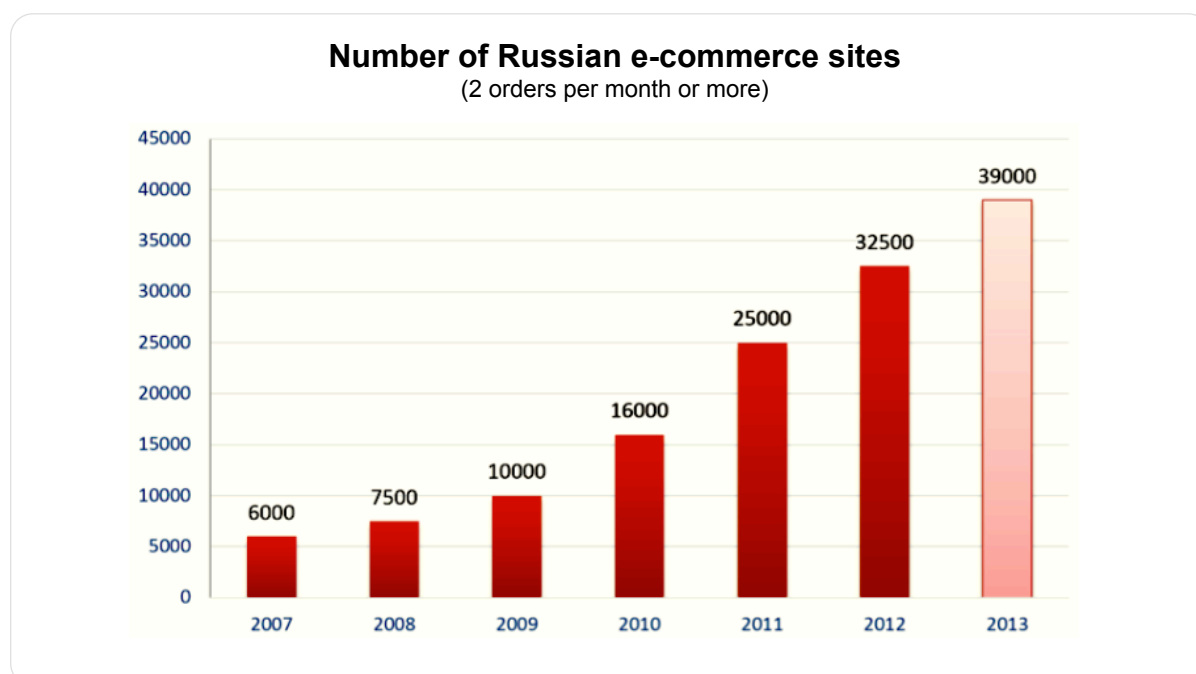


3. Online retailers

3.1. Number of sites

In early 2013, payment aggregator Robokassa and analytics company Openstat identified 1.2 million “commercial sites” (i.e. sites that offer payment functions) in the .ru, .su and .pp 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. In 2013, InSales estimated the number of active e-commerce sites (generating at least two orders per month) at 39,000. Of these sites, a mere 40 generated more than 1,000 orders on a daily basis.



Source: InSales

3.2. Market fragmentation

A consequence of the limited size of the market itself – with Russia's \$13 billion in 2012 representing less than 40% of Germany's online retail market and one twentieth of the US market – Russian online retailers are noticeable for their small sales volumes in comparison with major foreign players.

The order of magnitude is simply different: in 2012, the Ozon group's net sales, for example, represented less than 3% of those of its model, Amazon.com, in countries such as Germany (\$250 million vs. \$8,732 million).

This situation also reflects the atomization of a Russian market that is still in the early stages of its development, with at most 20 players generating \$100 million or more per year (including VAT) as far as physical goods are concerned.



Executive Summary

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.

3.3. Gradual involvement of offline players

Large domestic retail companies are only beginning to enter the Russian e-commerce market, and many are still absent. Several international players currently 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 their first e-commerce activities, several online players, in a reciprocal move, have gone offline.

3.4. 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.

3.5. Foreign players

On the domestic e-commerce scene, four foreign companies – or Russian companies with foreign shareholders and management – are among the top 10 players (Otto Group, Ozon, Lamoda and KupiVIP). These cases show that foreign retailers can succeed locally 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 fulfillment capacities.

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. At a certain stage, a stronger local presence – or full market entry – may be required to tap the Russian market's true potential.

IN THE FULL VERSION:

- **Russia's top 25 online retailers ranked by turnover and traffic**
- **An analysis of on the click-and-mortar trend with a description of the most notable initiatives by both Russian and foreign companies;**
- **A detailed insider description of gray market trade schemes with commentaries from leading online retailers.**

Omni-Channel

Digital Marketing Company



Display • Affiliate • CRM • Loyalty

www.etrading.ru

eTargeting

Smart data • High Performance

+7 (495) 967-37-70



4. Investments in Russian e-commerce

From 2010 to 2013, according to research studies by Fast Lane Ventures, PwC and RVC, e-commerce in the broad sense was the major destination for venture investment in Russia. During these four years – if counting only publicly disclosed transactions – the Russian online retail industry attracted nearly \$1.3 billion in venture investment, including more than \$360 million for 2012 alone.¹

Venture investment in Russian e-commerce fell to \$235 million in 2013, reflecting the contraction of the local venture market as a whole.

Russian online retailers' attempts to raise venture money continued in early 2014. In April, Ozon closed a record \$150 million funding deal with Russian investors while Ulmart held talks with leading US VCs. Wikimart announced its intention to raise at least \$40 million until early 2015. According to unconfirmed information, Lamoda, too, approached investors, less than one year after a \$130 million capital injection in mid 2013.

