Anna Samoilenko

E-commerce in Russia: Challenges and Opportunities

Russian e-commerce market for local and foreign enterpreneurs

Author(s)	Anna Samoilenko
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The work presented in this thesis explores Russian e-commerce as a rapidly growing and challenging industry quickly gaining popularity. The main focus will be on how e-retail business is progressing in Russia and which opportunities it offers as well as what kind of challenges it is bringing to local and foreign entrepreneurs willing to start e-commerce business in the country.

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1 Introduction

Appearance of e-retail extends traditional understanding of running business in 21st century. The internet has become widespread now and websites can be accessed by anyone from anywhere in the world using any internet enabled device making virtual reality a big part of our daily routine from online communication to purchase of goods. It goes without saying these significant technological changes has influenced not only peoples` habits and lifestyle, but also ways and strategies of the global trade.

Nowadays online-shopping is not something innovative anymore. Modern consumers have a broad awareness that there is also other way for purchasing desirable goods rather than just going to a traditional store. E-commerce in Russia is a rapidly developing sector due to the big number of active internet users and demanding consumers who are constantly seeking for lower prices, more convenience and wider product range.

Rapid development of e-commerce has significantly changed "rules of the game" for some brick and mortar retailers. The on-line revolution is a challenge for old-fashioned businesses that are maintaining and leasing many expensive shop facilities when people are getting more and more adaptable to online shopping. Traditional retailers have to react and adjust quickly to the growing popularity of e-commerce otherwise it will be impossible for them to stay competitive in the current era of "online boom". As a result many physical retailers, indeed, create e-shops as additional channels for their sales. There are also many purely online businesses operating on the market.

1.1.   Purpose of the Study

The study will discover a sudden emergence of e-commerce as a major revenue generating business. The companies and markets have evolved drastically in the last 30 years all around the world: from the emergence of teleshopping in the 1970s to the 'brick and mortar' stores entering the e-retail business. Despite the fact Russia is slightly behind the world`s biggest markets for e-commerce like USA, China and United Kingdom, Russian market has a big potential for growth and development.

The intended purpose of this study is to get a thorough understanding of the e-retail business in Russia, identify mistakes and challenges entrepreneurs starting online business in the country may have, highlight problems preventing online commerce in the country from further development and find smart solutions which could be successfully applied by entrepreneurs in real life in order to improve consumers` e- shopping experience and expand the Russian market of online retail.

Significance of the topic

A study in e-retail is purposeful in the present times as there is a constant increase in the popularity of the Internet and its applications. According to Interne tLive Stats (website providing real time global Internet usage statistics) there are currently 3,4 billion of Internet users in the world and this number, on average, is growing by 3 users per second. Total number of websites in the world is over 1 billion and the number is constantly increasing by 2 websites per second. (Internet Live Stats, 2016)

Internet Users by Country (2016)

See also: 2015 Estimate and 2014 Finalized

# ▲	Country	Internet Users (2016)	Penetration (% of Pop)	Population (2016)	Non-Users (internetless)	Users 1 Year Change (%)	Internet Users 1 Year Change	Population 1 Y Change
1	China	721,434,547	52.2 %	1,382,323,332	660,888,785	2.2 %	15,520,515	0.46 %
2	India	462,124,989	34.8 %	1,326,801,576	864,676,587	30.5 %	108,010,242	1.2 %
3	U.S.	286,942,362	88.5 %	324,118,787	37,176,425	1.1 %	3,229,955	0.73 %
4	Brazil	139,111,185	66.4 %	209,567,920	70,456,735	5.1 %	6,753,879	0.83 %
5	Japan	115,111,595	91.1 %	126,323,715	11,212,120	0.1 %	117,385	-0.2 %
6	Russia	102,258,256	71.3 %	143,439,832	41,181,576	0.3 %	330,067	-0.01 %
7	Nigeria	86,219,965	46.1 %	186,987,563	100,767,598	5 %	4,124,967	2.63 %
8	Germany	71,016,605	88 %	80,682,351	9,665,746	0.6 %	447,557	-0.01 %
9	U.K.	60,273,385	92.6 %	65,111,143	4,837,758	0.9 %	555,411	0.61 %
10	Mexico	58,016,997	45.1 %	128,632,004	70,615,007	2.1 %	1,182,988	1.27 %

Figure 1.1 Source: Internet Live Stats, 2016

In the world`s top 10 Internet Users by Country Russia has got respectable 6th place. Taking into account population of Russia is 9 times smaller than in the top leading countries – China and India it is a spectacular result. (See Figure 1.1). What is more,

considering Internet user as "an individual who has access to the Internet at home" Russia`s Internet penetration rate has more than doubled in the last 7 years: it was only 29% of the population in 2009 and now in 2016 it is impressive 71.3 %. (See Figure 1.2)

102,258,256
Internet Users in Russia (2016*)

Share of Russia Population: **71.3 %** (penetration)

Total Population : **143,439,832**

Share of World Internet Users: **3 %**

Internet Users in the World: **3,424,971,237**

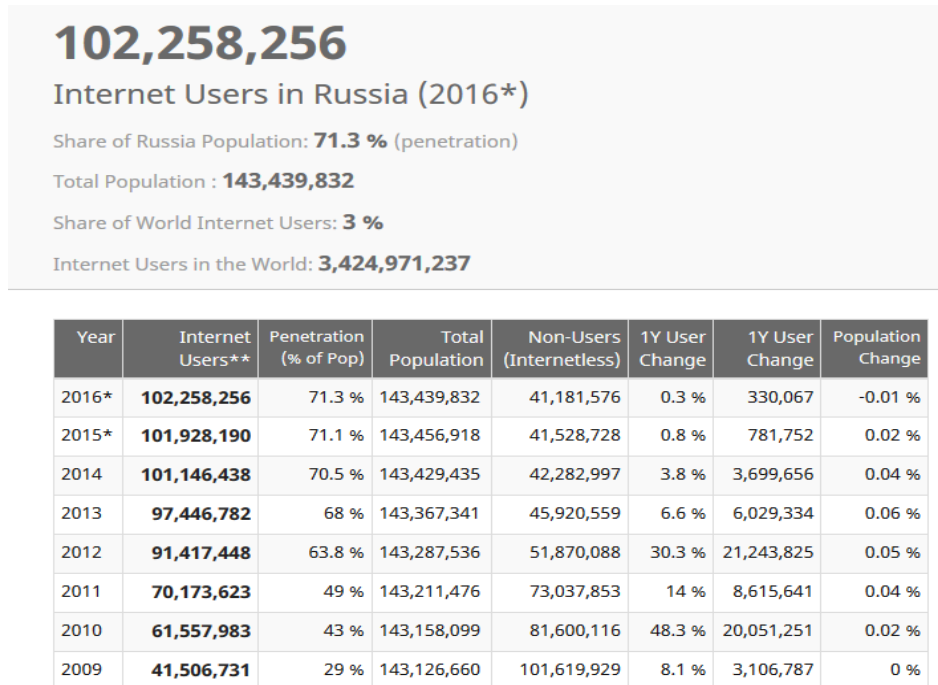| Year	Internet Users**	Penetration (% of Pop)	Total Population	Non-Users (Internetless)	1Y User Change	1Y User Change	Population Change
2016*	**102,258,256**	71.3 %	143,439,832	41,181,576	0.3 %	330,067	-0.01 %
2015*	**101,928,190**	71.1 %	143,456,918	41,528,728	0.8 %	781,752	0.02 %
2014	**101,146,438**	70.5 %	143,429,435	42,282,997	3.8 %	3,699,656	0.04 %
2013	**97,446,782**	68 %	143,367,341	45,920,559	6.6 %	6,029,334	0.06 %
2012	**91,417,448**	63.8 %	143,287,536	51,870,088	30.3 %	21,243,825	0.05 %
2011	**70,173,623**	49 %	143,211,476	73,037,853	14 %	8,615,641	0.04 %
2010	**61,557,983**	43 %	143,158,099	81,600,116	48.3 %	20,051,251	0.02 %
2009	**41,506,731**	29 %	143,126,660	101,619,929	8.1 %	3,106,787	0 %

Figure 1.2 Source: Internet Life Stats, 2016

Every year there are more and more Russians getting access to the internet what makes them potential customers of online stores. Online shoppers are becoming more demanding and selective as there is a big competition between online shops and each of them is eager to provide the best offers and an outstanding e-shopping experience. It is also very important to keep in mind peculiarities of Russian infrastructure, logistics, culture, legislation and customers` buying habits. This highly competitive and specific environment and constant growth make Russian e-commerce business a challenging but attractive field to enter. The e-retail industry is ever so changing with constant improvement in mobile and internet technology and volatility in the trends along with less brand loyalty due to the lack of a personal touch. All these factors are making Russian e-retail an interesting object for investigation.