IN THE FULL VERSION:

The research contains:

- Full list of all disclosed venture investment deals from 2010 to 2013;
- The attractiveness of Russian e-commerce from an investor point of view is also discussed with leading Russian and Western investors: Leonid Boguslavsky of Ru-Net, Gleb Davidyuk of iTech Capital, Maxim Krasnykh of Intel Capital, Damian Doberstein and Alexandra Rasskazova of e-Venture Capital Partners, Bakhrom Ibragimov of EBRD, Edward Shenderovich of Kite Ventures and David Waroquier of Mangrove Capital Partners.

Among the topics discussed are:

- The pros and cons of investing in Russian e-commerce;
- The financial impact of Russia's specific conditions for e-commerce venture;
- The exit issue, with an analysis of the existing exit cases as well as of the M&A and IPO perspectives in the short, middle and long-term.

1. This figure encompasses "classic" e-commerce, travel services, private sales, daily deals and collective buying as well as classifieds and other startups involved in e-commerce. The amounts invested in these sectors could be significantly higher if undisclosed transactions were included.



Venture investment in Russian e-commerce (2010-2013)

Publicly disclosed deals of \$10 million and more

Official data Unconfirmed amounts

Company	Amount raised	Investors	Date	Round	Sub Sector
Lamoda.ru	\$130m	Access Industries, Summit Partners, Tengelmann	Jun-13	?	Classic e-commerce
Ozon Holding	\$100m	Ru-Net, Rakuten, Alpha Associates, Index Ventures	Sep-11	?	Classic e-commerce
Ulmart.ru	\$70m	Avzug Meier and Dmitry Kostygin via their funds Svoboda Corp. and Koshigi Ltd.	2011	?	Online/offline model
Lamoda.ru	\$60m	JP Morgan	Aug-12	?	Classic e-commerce
Kupivip.ru	\$55m	Accel Partners, Mangrove Capital Partners, Direct Group, Oliver Jung, ARLAN, Balderton Capital	Apr-11	Round C	Classic e-commerce
B2B-Center.ru	\$45m	Da Vinci Capital Partners, Insight Capital, Alpha Associates and Runa Capital	May-12	Acquisition (minority stake)	B2B
Ulmart.ru	\$45m	Avzug Meier and Dmitry Kostygin via their funds Svoboda Corp. and Koshigi Ltd.	2012	?	Online/offline model
Kupivip.ru	\$38m	Intel Capital, Acton Capital Partners, EBRD, Accel Partner, Balderton Capital.	Jun-12	Round D	Classic e-commerce
Vseinstrumenti.ru	\$30m	Zoom Capital	Sep-12	Round A	Classic e-commerce
Wikimart.ru	\$30m	Tiger Global Management, undisclosed Russian investor	Mar-12	Round C	Marketplace / classic e-commerce
Biglion.ru	\$25m	Tiger Global Management	Dec-11	Round B	Daily deals and group buying
Obuv.com	\$25m	Avzug Meier and Dmitry Kostygin	2012	?	Classic e-commerce
Onetwotrip.com	\$25m	Atomico, Phenomen Ventures	Sep-12	?	Travel
Ostrovok.ru	\$25m	General Catalyst Partners along with Accel Partners and Frontier Ventures as well as Eric Blachford, Edward Kaufman, Yuri Milner, Shervin Pishevar	Mar-13	?	Travel
Sotmarket.ru	\$15m	IQ One	Mid 2012	Round A	Classic e-commerce
Ostrovok.ru	\$12.6	General Catalyst Partners, Accel Partners, Atomico, Founders Fund, Kite Ventures and western individual investors	May-11	Round B	Travel
Holodilnik.ru	\$12m	Media Capital	Apr-13	?	Classic e-commerce
Sapato.ru	\$12m	Intel Capital, Direct Group, eVenture Capital Partners, Kinnevik	Jun-11	Round C	Classic e-commerce
Kupivip.ru	\$12m	MCI Management	Oct-12	Round E	Classic e-commerce
Okto.ru	\$11m	Mangrove Capital Partners, Ventech, VTB Capital	Mar-13	Round D	Travel
Delivero.ru	\$10.5m	Team Europe, Kite Ventures, Point Nine Capital, Ru-Net, Tengelmann	Sep-11	Round A	E-commerce related
Lamoda.ru	\$10m	Kinnevik	Sep-11	Round B	Classic e-commerce
Okto.ru	\$10m	VTB Capital, Mangrove Capital Partners, Ventech, ABRT	Jan-12	Round B	Travel
Anywayanyday.com	\$10m	Tiger Global Management	Jul-10	Round A	Travel
Lamoda.ru	\$10m	Tengelmann Group, Holtzbrinck Ventures, Kinnevik	Apr-11	Round A	Classic e-commerce
Mebelrama.ru	\$10m	Rocket Internet	Oct-12		Classic e-commerce

Sources: EWDN, Fastlane Ventures – A comprehensive list of deals is offered in the full version of the study

A Truly Global
Venture Firm.

Five Local Funds.
One Global Team.



e.ventures 

The most comprehensive research on the financing of Russian Internet companies and startups in 2012 and 2013.



This 64-page research examines more than 600 transactions, from grants and seed stage investments to subsequent rounds and exits.

To get your free copy, please contact Fast Lane Ventures' Senior Investment Analyst Andrey Kulikov at akulikov@fastlaneventures.ru

A publication of  fastlane ventures

The document is also available on Slideshare:
<http://www.slideshare.net/AndreyKulikov/russian-internet-deal-book-20122013-fastlane-ventures>



5. Operations

5.1. 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.