1.2.   Objectives and research questions

Main aims of the thesis work are:

- Investigate a rapid growth and development of e-commerce in t in Russia
- Analyze contemporary e-commerce market in Russia; identify e-commerce growth and development tendencies in the country
- Identify the main challenges and problems of running e-retail business in Russia
- Identify the most common mistakes online business entrepreneurs make
- Find out the best solutions for the challenges, problems and mistakes

The research tries to answer the questions stated below:

- How big is Russian e-commerce market?
- What are the features of online business environment in Russia?
- What are the opportunities and challenges of starting online business in Russia?
- Which solutions may be applied by entrepreneurs for successful online trade in or with Russia?

1.3.   Research Methodology

• Research Approach

The research undertaken in this particular work is based on both qualitative and quantitative approaches. It is a mixture of assessing the opinions of e-commerce experts, analysis of peoples` attitude to e-commerce through questionnaires and investigation of their reviews + carefully selected statistical data provided by e-commerce professional analyst companies and worldwide known statistical portals. The research also includes

such qualitative analysis tools like PESTLE (Political, Economic, Social, Technological, Legal and Environmental) analysis and Hofstede`s Cultural Dimensions model. A literature review was done to support the observations.

The main research model this work is based on is borrowed from ATKearney`s "The 2015 Global Retail E-Commerce Index$^{TM}$ "report. The model is evaluating country`s e-commerce market attractiveness score using four most significant criteria: Online market size, Technology adoption and consumer behavior, Growth potential and Infrastructure. Each of the criteria will be carefully investigated in this work in order to reveal opportunities and challenges of running online retail business in Russia. The data collected through the research will be used for further finding of smart solutions for the possible challenges.

The research is heavily relying on external sources for making its observations and opinions. It is important to mention most sources accessed and used are in English, but some of them are also in Russian language. Various business magazine articles, news articles, e-commerce exploratory reports, annual reports of some big e-commerce firms, observations and opinions of experts and consumers, etc. have been reviewed in order to answer research questions. This thesis work also includes e-commerce history in global context and in Russia particularly.

- Data Collection Methods

The data collection methods used for creation of this work are both primary and secondary data collection techniques.

Primary data have been collected with the help of free online survey service – Survey Monkey and Russian biggest online reviews website – iRecommend.ru. Direct links to the online survey results and reviews are available in the Reference part on this work.

Secondary data have been sourced from the internet and offline content wherever needed to perform this research and analysis. There has been a lot of extensive research in the e-commerce and e-retail sector, which has generally helped to gather all necessary

information. The data collection was carefully planned and executed. Measures have been taken to keep the data related to the case study as relevant and reliable as possible.

- Reliability and Validity

Data collected for any research should not only be reliable but also valid. The data collected for this research can generally be relied upon and should not be considered inaccurate or biased. The data has been collected from reputed websites, articles, reports and books written by well-known authors and experts in the field of e-retail and e-commerce business or in the field of finance.

It has been a general practice throughout the research to keep errors and bias while collecting data to a minimum. Where ever possible, efforts were made to ensure the authenticity of the source of data and also to determine its importance to the research. Reliability and validity of data are of utmost importance when conducting a research of e-commerce sector. It is also necessary to consider fast changes happening to industry due to its rapid growth and development. Trends change every year and data that might be useful five years back may not even be relevant today. Therefore, efforts were made to gather relatively fresh data (mostly not older than 4 years) and determine its relevance to the research. This has helped in keeping the analysis pure and accurate while also collecting data from a wide range of sources.

Thesis scope is quite narrow though and additional research over the most of fields mentioned in this work is required in order to build smart and effective business strategy for a real online retail company. This work can be useful for entrepreneurs interested in general evaluation of Russian e-commerce market and investigation of possible risks and problems related to the online retail in the country.

1.4.   Limitations of the Research

The research even though conducted with care and prudence has some limitations and drawbacks which may not necessarily distort the analysis done as a whole. The first limitation of the Research was lack of relevant information in English. Some figures were not included or just partially included in this work because in the original source they were presented in Russian language.

Another limitation was related to Internet Policy. Access to some Runet sources was forbidden for internet users with UK IP address.

Small sample size of the online survey conducted is also considered as limitation: it was not possible to have a bigger number of respondents due to limited number of author`s connections in social media (the link for the survey was sent to each respondent personally.)

Better access to all possible information sources and access to bigger respondents audience would improve validity and reliability of the research.

2 E-commerce

"E-commerce is the exchange of information across electronic networks, at any stage in supply chain, whether within an organization, between businesses and consumers or between the public and private sector, whether paid or unpaid." (Chaffey, 2011)

2.1   Types of e-commerce

There are six major different types of e-commerce, each with specific characteristics:

➢ B2B - Business to Business

This type implies electronic transactions implemented between businesses. Most commonly B2B model is used by manufacturers and distributors and wholesalers and retailers.

➢ B2C – Business to Consumer

B2C encompass electronic transactions occurring between a company and a final consumer. This type of e-retail has been developing most rapidly over the last two decades. Consumers and retailers are operating in the same way they do in traditional commerce with the difference all operations are occurring online.

➢ C2B – Consumer to Business

Consumer to Business model is the opposite of B2C: individuals are offering their goods or services to businesses usually implying selling of the intellectual property. Good examples for the C2B model are different websites where people can sell their photographs, individually developed designs, scientific works etc. to businesses interested in purchasing of these particular products or services.

➢ C2C – Consumer to Consumer

This type of ecommerce implies electronic business relationships between consumers only. Usually all transactions between consumers are implemented through a third party online platform.

➢ B2A - Business to Administration

The B2A type of e-commerce includes all transactions occurring between businesses and public administrative organizations. Despite the fact this kind of ecommerce is relatively fresh it is rapidly developing in the countries where governments invest in it as it allows easy usage of a wide range of different public services in areas like social security, employment, legal, fiscal etc.

➢ C2A – Consumer to Administration

This model involves electronic transactions occurring between individuals and public administrative organizations. C2A gives citizens an opportunity to access governmental services in more convenient and quicker way rather than traditional methods. C2A includes services like: healthcare (clinic appointments, online payment for services etc.), taxes (tax

returns, tax recalculations etc.), education (student benefit system, distance studies etc), and social security.

(Bloomidea.com, 2014)

In this thesis work only B2C (Business to Consumer) model will be investigated.

2.2 Background of E-Retail Business

The term E-Retail business emerged in the early 1970s in the form of Electronic Data Interchange (EDI) and Electronic Funds Transfer (EFT). The technology was used by businesses allowing them to build up private networks for sharing of relevant information with their partners and suppliers. This method involved transmission of standardized data that made the procurement process more efficient allowing significant reduction of paperwork, quick and easy electronic transactions and more efficient human intervention in business processes and operations. (SPIRECAST TEAM, 2009)

There are two significant developments that can be considered as the earliest ways of shopping online. In the late 1970s, in the US, there was a system of TV selling known as 'infomercials' (later also called teleshopping – purchasing of goods at a distance). It consisted of serial TV advertisements where a pitchman convinced the audience to buy products ordering them by phone. In 1979, Michael Aldrich from the UK invented a special system supporting communication by connecting a modified domestic television to a real-time transaction processing computer through a telephone line. Later it was developed, improved and organised accordingly to business` needs. The main idea was to assure a connection between corporations and their partners, agents and customers for direct sales and shopping. Although this was a breakthrough in his time, spread of the innovation was largely limited by usage within Business-to-Business (B2B) of the world`s largest corporations. Gateshead SIS and Bradford Center point were the first two users of the Aldrich system. (Aldrich, 2011) This system, which he unknowingly called Teleshopping, laid the foundation bricks for online e-commerce and later on for e-retail. It can be noted that B2B online commerce was more viable than the B2C online commerce before the

1990s due to limited use of the Internet and PCs of the general consumer. In the year 1984, when elderly Jane Snowball, 72, sat down in her Gateshead home and ordered some groceries from her local supermarket using just her remote control for an initiative to help the elderly, little did she realize that her simple shopping would pave the way for an industry estimated at £117.6 billion 2013 in the UK alone. Aldrich, through this simple exercise, demonstrated that people could make transactions while sitting right in the comforts of their homes. But there was still the lack of networking infrastructure to introduce this technology to the masses. (BBC News Magazine, 2013)

It was only after the 1990s, when large volumes of home computers were installed along with improvement in telecommunications and the emergence of the World Wide Web that B2C models of online shopping became commercially viable. (Aldrich, 2011)

In 1992, Charles Stack opened Book Stacks Unlimited, an online bookstore which was hosted on the World Wide Web. The website became very popular and had been visited by half million people every month. After that Jeff Bezos, a 30-year-old hedge fund manager, came up with 'Amazon.com' in the year 1994. By its third year, this small online bookstore of Jeff Bezos had achieved $150 million in annual sales, which was remarkable for any online venture at that time. Amazon launched as an online bookstore has expanded and diversified its product range a lot with time. Nowadays consumers are able to find almost any kind of products on Amazon`s website. In the same year 1994, a CD became the first documented online purchase over SSL encryption. (Heath, 2000)

Soon afterwards, in the late 1990s, online shopping sites such as India MART and ECP laze started emerging in other parts of the world. The upward trend continued with Alibaba, the largest online e-retail site nowadays, getting established in the year 1999 in China. According to Insider Monkey nowadays the retailer has about 300 millions customers. (Insider Monkey, 2014)

Online retailing in 1990`s was pioneered largely by companies founded on the internet that had no experience in traditional retail. It was in the recent times that brand names like Gap, Wal-Mart, Marks and Spencer's have established their presence on the web. In

four years, from 1996 to 1999, e-retail sales spiked from a measly $700 million annually to an estimated $20 billion.

According to BBC.com Alibaba's Single's Day (24 hour shopping festival) online sales in 2015 came in at 91.2 billionn yuan or $14.3 billion in just 24 hours, what is 60% more than in 2014. There was also a significant change in buying method: it was registered that 69% of all transactions were made through mobile devices in 2015. It was only 43% in 2014. (PwC, 2016)

2.3   E-retail in Global Context

E-retail has taken a new meaning over the course of the years. In earlier times, E-commerce, in general, meant the conducting of commercial transactions over a telephone wire. Technologies like Electronic Data Interchange were used to send and receive purchase orders, invoices, quotations etc. Since then the perspective of people towards E-retail has changed drastically. Earlier the consumer did not have complete faith in the inner workings of this business. It was considered shady and untrustworthy. As rightly put by tributemedia.com, in the early days of the internet, purchasing products online was often followed by visions of strangers, sitting in a faraway country, ready to steal your credit card details. (Tribute Media, 2015) However, nowadays situation has changed beyond all recognition. We live in the Digital Era.

E-tailing is a very popular way of shopping nowadays and the sector is flourishing. Correspondingly to European B2C E-commerce Report 2016 the sector turnover grew by 13.3% or €455 billion from 2014 to 2015 what is a significant change comparing to 1.0% turnover growth of general retail in Europe. Moreover there is still room for growth and the full potential has not been reached yet: 57% of Internet users are shopping online, however only 16% of SMEs sell their products and services online and even less sell online across borders.
According to the Centre for Retail Research sales within the industry are going to grow from £156.67 billion in 2015 to £185.44 billion in 2016. (Retailresearch.org, 2015)

3 E -commerce in Russia

Online retail is a relatively fresh sector for Russian market. The history of e-commerce formally began with successful opening of the first online shop in the country in 1996. Like Amazon it was a book store created by Russian publishing house "Symvol Plus". The store was renamed to "Books.ru" in 1997 and is still actively developing and operating nowadays.

Online business wasn`t really popular till 2008 though. There were only about 1500 online shops operating in the country. After 2008 this number started to grow up rapidly: e-commerce had become very popular and even traditional retailers started to open e-stores. (Pro-books.ru, 2015)

Offline goes online

Despite the financial crisis in Russia worldwide known Swedish clothing brand H&M has launched online store in the country on October 29th of 2015. The company has promised all the same garments customers see in physical stores will be available for purchasing on its Russian website. Moreover, there will be a possibility to buy exclusive items available for online purchasing only. The website will also have section "H&M home". (H&M group, 2015)

Californian brand Vans has launched its first Russian web store in September 2015. Vans had 17 physical stores on the territory of Russia, but managed to cover only four cities what is not too impressive for such a big country. Vans press service has announced they are planning to start online selling in Russia in order to possibly cover all cities. (EWDN, 2015)

Not only foreign companies are joining the world of e-commerce. Russian grocery supermarket chain Okey has launched its e-shop https://www.okeydostavka.ru" in 2015 (EWDN,2016) However, delivery of goods is possible only in two biggest cities – Moscow

and St. Petersburg. According to East-West Digital News latest report traditional Russian retailers Perekrestok, Magnit and Lenta are also working on their e-retail projects.

Online stores in Runet

According to Northern Dimension (joint policy of for equal partners EU, Russia, Norway and Iceland) website there were over 200,000 active Russian domains having attributes of online store in 2015 but only 80,000 of these were visited by minimum 20 persons/day and only 3% of the 80,000 shops had more than one order per week.

80000 *0.3= 24000 – amount of online stores having more than one order/week

Hence, there were approximately 24,000 relatively competitive Russian online stores in 2015. These rough calculations are close to the reality though. Russian newspaper RG.ru (Rossiyskaya Gazeta) had published an article confirming there were about 23,900 online stores operating in Runet.

3.1 Russian e-commerce market overview

Referring to the ATKearney`s "The 2015 Global Retail E-Commerce Index^{TM} report "the most attractive online markets are United States, then China and United Kingdom (see Figure 3.1). Russia is on the 8th place of the top with the overall online market attractiveness score 48.7 what is 32% less attractive than US market (top leader).

The overall online market attractiveness score is calculated considering:

- Online market size (40% of the score) – volume of current e-retail sales
- Technology adoption and consumer behavior (20% of the score) – factors considered for the metric are: Internet penetration, technology adoption and purchasing trends
- Growth potential (20% of the score) – projected online retail sales growth

- Infrastructure (20% of the score) – factors considered for the metric are: level of financial and logistical infrastructure development – credit card usage rate, quality and availability of logistics services

These four criteria will be investigated in details in the Thesis work as they are the most important for competent assessment of Russian e-commerce market. After the careful analysis of Russian online market and the size of it, technology adoption and consumers behaviour in the country, market growth potential and infrastructure the main advantages and challenges of running e-retail business in Russia will be identified.

The 2015 Global Retail E-Commerce Index™

Rank	Change in rank	Country	Online market size (40%)	Consumer behavior (20%)	Growth potential (20%)	Infra-structure (20%)	Online market attractiveness score
1	+2	United States	100.0	83.2	22.0	91.5	79.3
2	−1	China	100.0	59.4	86.1	43.6	77.8
3	+1	United Kingdom	87.9	98.6	11.3	86.4	74.4
4	−2	Japan	77.6	87.8	10.1	97.7	70.1
5	+1	Germany	63.9	92.6	29.5	83.1	66.6
6	+1	France	51.9	89.5	21.0	82.1	59.3
7	−2	South Korea	44.9	98.4	11.3	95.0	58.9
8	+5	Russia	29.6	66.4	51.8	66.2	48.7
9	+15	Belgium	8.3	82.0	48.3	81.1	45.6
10	−1	Australia	11.9	80.8	28.6	84.8	43.6
11	−1	Canada	10.6	81.4	23.6	88.9	43.1
12	+2	Hong Kong	2.3	93.6	13.0	100.0	42.2
13	+6	Netherlands	8.9	98.8	8.1	84.6	41.8
14	−3	Singapore	1.3	89.4	15.7	100.0	41.5
15	+13	Denmark	8.1	100.0	15.1	75.5	41.4
16	0	Sweden	8.8	97.2	11.8	77.7	40.9
17	Not ranked	Mexico	10.0	53.3	58.6	68.0	40.0
18	Not ranked	Spain	13.2	73.1	20.2	80.1	39.9
19	+1	Chile	2.7	71.8	49.3	73.2	39.9
20	+6	Norway	8.2	99.4	5.6	76.3	39.5

Figure 3.1 Source: AT Kearney, 2015

The most important factor (40%) is Online Market Size. As presented in the Figure 3.1 Russian score in this section is just 29.6. However, all countries positioned below Russia in this top have on average three times lower scores. It can be considered despite Russian e-commerce market size is smaller than in US, China, UK, Japan, Germany, France and South Korea it is still relatively big in the global context.

The best score Russia gained in Consumer behaviour evaluation section – 66.4. However, if we look at the general results Russian score is one of the lowest in the top 20: only Mexico and China have even lower scores.

Growth potential index score is 51.8. This is 3rd highest result in the table presented. Only China and Mexico have higher scores. It is important to mention China, Mexico in Russia are all developing countries.

In terms of Infrastructure development China and Russia is unbeatably falling behind all other countries in the top. Russian Infrastructure with the score of 66.2 can be considered as very poor.

3.2   PESTLE analysis

When we analyze the macro-environment of any industry in any country, it is highly important to understand the factors that affect the supply and demand and costs associated with that industry in a particular area. (Johnson and Scholes, 1993) As stated by Byars, the results of this analysis are often used to make contingency plans for the environmental threats and to capitalize on the opportunities. (Byars, 1991) The use of PESTLE analysis is seen to be effective in strategic planning, marketing and product development and research, etc. (Koler, 1998) This research will discuss how the PESTLE factors have helped to shape and mold the external environment for the E-retail Industry.

Political

Political factors form an important part of PESTLE analysis and any firm operating in the E-retail industry has to consider the implication of such factors as they change on a global

scale. The most important political factors influencing businesses are corruption level, bureaucracy, tax policy, policy towards private property, foreign policy, trade control, government stability and overall political environment. (Berthon, 2007)

The main political factors influencing e-retail in Russia are – high level of corruption and bureaucracy and sanctions against Russia over Ukraine crisis as well as Russian sanctions against Western countries.