E-commerce companies working with the Russian Post, in particular, often complain about excessive delivery time and lost or stolen parcels.

However, delivery options have improved significantly over the past few years, with several new providers offering a higher quality of 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.

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

IN THE FULL VERSION:

Combining expert analysis and market players' concrete experience, the research analyzes the issues pertaining to supplies, warehousing, delivery, returns, and call centers, as well as process automation.

- **Industry experts provide practical recommendations on how to choose and work with suppliers, logistics providers, and delivery companies.**
- **The report offers an in-depth, data-driven analysis of online retailers' options to ship parcels across the country and case studies. Astonishing findings will help retailers multiply their sales to the regions by optimizing coverage parameters and delivery terms.**
- **The report also includes an independent and comprehensive overview of logistics and delivery providers operating in Russia – from the Russian Post to the new generation of delivery and pick-up point companies – as well as practical recommendations as how to choose, and organize processes with, these providers.**
- **Special developments are offered on returns as well as call centers, with interviews from several online retailers and specialized providers.**



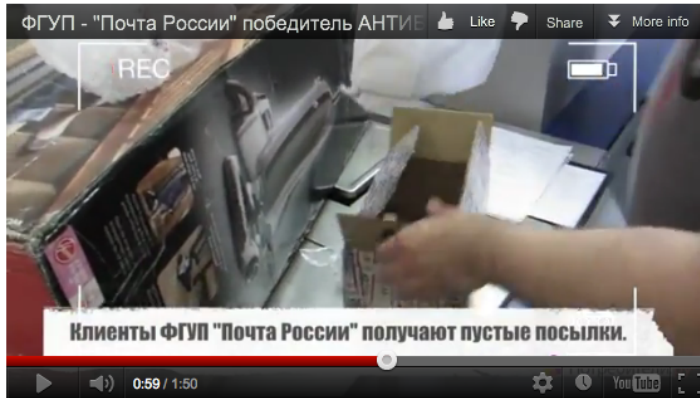
The Seven Plagues of the Russian Post

1

Service is extremely slow: Domestic deliveries to remote areas take weeks, while cross-border shipments may take months.

2

Service is not reliable: In the absence of an efficient tracking system, a non negligible portion of parcels are lost or even stolen.



The video shows empty parcels delivered by the Russian Post (source: Potrebiteli.ru).

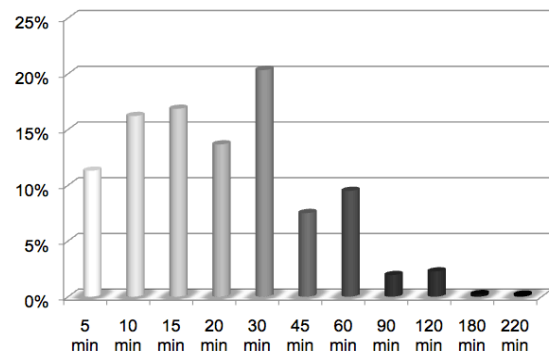
3

Parcels are not delivered to home addresses and recipient notification is deficient: When a customer is not at home or does not answer the door, the Post is supposed to leave a notification in the recipient's mailbox regarding the attempted delivery. However, many mailboxes in the country are broken, and there is a suspicion that postmen do not always leave these notifications. As a result, the parcel is returned to the merchant, while the customer has never been informed about the attempted delivery.

4

Long lines at post offices: Half of recipients spend 30 minutes or more on average to pick up parcels in post offices.

Average waiting time in Russian post offices (survey by a leading distance selling company among approximately 10,000 customers in early 2012).



5

The Post charges "storage service:" There is an added fee if a parcel is not picked up from the post office within a few days. However, storage time is not tracked efficiently, and many parcels are returned to the sender even before the standard storage time expires.

6

Accounting complications: Some distance selling and e-commerce operators complain about issues at this level.

7

Decreasing cost advantage: The Post has raised its delivery rates over the past few years, while alternative providers have lowered theirs. As a result, the Post's offer has become less competitive in the areas that are also covered by competitors.

EWDN thanks e-commerce expert Kirill Filchenkov for contributing to this article. The Russian Post did not answer our questions.



PROFESSIONAL FULL-RANGE OUTSOURCING FOR E-COMMERCE AND DISTANCE-SELLING

Beta production is one of Russia's largest service providers, offering a full range of fulfillment services.

*Production capacities in Moscow and Moscow region –
more than 35 000 square meters*

Experience with large foreign companies

*Well-established national and regional network of
delivery companies and pick-up points*

Reliable long-term relationship with Russian Post

24x7x365 operations

More than 800 qualified employees

Beta production
2nd Kabelnaya Street, 2, building 6,
111024 Moscow, Russia

Tel. +7(495) 755-78-88
www.betaproduction.ru





5.2. 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.

While the online retailers interviewed for this research are almost unanimous in regarding payments as an issue, a majority of them said they have found more or less satisfactory ways to cope with it. As such, the practice of cash on delivery does not always have a negative effect on returns or the financial condition of a company.

The consequences may be more negative in such specific segments such as online travel booking, where some products can be reserved only using bank cards, not to mention business models based on recurring payments or subscriptions, such as online dating services, which so far have not developed in Russia due to the absence of a universal recurring payment solution.

Industry experts and e-commerce executives all predict that the use of electronic payments will continue to rise, with government encouragement, which will favor the development of online retail in Russia. But opinions diverge regarding the specifics of using bank cards online. While some sites, like online travel services and cross-border platforms, already record significant activity and rapid growth in the use of bank cards, others sites, especially those selling physical goods, like Ozon.ru, tend to believe today's situation will likely continue for the foreseeable future.