According to "Business-anti-corruption" online portal – corruption is a big problem in the country. It is very common in judicial system and public procurement. International organization against the corruption – Transparency International has published its list "Corruption perception Index 2015" providing information about level of corruption in different countries. Number 1 in the list represents the least corrupted country and number 167 the most corrupted one. Russia is on the 119th place while Denmark, Finland and Sweden are top 3 non-corrupted countries in the world.

Corruption causes lack of transparency in the public administration and unfair application of laws. Negative consequences of the corruption are:

- Significant difficulties (sometimes destructive) for private businesses
- Reduction of foreign and domestic investments
- Unfair competition
- Appearance of the shadow economy
- Lose of time and resources due to inefficient work of governmental institutions

Another significant political factor affecting e-commerce in Russia is problems that have emerged after the Ukrainian territory of Crimea was annexed by the Russian Federation on 18 March 2014. (BBC,2014) As a result many sanctions were applied against Russia by Western counties. Due to the active work of international mass media country imageis now essentially affected what makes Russia less attractive area for foreign entrepreneurs.

For example, British retailer New Look had stopped its business in Russia and Ukraine due to political uncertainty. (Telgraph.com, 2014)

Referring to EUN, Russia has set put an embargo on import of some products made in the territories of countries which applied sanctions against Russia in 2014: USA, European Union (28 states), Canada, Australia, Norway, Ukraine. However, it only applies to foodstuffs (animal breeding products, meat, pork, fish and crustaceans, milk and dairy products, vegetables, sausages etc.). (European Union Newsroom, 2014)

What is more some new custom limitations has been introduced recently, Russia has set a new, lower custom threshold for imported goods – €1000PCM. Additionally to this the country has introduced new tax fee system to retailers in its biggest cities – Moscow, Saints Petersburg and Sevastopol.(Ecommerce Worldwide, 2015) "The tax is paid by organizations and individual entrepreneurs, except for those working on the patent system of taxation". (ATO Moscow Staff, 2014) Amount of the tax that businesses have to pay depends on the size of business objects (by the size of sales area in square meters).

However, in contrast to the written above, Russian-Asian relationships are improving. In 2015 cross-border sales with China reached a skyrocketing growth: more than 80% of all cross-border deliveries to Russia were products sent from China. (EWDN, 2016)

On the the 1st of January 2015 The Eurasian Economic Union (EEU or EAEU) was established.
"The EAEU provides for free movement of goods, services, capital and labour, pursues coordinated, harmonized and single policy in the sectors determined by the Treaty and international agreements within the Union." (EAEU, 2016) The member states of the EEU are Russia, Armenia, Belarus, Kazakhstan, Kyrgyzstan.

Economic

"Economic factors include all the determinants of an economy and its condition. The inflation rate, the interest rates, the monetary or fiscal policies, the foreign exchange rates

that affect imports and exports, all these determine the direction in which an economy might move, therefore businesses analyse this factor based on their environment so as to build strategies that fall in line with all the changes that are about to occur."(Pestleanalysis.com, 2016)

Due to the collapse of Russian ruble in the second half of 2014 Russian economy is suffering from the ongoing financial crisis. As a result, many online businesses` sales volumes are stagnate or even decreasing since the middle of 2014. (EWDN, 2016)
According to news portal Bloomberg, giant electronics retailer Apple halted online sales of its products in Russia because of the significant ruble fluctuations in 2014.
Above mentioned sanctions and lowered global oil prices caused 3.7% fall of Russia`s GDP. Oil and gas are products accounted for three quarters or Russia`s exports bringing more than half of its budget revenues. (The Guardian, 2016)

According to E-commerce Worldwide "Russia Passport 2015 report" economic issues associated with these events have caused the following consequences:

- Increased prices for domestic and foreign raw materials
- Growing inflation rate
- General decrease in Russian business profitability
- Increased import costs resulting in higher prices for consumer goods
- Growing national debt
- Change in consumers` behaviour: tendency to spend less and save more for the future

Social

In different parts of the world, businesses may face different views of the society towards their goods or trading approaches due to various cultural, ethical and religious factors and reservations. Analysis of country`s unique mindset is extremely important for better understanding of the local market and consumers behaviour. Such factors as demographics, cultural features, domestic structures and social lifestyles have to be

carefully investigated as cultural factors have a strong influence on B2C commerce. (Gibbs, 2013)

Demographics

Information from the Index Mundi – Russia Demographics Profile 2016:

Population: 142,355,415 (July 2016 est)

Age structure:
0-14 years: 16.94%
25-54 years: 45.16%
55-64 years: 14.27%
65 years and over: 13.92%

Urbanization:
Urban population – 74% of the total
Rate of urbanization - -0.13% annual rateof change (2010- 2015)

Ethic Groups: Russian 77.7%, Tatar 3.7%, Ukrainian 1.4%, Bashkir 1.1%, Chuvash 1%, Chechen 1%, other 10.2%, unspecified 3.9%

Religion: Russian Orthodox 15-20%, Muslim 10-15%, other Christian 2% (2006 est.)
Languages: Russian (official) 85.7%, Tatar 3.2%, Chechen 1%, other 10.1% (2010 est.)
(Index Mundi, 2016)

Hofstede`s 6D Model

Russia

93 39 36 95 81 20

Power Distance | Individualism | Masculinity | Uncertainty Avoidance | Long Term Orientation | Indulgence
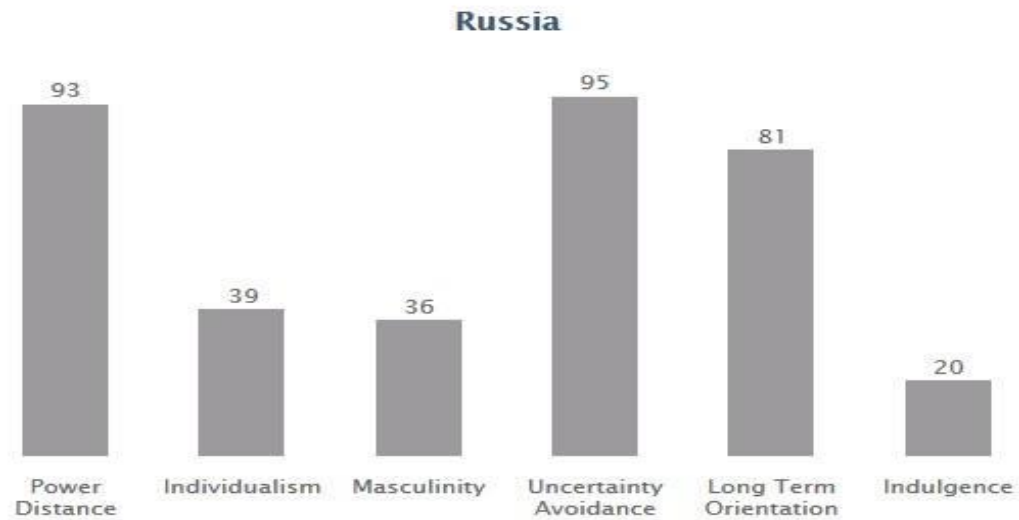
Figure 3.2 Hofstede`s 6-D Model , Russia. Source:Hostfedecentre.com

Figure 3.2 presents Hofstede`s cultural dimensions model for Russian society. This model allows making of a good overview of the main cultural drivers in the country.

Power Distance

"Power distance is defined as the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally." (Hofstede, 1997)

There is an extremely high power distance in the country what means there is a big gap between power holders and the rest of society. According to Hofstede it is explained by the Russsian geographic features: the country is extremely centralized in two of its biggest cities – Moscow and Saints Petersburg. 80% of the whole Russian financial potential is concentrated in Moscow. Extremely high power distance leads to the exaggerated importance of status. All business interactions imply top-down behaviour model.

Individualism

"Individualism implies a loosely knit social framework in which people are supposed to take care of themselves and of their immediate families only." (Hofstede, 1997)

Individualistic society assumes people are mostly concentrated on taking care of themselves and their closest relatives. Collectivistic societies are opposite of the Individualistic ones – people see themselves as a part of a group and act more in group`s general interests in exchange for loyalty. In Hofstede `s 6D model Russian Individualism score is 39 what is a relatively low mark. It is important for Russians to take care and keep in touch not only with their families but also friends, colleagues and sometimes even neighbours. Personal relationships are very important in everyday life and in business, they help to build and maintain strong connections, obtain information and making contacts.

Masculinity

The Masculinity in Hofstede`s theory is defined as collection of such qualities as heroism, striving to achievements, assertiveness and physical rewards for success. Masculine society is more competitive and tough while Feminine is tender and implies caring for the weak, cooperation, modesty and quality of life. (Hofstedecentre.com, 2016)

Despite all the stereotypes about Russia and preference to status symbols, the country has a low Masculinity score of 36. Referring to Hofstede it is not common for Russians to publically announce and praise their personal achievements, capacities and contributions at work or when meeting a new person. Dominant behaviour is not common among people who have the same position in society, however it is accepted if comes from the authority.