Executive Summary

It is safe, however, to expect the following trends to develop in the short- and mid-term:

- Cash on delivery – and cash pre-payments to a lesser extent – will remain the main payment method for physical goods;
- Cash payment terminals (e.g. Qiwi) will remain popular, especially for services or virtual goods;
- Bank cards will be used increasingly for services, virtual goods, and e-content, while integrating further with other systems (e.g. Qiwi+Visa, Yandex.Dengi, and MasterCard);
- E-currencies (Yandex.Money, Qiwi Visa Wallet, Webmoney and Paypal), are likely to develop further mainly for goods and services at lower price points;
- Mobile payment systems (e.g. RURU from Vimpelcom and Legkiy Platezh from MTS) could develop for goods and services at lower or middle price points;
- New payment methods (e.g. recurring, one-click and mobile acquiring), now just emerging, could become an option for existing players and for the development of new businesses.

IN THE FULL VERSION:

The research offers a comprehensive and detailed description of each payment method available in Russia, with a discussion of its possible relevance for online retailers:

- **Cash on delivery, the difficulties this system brings to retailers and the advantages that some find in it;**
- **Cash payments via offline networks, from the Russian Post to banks as well as to some retail networks;**
- **Cash payments via cash-in kiosks, with a description of their features and the commissions systems of the three main operators;**
- **Online payments via bank cards, with an analysis of the reasons why bank cards are used so infrequently, from user trust issues to the reluctance of the retailers themselves;**
- **E-currencies, with a description of the main systems, their features and fees, and a discussion on PayPal's entry on the Russian market;**
- **Mobile payments, with an exclusive and exhaustive list of the systems made available by Russian mobile operators and payment solution providers, and how these are actually used by Russian online retailers;**
- **Online banking and the first steps by Russian banks to integrate their systems with those of online retailers;**
- **Payment by credit and other new payment methods.**

Let us introduce you to 14 million customers and offer you much more:

- Multiple interfaces: web site, mobile apps, self-service kiosks, social networks
- 4 sources of funds: e-money, mobile phone account, bank cards, cash
- Flexible conditions and a variety of benefits for individual entrepreneurs and companies of all sizes
- Convenient connection options at your discretion, enabling both “Push” and “Pull” payments
- Effective promotional campaigns



Interested? Contact us at shop@qiwi.ru
and start developing your business with QIWI!



5.3. Marketing and sales channels

Although the whole spectrum of e-marketing instruments is now available, some of them are less developed, or less widely used, in Russia. In the field of display advertising, while the shift from CPM to performance-based marketing is just starting in Russia, the online video advertising and the mobile advertising markets are still in their infancy. Affiliate networks are just beginning to take shape. Viral, buzz and blog approaches are also in their early stages.

As for email marketing and CRM, which has been adopted by major players only recently, state-of-the-art methodologies and tools are still far from being widely used. Another marketing instrument, retargeting, has landed on Russia's shores only recently.

Whereas Western entrepreneurs were surprised by the relatively low cost of online marketing campaigns just a couple of years ago, Russia's price advantage has disappeared. The Russian market now tends to be driven by aggressive players bringing strong advertising budgets, which leads to tensions on available inventory and a noticeable price hike. This is especially true in the most competitive segments, like fashion.

Though tending to be more difficult to get, discounts can still be considerable – up to 80% – if negotiated by market insiders.

Another difference between Russian Internet marketing and its counterparts in the European or American markets is a relatively low level of local marketing expertise. The Russian market is flooded with a massive number of agencies, with the majority of them offering unpredictable service quality, whereas Internet stores themselves suffer a shortage of qualified professionals in this and other areas.

IN THE FULL VERSION:

The research offers a detailed description of each marketing instrument and sales channel available in Russia. The efficiency of these instruments is assessed and compared, with a focus on optimizing their usage, particularly by online retailers.

Included in the analysis are: SEO; contextual advertising; display advertising; affiliate networks; discounts and flash sales; social networks; viral marketing; email marketing for customer acquisition and CRM; loyalty programs; mobile marketing and commerce; offline marketing.

An exclusive overview of Russia's marketplaces is offered with a discussion on their influence and a comparison table showing each one's features and conditions. Special analysis is dedicated to the strengthening of the position of the two giants Yandex.Market and eBay.



6. Legal aspects

Unlike many other business spheres in Russia, e-commerce is still insufficiently regulated, with no legislation specifically drafted to regulate e-commerce as such. So far, this industry has been subject to rules contained in Russia's Civil Code and a range of federal laws, which were originally designed to regulate matters outside the electronic context.

However, 2011 saw the adoption of a federal law on electronic payment system as well as significant amendments to the existing law on personal data. Additional Internet-specific legislation is currently being discussed.

In certain cases, however, these efforts to improve the legal framework regulating e-commerce have resulted in severe and arguably unnecessary complications for market players. In particular, many aspects of the legislation on personal data collection and use have become particularly demanding and its implementation may be fastidious and costly.

IN THE FULL VERSION:

The Ernst & Young team in Russia as well as Mikhail Chentsov, Head of the Business Legal Support Division of Otto Group Russia's Legal Dept., and Michael Hartleben, Associate at Egorov Puginsky Afanasiev & Partners, discuss the essential rules of e-commerce and explain how online retailers should apply them.

In particular, there is a detailed description of the requirements of the 2011 law on personal data with practical recommendations to online retailers on how to deal with them. Included are developments on:

- **How the law defines personal data and whether email addresses and phone numbers are considered personal data;**
- **How personal data can be collected or a database can be acquired, with the data subjects' consent and how the law defines consent;**
- **How personal data can be used, both within the Russian territory and in the case of cross-border use of personal data;**
- **How personal data must be protected, with the list of the legally required technical and organizational measures to assure this protection;**
- **The liability for violation of conditions of personal data processing.**

This legal analysis is complemented by interviews with online retailers on how this law has impacted their business.

The legal analysis also includes a detailed table of 11 types of online actions for marketing or commercial purposes, from user-generated contests to purchased-based actions to lotteries, with the key legal points pertaining to each.



7. HR: The most painful issue

The lack of qualified human resources appears to be one of the most difficult issue 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

The shortage of skilled employees on the market drives rapidly growing salaries – \$10,000 per month or more for certain positions – and increases competition between employers for available employees. As a result, 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.



Executive Summary

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 Viktor Lysenko and Elena Masolova, who built a leading daily deal site in just six months, before selling it to Groupon Inc., and Maria Kolesnik of the travel booking site Oktoغو.ru. Lesser known but no less deserving of recognition are Alexander Goltsov, Nikolai Gudovsky and Viktor Kuznetsov, who were just students when they created Vseinstrumenti.ru in 2007, a website that has since become a leading Russian e-commerce property. Also interesting is the story of Andrei Kabakov and Anton Koshevoi, who created Newmans.ru with just \$4,000 in 2009 in Rostov-on-Don. The site has since become a major player in several regions of the country.

IN THE FULL VERSION:

- **Applications / vacancies ratio for key positions;**
- **Recruitment agency data on average salaries by position;**
- **The Russian universities and training centers with the strongest e-commerce programs;**
- **An analysis of recruitment alternatives, from extra training programs to recruiting expats to searching for qualified resources in the regions;**
- **A discussion on employee motivation and loyalty in Russia.**

ADVERTISEMENT

Online Training Center Netology

Netology is an online education center that offers training in Internet professions by skilled industry professionals.

of the course's training, practical work. In particular, the field of e-commerce.

an online store: site, marketing" is designed both people who want to develop already-functioning online store.



Theoretical knowledge is the basis which is then reinforced through Netology prepares leaders in **The online course "heading warehousing, logistics,** for aspiring entrepreneurs and business processes for an

The course's teachers are owners, top managers and employees of successful online stores and specialty services for electronic commerce. They share their experiences with students and help to deal with the problems of clients. In just 4 months and students receive 42 hours of theory classes and 20 hours of practical training.

НЕТОЛОГИЯ

WWW.NETOLOGY.RU



E-Commerce Program

at the **Faculty of Information Systems and Technologies** of the **State University of Telecommunications and Informatics of the Volga region (Samara)**

Established in 2004, the Faculty's E-Commerce Department was the first one dedicated to e-commerce in Russia. It offers:

- Instruction in three major fields: Business Informatics, Management, and Innovation management;
- Successful research and practical activities in the field of the e-commerce that enjoys national and international recognition;
- A student business incubator to support young entrepreneurs and their startups in e-commerce and other high tech fields.

Today, about 300 graduates of the e-commerce program hold important positions in leading companies in the Samara region and beyond.

The Department takes an active part in scientific and educational projects in collaboration with leading Russian and foreign universities, including the EU's Tempus and FP7 programs.

Our graduates are trained in:

- ✓ Business process organization, automation, and optimization
- ✓ IT project management
- ✓ Online marketing
- ✓ Customer Relationship Management
- ✓ Electronic payments
- ✓ Online trading
- ✓ Budgeting automation, financial and investment analysis
- ✓ ERP



Contact:

Prof. Alexey Yurasov
Department Head

Email: e-commerce@psati.ru
Tel.: +7 (846) 228-00-42
Leo Toltstoy St., 23
Samara 443010 – Russia



8. 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, KupiVIP has already almost two thirds of its sales generated from the regions, while some regional e-commerce companies (e.g. e96.ru, Newmans.ru) are asserting 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.

E-commerce market growth in the capitals and the regions (2012-2015)

	2012 Market volume (in billion rubles)	2013E Market volume (in billion rubles)	2015F Market volume (in billion rubles)	Growth 2012-2015
Capitals	214	260	365	x 1.7
Regions	191	265	480	x 2.5
Total	405	525	845	x 2.1

Source: Data Insight

**IN THE FULL VERSION:**

- **Number of Internet users and online shoppers in Russia's regions;**
- **Variations in average spending, purchase frequency, purchase intensity and purchase diversity among regions and cities;**
- **The penetration of national e-commerce sites in the regions;**
- **Medium-and long-term forecasts for online trading in the regions. The main obstacles to the development of e-commerce in the regions are analyzed by their level of importance, the product categories they affect, and the likeliness that the obstacles can be overcome;**
- **Cases studies: How regional sites Newmans.ru and e96.ru are emerging as nationwide players; When and how KupiVIP.ru, Ozon.ru, Svyaznoy.ru and Molotok.ru began selling more in the regions than in the capitals;**
- **A description of the local e-commerce scene in the Samara region, offered by the E-Commerce department of the Telecommunications and Informatics University of the Volga region.**

ADVERTISEMENT

Intelligent Emails 

Email Marketing in Russia 

- Providing email marketing services for major international companies in Russia
- Best email marketing practices adapted for the Russian market
- Focus on Russian e-commerce
- Partnership with Russian webmail services for best deliveries
- Professional email marketing platform with 24/7 support in Russian, English and German

info@intelligentemails.com, www.intelligentemails.ru

Ocean

OCEAN BANK

INNOVATIVE SERVICES AND BANK PRODUCTS

FOR COMPANIES AND INDIVIDUALS

ROBOKASSA

High-tech financial settlement center that offers comprehensive services for online merchants