Uncertainty avoidance

This dimension deals with people`s inability to predict the future. There is an ambiguity of the perception of this fact in different cultures. The higher is Uncertainty avoidance score the more people are afraid of the unknown situations. (Hofstedecentre.com, 2016)

Russia has very high Uncertainty avoidance score of 95. Russians prefer to plan and prepare everything in advance and like to have context or background information. They try to avoid surprises. While interacting with strangers, Russians always keep a formal tone and distance. Formal tone is also used to show respect to the interlocutor.

Long term orientation

This dimension is defined as society`s ability to maintain some links with its history and past while dealing with the challenges of the contemporary world and possible changes in the future. The lower is the score, the more conservative and suspicious about societal changes the society is. (Hofstedecentre.com, 2016)

Russia`s Long term orientation score is 81 what shows this society is more pragmatic and is able to adapt its traditions to changing conditions. New educational approaches and modern solutions are welcomed in Russia.

Indulgence

Indulgence scale represents the extent to which people are able to take control over their desires and impulses with a strong relation to the way how they were raised. (Hofstedecentre.com, 2016)

Cultures with high score are named – Indulgent, low – Restrained.

Russia is obviously a country of Restrained culture. People in such cultures have a tendency to be pessimistic and cynical; they are able to take control over their desires and are more strict to themselves. Representatives of such kind of society usually feel their actions and desires are limited by social norms and feel that indulging themselves is discouraged.

Technological

Technology may not be as developed in the poorer or underdeveloped nations as required for conducting the business effectively. As the e-retail business solely depends on the development of telecommunications and networking in the area, this factor may largely limit the consumer base in some countries. On the other hand, developing countries like India may offer a very large customer base along with total untapped market potential.

As it has been previously mention in the Introduction chapter, Internet penetration rate in Russia is constantly growing. According to East West Digital News latest report, the county has the biggest internet audience in Europe. Mobile penetration rate is also growing up: it was only 11,9% of population (over 16 years old) in 2013, 17,6% in 2014 and has reached a mark of 37,2% in 2015. The same progress is with the Internet use via tablets – 3.5% in 2013, 8,4% in 2014 and skyrocketed 19,2 % in 2015.

Legislative

The legal framework of Russian Federation is very complex and brings confusion to inexperienced entrepreneurs. Country`s legislation is a subject for constant changes as Russian legislation
Infrastructure is constantly evolving due to economic and political factors. What is more, regional legislative differences are quite common.

Environmental

Growing popularity of e-commerce is causing increasing need in transportation, paperwork and usage of natural resources. It is important to remember about the harm all of the above mentioned is making to the environment. Businesses have to take a responsibility over environmental issues and operate in accordance to legal standards protecting the environment. Companies have to strive towards minimization of the harm by taking control over their activities. It is necessary for them to support recycling, find smart

logistics solutions and encourage reduction of waste of electricity, paper and other resources.

4 Russian e-commerce market size

The table shows Russian online market score is 29.6 (see Figure 3.1). This number is the way smaller than in all countries above Russia in the table – US, China, United Kingdom, Japan, Germany, France and South Korea. Nevertheless, it is important to consider the industry is quite new for Russian market as it was mentioned in chapter Background of e-retail business (Russia) and is developing slower than in the top 7 countries in the list.

4.1   Domestic market

According to East-West Digital News "E-commerce in Russia, Market insights September 2016" report total market size for domestic physical goods in the country (cross-border sales, food deliveries, C2C, MLM, tickets, coupons, etc. not included) was 650 billion rubles or $10.5 billion in 2015, up 16% from the previous year. This is approximately 2% of the total Russian retail market, compared to 5-10% in the Western Europe. However, due to the ruble`s depreciation (38.5 rub/ dollar in 2014, 62 rub/dollar in 2015 on average) this result is not that impressive in US dollars: market size fell 28% down from 2014.

The fastest growth has been noticed in the following product categories: leisure items and sporting goods, pet products, children`s goods, clothing and footwear. Electronic devices and home appliances, cosmetics and perfume were less popular than on 2014 though. (EWDN, 2016)

4.2   Capitals vs. the regions

Distribution of Internet users in Russia is uneven. As it has already been mentioned in PESTLE analysis, population of Russia is highly centralized in its two biggest cities – Moscow and Saints Petersburg both located in Western part of the country. These cities are the way more developed than other Russian cities in terms of better access to the Internet, peoples` purchasing power and standard of living, what also results in higher amount of Internet users living in there. World Wide Web users living in Moscow and Saints Petersburg are also more practiced, with higher level of computer literacy. They are also the main tablet and mobile Internet users in the country. Yandex.ru, 2015)

As we can see from Appendix 1 more than half of all Russian Internet users are concentrated in the West: North-West (location of Saints Petersburg) - 10.8%, Central part (location of Moscow) – 28.3%. Volga – 19.9%.

However, due to constantly developing infrastructure and logistics regions are slowly catching up with bigger cities. Some big nationwide e-commerce players (e.g. e96.ru) have already two thirds of their sales generated from smaller cities with population between 300,000 and one million inhabitants.   (EWDN, 2016) What is more, in 2015 demand growth rate in regions was higher than in Moscow and Saints Petersburg: x 2.5 and x 1.7 respectively. Due to these reasons, entrepreneurs have to keep in mind that two biggest Russian cities are not necessary the areas to exclusively focus on.

	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

Figure 3.1 Source: Data Insight, 2015

4.3 Domestic players

Out of 24,000 active Russian e-commerce stores only about 50 players managed to generate more than 4 billion rubles (approx $100 million) in sales revenue per year and about 950 reached or a little bit exceeded the mark of 200 million rubles (approx $5.2 million). Local e-commerce players have significantly smaller sales volumes in comparison with their analogs from abroad. One of the biggest Russian online stores Ozon.ru which has been created analogically to the famous Amazon.com managed to generate only $250 million of net sales in 2012. This is less than 3% of German Amazon store net sales - $8,732 million. (EWDN, 2016)

There are many online stores launched in Runet, however only few of them are profitable and able to resist financial crisis in the country due to which even some big local e-commerce players had to shut down their web stores.

Two notable and two of the most established web stores Molotok.ru and Mamagazin.ru had to suspend their activity in summer of 2015 and there is still no access to their websites (attempt to open websites was made on 25 September, 2016).

Molotok.ru established in 1999 was a Russian copy of eBay and asserted itself as number one local online auction website. It was acquired by South African company Naspers in 2008. After that the website started to grow and became profitable. However, operating income (EBIT – earnings before interest and taxes) generated from the business in 2014 was only $300,000 while there was $3 million in revenue. $300,000 was not enough to cover company`s loan disbursements though and Naspers decided to shut down the website.

Another promising online store specializing on kids goods - Mamagazin.ru was launched in 2014 under a $30 million investment plan, however even such a big sum could not save the business from the collapse. According to Marina Pogodina – General Manager of the online store, 90% of the goods in the Mamagazin`s catalog were imported from other countries and in terms of significant devaluation of ruble prices increased dramatically. The project is currently "frozen".

These are just two examples of how financial situation in the country influenced potentially successful online businesses. In reality there are much more of them:

- Vasko.ru - major retailer of household appliances. According to Kommersant.ru the website was in the top 30 of the biggest online retailers in Russia (21st place) in 2014. The web-store generated about $90 million revenue in 2013 almost became a bankrupt in 2015. Head of Vasko.ru Procurement Department Yuri Andreyev explains the situation:" there was a significant drop in sales (5 times less in compare to the previous year). Online shop`s CEO decided to shut down the website due to high expenses and low income.
However, the business managed to survive. Web-store`s software developers launched a mobile version of the website in January 2015 what reduced number of cancelled orders by 60% and customer conversion increased about 1.5 times.(Oborot.ru) Mobile version of the website is much more simplified and even looks like a mobile app what makes it more convenient to use and customers are more willing to make purchases.

- Enter.ru is one of the biggest online retailers in Russia. However, due to non-payment of a 462 million ruble debt to its suppliers the business is on the verge of bankruptcy. Accordingly to Novosti Bankrotstva "Banckrupcy news" the company is still operating and keep on accepting orders but sometimes is not able to deliver order to customers. Experts are asserting Enter`s problems begun in 2015 when many Russian e-shops were not able to compete with their Chinese opponents – Aliexpress and JD (www.jd.ru)

- Sotmarket.ru, e96.ru and Utinet.ru – important players in the consumer electronics segment which merged into one named "Platform Utinet.Ru". Sotmarket.ru was opened by young entrepreneur Vsevolod Strah. The start of the business was very promising, company`s turnover was growing by double-digit rate each year and in 2014 was 4,5 billion rubles (approx $72.6 million). However, the e-shop did not manage to become profitable and had to merge with other unsuccessful online business Utinet.ru and relatively stable E96. Russian online market analysis experts

gave some comments explaining what are possibly the main reasons of the Sotmarket`s collapse:

1. Company did not manage to build strong infrastructure.
2. The main focus was on attraction of investors instead of profit making
3. The business had chosen a very competitive market niche
4. Company did not pay much attention to improvement of relationships with its suppliers and was not getting any marketing support from them
5. There was a poor understanding of who is e-store`s target audience

However, even having powerful foreign competitors and difficult financial situation in the country, Russian e-commerce sector is far from extinction. "160 million of small packages and parcels were sent to online consumers in 2015" – 10% more than in the previous year. (East-West Digital News, 2016) According to Data Insight average order value is approximately 4,050 rub. ($65) Domestic e-commerce market grew by 35% in nominal terms but taking into account inflation only 15%. This growth rate is not that big in compare to previous years, but is still very impressive considering the stagnation at traditional retail market.

Data Insight in cooperation with Ruward have published index ranking local e-commerce sites by volumes of sales, number of orders, average order value and other criteria. (see Appendix 2) All data is related to the end of the year 2015. The list only includes e-business registered in the territory of Russian Republic. Marketplaces which sales (or major part of sales) are made by foreign third parties are not included in the list.

E-retail market share in Russia

Figure 4.2

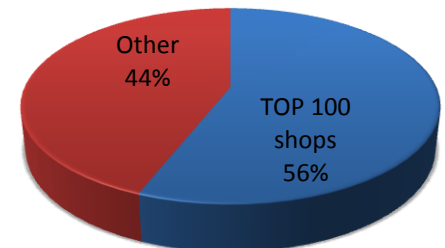Hence, such big players as eBay.com, Wikimart and YandexMarket are excluded from the ranking.

Referring to Data Insight – the first Russian research agency specializing in e-commerce market, more than a half of orders in Runet are received by top 100 biggest online stores. (56%/44%) (Data Insight, 2016)

4.4   Russian leading e-commerce websites

The biggest Russsian online retailer Ulmart.ru faced revenue stagnation in 2015 with sales amounted 62.7 billion rubles ($1 billion) what is a tiny bit more than approximately 60 billion rubles ($1.3 billion) in 2014 (VAT included). However, despite the devaluation of ruble and slowed growth Ulmart still had positive EBITDA in the end of 2015. (Ewdn, 2016)

Ulmart has started its career in Saints Petersburg in 2008. It was 2 in 1 - fulfillment center + online catalogue store of electronics. The business had a very unique hybrid retail model with an electronic showcase: customers were able to choose and order goods from the catalogue on Ulmart website or using a terminal in the fulfillment center (similar to British retailer Argos). The order could be received straight at the store, at any available outpost or delivered to any desirable address. Since then Ulmat managed to develop an effective business model with well-organized logistics and a huge variety of delivery options. (Ewdn, 2016)

In 2012 Ulmart decided to extend its catalogue with a new product category – household appliances. They also added car accessories, baby products, household and summer house goods in 2013. In 2014 the company also added such categories as digital content, auto parts, perfume and cosmetics, pet products and launched an online reservation website for flights and hotels – "Ulmart Travel". (Ulmart.ru, 2015)

According to Ulmart.ru homepage, the business currently has 32 fulfillment centers, 400 pick-up points, 300 trucks, 3 suburban fulfillment centers of 10,000 to 20,000 m^2 located in over 200 different cities, 14 regions and 5 federal districts – The Central, Southern,

North-West, Volga and Northern-Caucus. Four main pillars for Ulmart business are: Sustainable, Active, Open, Simple.

The second biggest online business in Russia is clothing, shoe and accessorizes retailer – Wildberries. The company is now more than 10 years old and sells clothing from more than 5000 world`s most popular fashion brands,kids goods, cosmetics and perfume, books and electronics. (Wildberries.ru, 2016)

A founder of the business – Tatyana Bakalchuk begun her story of success in 2004. The woman was ordering clothing from Germany and storing parcels at her own flat in Moscow for further reselling them for a bit higher price. (Forbes,2012) Nowadays Tatyana`s online store Wildberries.ru has more than 12 million visitors making more than 350,000 orders monthly. Company`s sales value has reached $512 million by the end of 2015. Wildberries.ru is a customer oriented business with omni-channel approach providing outstanding service and a wide range of delivery and payment options. The e-store is offering:

 -Fast and free delivery to the most of Russian regions
- More than 530 delivery points with showrooms where customer can try ordered clothing before buying
-Big discounts and great offers for loyal customers
- Smartphone and tableau friendly web-design

5 Cross-border e-retail business

For many foreign retailers Russia is a market of challenges and opportunities. There is no established opinion regarding if international retail community wants to expand its online offering to Russia. Recent political and economic issues like sharp decrease in world oil prices, military conflicts in Ukraine and recent Crimea's accession by Russia have made this country`s marketplace a big question mark. (Ecommerce Worldwide, 2016)

Nevertheless, the county still remains an attractive marketplace to some players from abroad. There are some undisputable advantages of Russian market: high internet penetration rate, large consumer base, e-retail sector is quite fresh and there is a room for growth and innovations. Many major world`s corporations are already having their presence in Russia and are very optimistic about current situation and e-retail market`s future.

Cross-border sales in Russia rose up 55% in value from approximately $2.2 billion in 2014 to approximately $3.4 billion in 2015.

After careful investigation of a list of Top Websites by traffic for April 2016 in Russia (See Figure 5.1) it has been found out that

All Shopping

Top Websites Apr 2016

1	Avito.ru
2	Aliexpress.com
3	Market.yandex.ru
4	Alibaba.com
5	Wildberries.ru
6	Ozon.ru
7	eBay.com
8	Dns-shop.ru
9	Ulmart.ru
10	Mvideo.ru

Figure 5.1 Source: SimilarWeb, 2016

many leading positions are occupied by foreign players. After the most popular Russian classifieds website – Avito.ru, there is Chinese online store website – Aliexpress.com, then Yandex Market – website allowing comparing prices and features as well as purchasing goods from domestic or foreign retailers. On the 4th place there is another Chinese online retailer – Alibaba.com. Worldwide known online auction website eBay.com is on the 7th position.

Many products from abroad are considered as unique and in many cases they cost less than at local online stores (even taking into account delivery costs). This is why Russian customers often prefer shopping at foreign retailers` websites.

Due to the devaluation of Russian ruble many western retailers have become uncompetitive and cross-border sales with USA and Europe decreased significantly. However, sales from China in 2015 were higher than never before – 80% of total fulfilled cross-border orders. Not only cheaper prices but also improved speed of delivery and growing trust are triggering Russian consumers to buy from Chinese online retailers. (Ecommerce Worldwide, 2016)
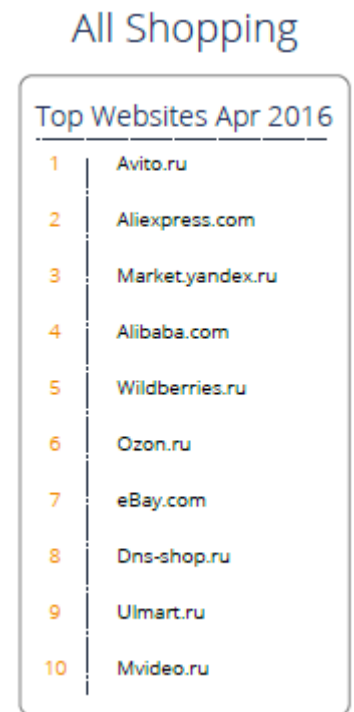
Major Russian Trade Partners 2013

country	x-border retail volume	exports	imports	% change from 2012
🇨🇳	88842,0	35630,5	53211,5	+ 1,7%
🇷🇸	75972,0	70126,1	5845,9	- 8,3%
🇩🇪	74944,1	37027,8	37916,3	+ 2,2%
🇮🇹	53868,3	39314,5	14553,8	+ 17,8%
🇯🇵	33211,9	19648,5	13563,3	+ 6,6%
🇹🇷	32755,8	25499,7	7256,0	- 4,6%
🇵🇱	27916,5	19582,2	8334,3	+ 2,0%
🇺🇸	27732,9	11196,1	16536,8	- 2,6%
🇫🇷	22214,8	9292,9	13011,9	- 8,7%
🇰🇷	25182,9	14868,3	10314,6	+ 1,5%

Figure 5.2 Source: Ecommerce WorldWide, 2015

5.1 Cross-border players

Despite economic, political and cultural challenges Russian e-commerce market is still very attractive to foreign businesses. Referring to Russian Search Marketing news portal at least 17 international businesses expanded their businesses into Russia in 2014.

JD.com

Chinese online retailer JD.com launched Russian version of its website on June, 2015 planning to sell smartphones and consumer electronics. JD has established a partnership with Russian Ulmart, so local buyers were able to get their products ordered from DJ at Ulmart`s outposts and fulfilment centres. By the end of 2015 JD have had 2 million of registered Russian users making about 300,000 orders daily. (Bloomberg, 2015)

AliExpress

According to Russian market research firm TNS Global, Chinese online shop AliExpress was the most popular e-commerce site by traffic in Russia in 2014. There were over 4.4 million searches of the website every month of 2015 and its popularity continues to grow. (Russian Research Marketing, 2015) 15.9 million Russian users visited Aliexpress.com in 2014 what is almost two times more than local online store – Ozon.ru.