 A single contract with Ocean Bank
A single set of monthly accounting documents

 No connection or subscription fees

 All popular pre-payment methods

 System integration with major Russian banks

 Innovative services for e-stores and their clients
(service to increase sales rise for e-shops
and increase customer loyalty)

20%

More than 20% of Russian online stores are connected to ROBOKASSA

30 000
e-commerce sites

Major online retailers, small and medium-sized businesses and government services

 Clients – more than 2 million registered customers

A unique service for custom projects and solutions in the e-travel segment

platron

More than 700 medium-sized and big companies use our service

Easy integration with popular CMS and GDS systems

You can work without technical integration

Flexible configuration of fraud filters based on the type of geographical preferences and activity

24/7 call center



IMPROVE YOUR BUSINESS WITH OCEAN BANK

 www.oceanbank.ru

 www.robokassa.ru

 www.platron.ru



Russian E-commerce Analytics

Latest and upcoming reports

- **Russia's largest Internet stores. Database**

11 product categories. Top 50 in each category. Traffic, number of orders and sales volume.

- **E-commerce in Russia 2013**

Comprehensive data on market volume and structure. Growth rates. Profiles of key product categories. Market leaders

- **Online sales of baby products 2013**

Market volume and growth rates. Market leaders and their data (AOV, traffic). Market trends and forecasts.

- **Instruments & methods for successful projects**

Guide for online retailers. Directory of companies providing services for creation and development of online shop. Logistic, payment, marketing and IT solutions. Includes descriptions of available B2B services, with key data and information as well as recommendations on choosing and using these services.

Market news

- Subscribe to our free weekly newsletter www.datainsight.ru/ecommerce_weekly
- Market news and new researches www.facebook.com/DataInsight

Ad-hoc research studies

Our ad hoc research studies – quantitative and qualitative, desk and field – are based on continuous market monitoring, critical analysis of all available data and creative combination of different analytical methods


E-mail us e@datainsight.ru or call **+7 (495) 540 59 06**
www.datainsight.ru

RECOMMENDED BY



CROSS-BORDER E-COMMERCE THROUGHOUT EUROPE:

The freshest figures and facts by the leading market experts

<p>ASIA PACIFIC, EUROPE, LATIN AMERICA, MIDDLE EAST/AFRICA, NORTH AMERICA.</p>	 THE PAYPERS
<p>CROSS-BORDER ECOMMERCE REPORT CRITICAL FACTS AND INSIGHTS FOR INTERNATIONAL EXPANSION</p>	
	   

To receive your free copy,
please contact editor@thepayers.com or go to
<http://www.thepayers.com/cross-border-ecommerce>



E-COMMERCE IN RUSSIA

ABOUT THE FULL VERSION

To receive the full version of this research study
on e-commerce in Russia (10 chapters, 420 pages),
please contact us at the following address: report@ewdn.com

About the full version

Table of contents

of the full version of this research study

10 CHAPTERS
20 CASE STUDIES
& INTERVIEWS
420 PAGES
130 CHARTS

Part 1: The Internet in Russia

- 1.1. Europe's largest market
- 1.2. Regional contrasts
 - 1.2.1 Internet penetration and usage intensity
 - 1.2.2 Distribution by region and city types
- 1.3. Broadband development
- 1.4. Mobile Internet

Part 2: E-commerce market figures and trends

- 2.1. Current market size
- 2.2. Segment analysis
 - 2.2.1. Sales volumes
 - 2.2.2. Popularity of product categories
 - 2.2.3. Online vs. offline
 - 2.2.4. Socio-demographic variations
 - 2.2.5. Geographic variations
 - 2.2.6. Spending amount differences
 - 2.2.7. Conversion rates
- 2.3. Market growth forecast
 - 2.3.1 Key growth parameters
 - 2.3.1.1. A growing number of online shoppers
 - 2.3.1.2. Purchase frequency, amount and diversity
 - 2.3.2 Market size evolution
 - 2.3.2.1. Main growth scenario
 - 2.3.2.2. Additional potential
 - 2.3.2.3. Long term forecast
- 2.4. International comparisons

Part 3: The regional scene

- 3.1. Market geography
 - 3.1.1. Russian population overview
 - 3.1.2. Internet use and e-commerce analysis in Russia's regions and cities
 - 3.1.2.1. Contrasts among regions and cities
 - 3.1.2.2. E-commerce penetration in rural areas
 - 3.1.3. Average spending
 - 3.1.3.1. Average spending across macro-regions
 - 3.1.3.2. Average spending differences based on city size
 - 3.1.4. Market size
 - 3.1.5. Product categories
 - 3.1.5.1. Differences between the capitals and the regions
 - 3.1.5.2. Analysis by city types
 - 3.1.5.3. Purchase diversity
 - 3.1.6. Purchase frequency



About the full version

- 3.2. Analyzing the 'e-commerce divide'
 - 3.2.1. The regional gap so far
 - 3.2.2. How the regions are catching up
- 3.3. Implications for online retailers

Appendix: E-commerce in the Samara region, by Alexander Gaiduk and Alexey Yurasov (Samara university)

Part 4: Online consumers

- 4.1. How numerous are they?
- 4.2. Who are they?
 - 4.2.1. Segmentation by gender and age
 - 4.2.2. Segmentation by occupation and education
- 4.3. How long have they shopped online?
- 4.4. How often do they shop online?
- 4.5. Online shoppers' attitudes
 - 4.5.1. Online shopping is cheap and convenient, say online shoppers
 - 4.5.2. Online shopping is not interesting and not trustworthy, say the reluctant
 - 4.5.3. Addressing the trust issues
 - 4.5.4. User reviews and recommendations