Top 10 e-commerce sites by traffic in Russia (July 2014)

1	Aliexpress.com	15,9
2	Ozon.ru	8,5
3	Ebay.com	8,2
4	Eldorado.ru	7,8
5	Wildberries.ru	7,7
6	Enter.ru	6,8
7	Svyaznoy.ru	6,6
8	Sotmarket.ru	6,6
9	Mvideo.ru	6,3
10	Lamoda.ru	5,8

In million users of 12 to 64 years of age
Source: TNS Russia

Figure 5.3 Source: TNS Global, 2014

Samsung

In 2013 Samsung held around 50% of the Russian handset market. According to research conducted by top20brands.ru in 2012 Samsung was Russian consumer`s number one favourite brand in such product categories as electronics and household appliances. (omirussia.ru, 2012)

The Korean company managed to establish good relationships with major carriers in the country, while Nokia and Apple failed to do so. As a result Nokia`s share of the Russian smartphone market fell to less than 25% and Apple`s to about 9%.

Asos

British online fashion retailer Asos has launched its Russian website in 2013 and faced a success in generating high sales volumes during its first year of trading. Obviously there was a lot of work and investigation of peculiarities of Russian e-commerce market and consumers` shopping habits behaviour. Asos managed to provide qualitative and fast customer service and delivery, made a full translation for all of the product names and descriptions and even made a research over some local festivals and events in order to improve its marketing.

Worldwide known online market place eBay has opened its online platforms to biggest Russian retailers. (Ecommerce Worldwide, 2015)

Summary

Foreign online sellers are successfully extending their businesses to Russia and are selling large volumes of their goods to Russian consumers. However, foreigners have to have significant advantages over domestic players to attract local customers. It is also important to consider features of Russian consumers` behaviour as well as make foreign online store adapted to Russian buyers` perception and expectations and carefully plan logistics in advance. A big advantage would be to have a strong local presence and have an experienced local team.

6   Russian e-commerce consumers

Today's consumers lead busy lives and shopping takes time. Often it is a task. Some consumers find researching and shopping on the Web far more convenient than brick-and-mortar visits. Although in-store excursions can still be fun, in many ways shopping online or via a mobile device offers a better overall experience, whether from the couch after the kids are in bed, on a mobile phone during a quiet moment at lunch, or on the go.

In many instances, customers have access to more information online than when talking to an in-store sales associate. Online reviews and price comparisons enable them to feel more confident in their buying decisions and free shipping offers are a fixture of the online marketplace, especially during the holidays.

Figure 6.1, Source: Data Insight, 2014
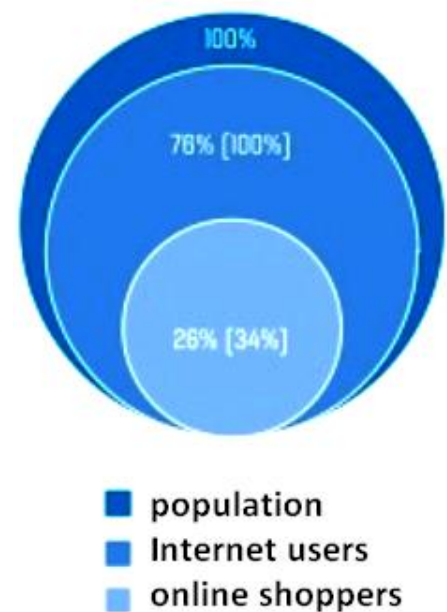
There are about 97 million people of the age between 18 and 64 living in Russia.

About 74 million people from the same age group are Internet users and 25 million of them are online shoppers. (Data Insight, 2014)

Age and Gender

According to Data Insight "Russian E-commerce market 2014" research female are more active online shoppers than male. Female make 55% of all online shoppers between the ages of 18 and 64 in Russia. However, women make more purchases but spend less money:

Average number of online purchases per year:

Female – 8.1   Male – 7.1

Average bill:

Female – 2,800 RUB   Men -4,000 RUB

Users of the age 18 -24 represent the greatest share of online buyers. (Appendix 3)

However, considering number of shoppers, average spending and frequency of orders per year it can be concluded that the biggest category of online shoppers consists from users of the age 25 -34. (Appendix 4)

Education and career

Russian online shoppers by gender

Data Insight market research agency has also proved that level of education, career and income have an influence on Russian online consumers` behaviour. It has been researched:

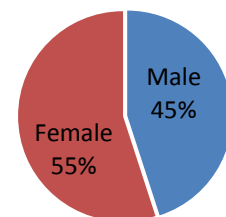- People with Secondary school general education - 27% of all Russian internet users

Figure 4.2

- People with Secondary school specialized education - 27% of all Russian internet users
- People with Higher (including not finished) education - 51% of all Russian internet users

The research also showed that managers and specialists (users with higher income) as well as students are much more likely to shop online white-collar and blue-collar workers or unemployed

Peak online shopping times:

31 of December – New Year celebration

Days predeceasing the 7th of January – Christmas (Orthodox Christians)

8th of March – International Woman`s day

Normal days: 9pm, 10pm and 11pm.

6.1   Consumer behaviour

A study research was conducted in June 2016 in order to compare Russian and Global consumers` behaviour and identify what are the main drivers making Russians shopping online. (See Appendix 8) 54 people from Russia took part in the Survey which included few questions related to e-shopping:

- 16.6% of respondents confirmed they buy products online weekly
- 37% monthly
- 42% few times a year
- almost 4% answered "never"

The results are not far from global statistics for the same subject: numbers collected by one of the world`s leading multinational professional services network company – PwC. After about 19,000 people from 6 different continents and 19 different countries took part in PwC`s global online Survey 2015 some revolutionary statistics showed up (see Appendix 7):

- 54% of the respondents buy products online daily, weekly or monthly (3% - daily, 17% -weekly, 34% - monthly)
- 34% few times a year
- 7% once a year
- 4% never

(PwC, 2015)

6.2 Reasons to buy online

Taking into consideration the statistical data proving a rapid growth of popularity of e-commerce another important question appears: what drives Russian consumers to buy products online instead of going to a traditional store? And at which points traditional stores beat their online competitors? According to the study research (several options were available, see Appendix 9):

- Lower prices or better deals than in-store

74% of respondents prefer online shopping due to the lower cost of goods or because of the deals offered on the online store`s website

- Convenience

24/7 availability and no need to travel to a physical store is important only for 40.7% of respondents

- Easier to compare and research products/offers than in-store

53.7% find it more convenient to compare and research products and offers online

- Wider variety of products than in-store

51.8% agree there is a bigger range of products available at e-shops rather than at traditional stores

- I can only get some products online

53.7% of respondents agree some products they want to buy are available exclusively online

- Customer reviews of products available online

27.7% consider it is important to read customer reviews online before purchasing of a product/ products so they can evaluate the item or service using other people`s experience

- Better product information than in-store

18.5 % of respondents agree they can get better product information at the online store web page rather than physical store

The results of the research confirm that e-commerce in Russia keeps pace with international standards for e-shopping popularity growth. They also helped to identify the main reasons why Russian consumers sometimes prefer online purchasing:

1. Lower prices
2. Easier to compare and research products, some products are available only online
3. Wider variety of products

Very few people believe information provided on seller`s website is better than information you can get at physical store.

In order to have even better understanding of what attracts online buyers when they prefer one online store over the others, there was an investigation of customer`s online reviews of the biggest Russian e-retailer Ulmart on the popular review website iReccomen.ru. (See Appendix 6) Despite the fact people are more likely to write a review when they had a negative experience, Ulmart`s rating is 4.3 out of 5. The following criteria were mentioned in the reviews (sorted by descending popularity):

1. Low prices, Sales, bonus systems and promo codes
2. Free and quick delivery
3. Availability of certain products, big assortment
4. Return policies and customer service
5. Interface and speed of the website
6. Omni-channel approach

7. Possibility to pay with electronic currencies

Prospects

Online store KupiVip.ru made a research among 11,830 of its customers in order to analyze how online consumers' behaviour had changed due to the financial crisis in Russia. The results showed: about 83% of clothing and footwear buyers are primarily seeking for discounted products what is 1.5 more than in 2014. 58% of the buyers have more than half of their footwear and clothing bought at reduced prices. Only 5% of the survey participants replied they were going to spend more money on clothing, footwear and accessories in 2015. Just 12.6% of participants believe that financial difficulties in the country will not affect their purchasing power. (EWDN, 2016) On the basis of the above, it can be concluded price is currently the main decisive factor for Russian consumers if they are buying fashion products. Brand exclusivity and new collection are the way less important.

6.3 Product categories

According to Ecommerce Worldwide Russian consumers "are reported to spend significant sums on electronic and white goods, as well as foreign luxury fashion brands." (eCommerceWorldwide, 2016)

Referring to comScore the most popular category related to online shopping in Russia is Electronics.