Appendices:

- Purchase frequency in the fashion segment, by Esper Group
- The trust factor in Russian e-commerce: From fake user reviews to efficient CRM, by Stanislav Bai

Part 5: Supply side: Merchants

- 5.1. Russian e-commerce players: An overview
 - 5.1.1. How many players
 - 5.1.2. A relatively small and segmented market
 - 5.1.2.1. Variations by segment
 - 5.1.2.2. Russia's first e-commerce groups
 - 5.1.2.3. Further consolidation perspectives

Russia's top 30 online retailers by turnover and by traffic

- 5.1.3. The click-and-mortar trend
 - 5.1.3.1. The first online steps by offline retailers
 - 5.1.3.2. Online retailers go offline
 - 5.1.3.3. Hybrid models
- 5.1.4. "Gray commerce"
- 5.1.5. The first steps of industry regulation
 - 5.1.5.1. Trust labels and certification
 - 5.1.5.2. Industry associations
- 5.1.6. Is Russian e-commerce open to foreign players?
- 5.2. Investing in Russian e-commerce
 - 5.2.1. Investment amounts



About the full version

- **Venture investment in Russian e-commerce:** A comprehensive list of deals, 2010-2013
- **Investors respond:** Why invest / why not invest in Russian e-commerce?

5.2.2 How attractive, in fact, is Russian e-commerce?

5.2.3. The exit issue

5.2.3.1. Few exits and little cash-out so far

5.2.3.2. Future M&A and IPO perspectives

Appendices:

- How to gray-trade for millions, by Dmitry Shashkin
- 12 offline retailers that have went online
- Case study: Obuv' Rossii: "Our current core audience is not ready to shop online"
- Combining growth with optimization: The next step for Russia's online retailers, by David Kovacic and Martijn Peeters (PwC Russia)

Part 6: Operations

6.1. Sourcing

6.1.1. Complex relations with suppliers

6.1.2. Importation

6.2. Warehousing and fulfillment

6.3. Delivery

6.3.1. Delivery strategies

6.3.1.1. (Re)defining coverage priorities

6.3.1.2. Delivery optimization

6.3.2. Delivery providers

6.3.2.1. An increasingly competitive market

6.3.2.2. Provider overview

Special insight: The seven plagues of the Russian Post

6.3.3. Pick-up points and self-pickup boxes

6.3.3.1. Pick-up points

6.3.3.2. Self-pick up boxes

6.4. Returns

6.4.1. Postal returns

6.4.2. Client returns

6.5. In-house strategies

6.5.1. Pure players

6.5.2. Multichannel companies

Appendices:

- Real-life supply chain issues for virtual merchants, by Ilya Malyarenko (PwC Russia)
- A few tips to organize and optimize logistics, by Michael Poetschke (Arvato Russia)
- Drop shipping in Russia, by Konstantin Trofimov and Vladimir Makarov (Centrobit.ru)
- Case study: Drop shipping @ Mebelion.ru
- How to choose your logistics provider
- The impact of delivery fees on sales, by Kirill Filchenkov (B2C-PL)
- Case study: How ShoesCondom.ru multiplied its sales by four and its revenues by six through delivery aggregation and optimization, by Konstantin Zhukov (Multiship.ru)



About the full version

Appendices:

- How to choose a delivery provider
- Why and how pick-up points are developing in Russia, and what customers expect from them, by Konstantin Yakunin
- Street vs. malls: Two strategies for self-pick up boxes, by Nadezhda Romanova (Pick Point)
- A long way to automation, by Timofey Shikolenkov
- The pros and cons of outsourcing call-center operations

Part 7: "The Russian payment jungle"

- 7.1. Cash payments
 - 7.1.1. Cash on delivery
 - 7.1.2. Cash payments via offline networks
 - 7.1.3. Cash-in kiosks
- 7.2. Electronic payments
 - 7.2.1. Bank cards
 - 7.2.1.1. Bank cards for pre-payment
 - 7.2.1.2. Bank cards for payment on delivery
 - 7.2.2. Electronic currencies
 - 7.2.3. Mobile payments
 - 7.2.4. Internet banking
- 7.3. Payment aggregators
- 7.4. Emerging payment methods

Appendices:

- The profile of online payment users
- From first Russian users to full launch: PayPal's seven-year journey to serving Russia
- Commission fees applying to payment upon or after delivery, by Kirill Filchenkov (B2C-PL)

Part 8: Marketing and sales channels

- 8.1. The Russian advertising market
- 8.2. Russian online marketing specifics
 - 8.2.1. Inventory: the domination of local players
 - 8.2.2. Some marketing instruments are less mature, or less used, in Russia
 - 8.2.3. User perceptions and responsiveness can also differ
 - 8.2.4. Price hikes are distorting the market
 - 8.2.5. Low level of professionalism
- 8.3. Main instruments
 - 8.3.1. SEO
 - 8.3.2. SEM
 - 8.3.3. Display advertising
 - 8.3.4. Advertising networks and affiliate networks
 - 8.3.4.1. Display advertising networks
 - 8.3.4.2. Performance-based affiliate networks
 - 8.3.5. Marketplaces
 - 8.3.5.1. Main sites
 - 8.3.5.2. A considerable influence
 - 8.3.5.3. Two rising giants: Yandex and eBay
 - 8.3.6. Cash-back platforms



About the full version

- 8.3.7. Discount and flash sales
 - 8.3.7.1. Daily deal sites
 - 8.3.7.2. Shopping clubs
- 8.3.8. Social networks
 - 8.3.8.1. Social marketing
 - 8.3.8.2. Social commerce
- 8.3.9. Email marketing
 - 8.3.9.1. Email marketing for customer acquisition
 - 8.3.9.2. Email marketing for CRM
- 8.3.10. Mobile
 - 8.3.10.1. Mobile marketing
 - 8.3.10.2. Mobile commerce
- 8.3.11. Offline marketing
 - 8.3.11.1. TV advertising
 - 8.3.11.2. Outdoor advertising

Appendices:

- Case study: How TrendsBrands manages contextual advertising
- A comparison between Yandex.Direct and Google AdWords, by Alexander Egorov (Alytics)
- Retargeting's first steps in Russia, by Vladimir Belugin (eTargeting)
- Case study: How Atlasformen.ru doubled its sales thanks its affiliates, by Maximilien Jacquet (eStore Agency)
- Case study: How Lamoda took advantage of Groupon's upselling options
- Social referral marketing: A pioneering experiment in Russia, by Ilja Eisen (Flocktory)
- How Moscow startup Goodwin turns magazines, TV screens and subway advertisements into supports for mobile commerce
- Blog marketing for e-commerce, by Thierry Cellerin (Buzz Factory)
- 8 Dos and Don'ts for successful e-commerce marketing in Russia, by Daniil Tkachev (Begemota.ru)

Part 9: Legal aspects

- 9.1. Main legal requirements for distance selling
 - 9.1.1. Forbidden goods
 - 9.1.2. Advertising

Special insight: Government seeks to curb online alcohol retail

- 9.1.3. Client information
- 9.1.4. Purchase formalization
- 9.1.5. Electronic payments
- 9.1.6. Customer claims and returns
- 9.1.7. Money back
- 9.1.8. Delivery issues
- 9.2. Intellectual property issues concerning importation
- 9.3. Personal data
 - 9.3.1 How the law defines personal data
 - 9.3.2. Personal data processing
 - 9.3.2.1. Data subject's consent
 - 9.3.2.2. Data collection methods



About the full version

- 9.3.3. Use of personal data
 - 9.3.3.1. Use of data on Russian territory
 - 9.3.3.2. Cross-border use of personal data
- 9.3.4. Protection of personal data
- 9.3.5. Liability for violation of conditions of personal data processing
 - 9.3.5.1. Civil, criminal and administrative liability
 - 9.3.5.2. Practical consequences
- 9.3.6. Recent legislation amendments and case law related to personal data protection
 - 9.3.6.1. Main legislation amendments
 - 9.3.6.2. Case law tendencies

Special insight: How the law on personal data is being applied

- 9.4. Marketing actions
- 9.5. Possible risks connected with e-commerce in Russia and how to avoid or mitigate them

Part 10: HR, the most painful issue

- 10.1. Few skilled people, high salaries
 - 10.1.1. HR shortages affect all key positions
 - 10.1.2. Salaries in Moscow are higher than in most Western cities
 - 10.1.3. The causes are multiple and likely to persist
 - 10.1.3.1. Demand exploding from all sides
 - 10.1.3.2. Insufficient supply
- 10.2. Recruitment alternatives
 - 10.2.1. If you can't find them, train them
 - 10.2.2. Search in the regions
 - 10.2.3. Recruit foreigners
- 10.3. Employee motivation and loyalty

Interviews

- **Alexey Degtyarev, General Manager of B2B Center:** “Russia’s model of B2B e-commerce is definitely unique.”
- **ECWID founder Ruslan Fazlyev:** “SMBs have seen steady growth in social commerce, even as larger companies have faltered a bit.”
- **Maëlle Gavet, CEO of OZON:** “For international e-commerce giants, expansion to BRICS countries hasn’t been as easy as it’s been in the West.”
- **Qivi President Boris Kim:** “We target cash-based markets across the globe where consumers need convenient alternatives.”
- **Arvato Russia’s CEO Michael Poetschke:** “When it comes to fulfillment, Russia is not China.”
- **Sergey Rumyantsev, CEO of Enter.ru:** “Our 45,000 items are equally accessible via offline stores, virtual interfaces, catalogs and call center.”
- **Otto Group Russia’s CEO Martin Schierer:** “We feel the increasing competition and the higher marketing costs in e-commerce.”



About the full version

- **Niels Tonsen, CEO of Lamoda.ru:** “We’re focusing on building a great business without wasting time thinking about potential exit scenarios.”

Case studies

- **KupiVIP:** The flash-sales site that contends for leadership in the fashion segment
- **Newmans.ru:** From local e-commerce to international sales
- **OZON:** Amazon's Russian little brother
- **Utinet.ru:** From micro e-retail to stock highs and lows
- **Vseinstrumenti.ru:** A DIY giant created by three students
- **003.ru:** An international exit for a Russian e-commerce pioneer

INTERNET • E-COMMERCE • MOBILE • SOFTWARE INNOVATION

Digital Russia in English



East-West
Digital News

Daily news • Analysis
International consulting
www.ewdn.com

East-West Digital News is the first international information and consulting company dedicated to Russian digital industries. Get in touch with us at [c o n t a c t @ e w d n . c o m](mailto:contact@ewdn.com)

INTERNET • E-COMMERCE • MOBILE • SOFTWARE INNOVATION

STARTUPS & INCUBATORS • INVESTMENT ACTIVITY • LEGAL ENVIRONMENT • EVENTS

STARTUPS & INCUBATORS • INVESTMENT ACTIVITY • LEGAL ENVIRONMENT • EVENTS