Number of unique Russian visitors in July 2015 by online retail categories:

Top 10 online retail Categories in Russia, ranked by unique visitors

■ millions

Category	millions
Electronics	17.8
Apparel	14.8
Comparison shopping	14.4
Computer hardware	12.3
Consumer goods	10
Computer software	8.4
Home furnishing	7.2
Healthcare	6.5
Sports/leisure	5.4
Beauty/perfume	4.7

Figure 6.3 Source: ComScore.com, 2015

6.4 Device preference

Despite the fact usage of mobile devices for online shopping is gaining its popularity, there is only 7% of the whole Internet traffic is taken by mobile phones. (Criteo, 2015) Only 21% of users living in Russian cities with population over 100,000 have used their smartphones for purchasing of goods online. For two biggest Russian cities this number is slightly different: 23.6% - Moscow and 23.9 – Saints Petersburg. (TNS Global, 2016)

Desktop computers and laptops are remaining the most popular devices for searching, selecting and purchasing of goods in online stores:

DEVICES USED AT LEAST ONCE IN THE LAST 12 MONTHS	...for searching for and selecting goods	...for ordering goods in online stores	share of shoppers among those choosing
desktop PC at home	60.1%	60.1%	100%
desktop PC at work	18.4%	12.9%	70%
laptop, netbook	48.7%	46.7%	96%
tablet	18.5%	11.1%	60%
smartphone	23.5%	11.3%	48%
smart TV	1.5%	1.1%	73%

Source: Data Insight, 2014

Figure 5.4

7 Growth Potential

It is well known fact prosperous and growing industries are always attracting investments. The higher is industry`s growth potential the more money can be generated from it. In this chapter the latest information regarding investments in Russian ecommerce as well as expert`s forecasts for the industry will be analysed.

7.1   Investments

From 2010 to 2014 e-commerce sector in Russia has attracted the major share of venture and private equity investments totalling approximately $1.7 billion including $390 million for 2014 alone. (PwC, RMG Partners, 2014)

In the recent years two of Russian biggest online retailers Lamoda and Ozon.ru received significant funding from domestic and foreign investors. Lamoda received $130 million from American and German investors in summer 2013 and Ozon raised $150 million from Russian investors in 2014. (Russia Beyond The Headlines, 2013 and Index Ventures, 2014)

However, due to financial crisis and international political conflicts there was a decline in amount of money invested in the industry. In 2015 it was only $137 million. (EWDN, 2016)

7.2   Prospects

Russian economy is in the state of stagnation at the moment. Nevertheless, e-commerce market in the country continues to expand and grow. According to Ecommerce Worldwide "Russia Passport 2015, Cross-Border Trading report 2015", despite the political and economic problems experts predict Russian e-commerce market "is only headed to one direction – up". Another forecast is that online retail market in the country will reach $40-$50 billion by 2020 and in a long term $100 billion by 2025. (See Appendix 5) Experts are sure Russian e-commerce market is far from being tapped and offers significant opportunities to domestic and international players, however it requires a big effort and caution as establishing of successful online business in Russia takes time, ability to understand cultural features and marketplace and ability to offer a localised experience.

8 Infrastructure

Russia also known as Russian Federation is the largest country in the world – 17,092,246 km^2. It is covering more than one eighth of Earth`s inhabited land territory and spanning 11 time zones. (Encyclopaedia Britannica, 2008)

Other geographic features of Russia:

- Links Asia and Europe

- Access to three out of five world`s oceans – Atlantic, Indian, Pacific

- 53 sea ports

- 270 airports (700,000 tonnes of cargo and 65 million passengers passed through in 2012)

- Pipelines to Poland, Turkey, Germany, Czech Republic, Baltic countries and CIS (Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Ukraine, Uzbekistan)

- Second longest railways in the world

- Borders 17 countries

(EY.com, 2016)

5.1. Infrastructure and Logistics Development

In the Global Ranking 2016 list Russia takes 99th place out of 160 if sorted by Infrastructure Development index (quality of trade and transport related infrastructure e.g. ports, airports, railroads, roads, information technology) For comparison, Germany is on the 1st place with Infrastructure Development index – 4.44, Russian index is just 2.36. The same index has African state – Comoros while Niger, Paraguay and Nicaragua have 2.35.

In the same list if sorted by Logistics Competence (competence and quality of logistics services e.g. transport operators, custom brokers) the situation is slightly better: Russia is on the 72nd place out of 160 with the score of 2.76 while Botswana has got 2.76 and Burkina Faso – 2.7.

(IPI global rankings, 2016)

Extremely large territory, diversity of climatic and time zones as well as poor infrastructure and developing logistics make Russia extremely challenging place for businesses that want to deliver their goods to or within the country.

According to EY.com, quality of the railway infrastructure is relatively high while roads, highways, ports, quality of air transport infrastructure and quality of electricity supply require enhancement. (Ernst and Young, 2016)

However, both logistics and infrastructure in the country are slowly improving. Over the last 10 years foreign investors have been very supportive. The country has attracted more FDI (foreign direct investment) than India and Brazil. In total 325 improvement projects were planned over the last five years. More than half of them have to be realized in the period from 2015 to 2020. (Ernst and Young, 2016)

According to EY`s "Survey of infrastructure development in Russia", federal concession and domestic investment projects are also boosting infrastructure and logistics development in Russia. In 2013 FSUE Russian Post invested 12.43 billion rubles (approximately $407 million) in the modernization of logistics in the country (including informational and technological infrastructure). Nevertheless, most entrepreneurs find transportation and delivery in Russia still extremely costly and problematic.

Russian Post

The main national postal operator in Russia – Russian Post is the natural monopoly dominating logistics market. In the first half of 2014 33% of all courier deliveries among

the country were carried out by the Russian Post. The company also has the greatest territorial coverage in Russia. However, in Ecommerce Worldwide "Russia Passport 2015" report the company is considered as immature in its working process and not meeting world service and delivery time standards. The main problems of using Russian Post services are:

- Long transit time (between 10 and 14 days, deliveries to remote areas usually take even longer, cross-border shipments can take months)
- Lost or stolen parcels
- Poor recipient notification system
- Long lines at post offices (it has been registered average waiting time in 2012 was 30 minutes or more)
- Increase of delivery costs while alternative providers are lowering their delivery rates
- "Storage service" fee (must be paid by customer in case a parcel is not picked up from a post office within a certain time period)

(Ecommerce Worldwide, 2015)

Obviously, all of the above makes Russian Post services not the best possible delivery option available in the country.

5.2. Alternative solutions

In 2012, half of the 108 million packages shipped across Russia were shipped by alternative to Russian Post providers. (Ecommerce Worldwide, 2015)

The biggest alternative local delivery companies are: EMS Post, SPSR, Zest Express, City Express.

The biggest alternative foreign delivery companies are: TNT, UPS, FedEx, Pony Express, EMS Garantpost.

Another solution for well-organized and reliable delivery of goods is development of company`s own warehousing and delivery facilities across the country. For example, Russian leading e-commerce companies Ozon.ru, KupiVIP, Ulamrt and Lamoda have their own logistics resources for successful delivery service. (EWDN, 2016)

5.3. Methods of payment

According to Ecommercenews.eu most of Russian consumers are not certain about the security of online transactions and are more suspicious about honesty of e-retailers. Around 80% of Russian consumers prefer to pay cash on delivery and bank cards are not in widespread use (nor at brick and mortar stores nor for online purchases). (Ecommercenews, 2016) According to SPSR Express PayPal started operating with domestic transactions only in 2013. (SPSR Russia, 2014)

The vast majority of online buyers prefer COD payment method what is very challenging for purely foreign players (especially unknown). In this case, off-shore retailers have to have local agents in order to allow the potential reach of an e-store`s appeal. In the other hand COD helps to reduce amount of returned goods as courier delivers items straight into customer`s hands (order won`t be stuck at post office or stolen from a mailbox).

Non-cash payments

Despite the fact Russian electronic payment systems are still largely underdeveloped and most people are suspicious of alternative payment methods, non-cash payments are slowly getting into Russian consumers` lifes. In 2014 TNS research agency has conducted a survey among 2,800 Russian online buyers between the ages of 12 and 55 from the cities with population over 800,000 inhabitants. The results were quite surprising as bank cards and web money methods in the big cities were found to be even more popular than COD – 56% of respondents answered they prefer non-cash payments (TNS, 2014).

Main payments in a cross-border context

Payment method	Penetration	Main players
Bank cards	• 240 million units in 2014 (mostly debit cards) • Low level of use for offline or online purchases (40 million active users)	• Mostly Visa and MasterCard • UnionPay on the rise
Electronic currencies	Over 20 million accounts for each of the three main operators; 1.5 million for PayPal (2014)	• Yandex Money • VISA Qiwi Wallet • WebMoney • PayPal (since 2013)
Mobile payments	Used essentially for services and virtual goods. First attempts in cross-border sales by AliExpress in early 2015	• Beeline (Vimpelcom) • MegaFon • MTS
Cash	• Used overwhelmingly for purchases of physical goods in domestic e-commerce • Emerging payment method in cross-border e-commerce	• Russian Post (42,000 outlets across Russia) • SPSR Express for cash-on-delivery in a cross-border context • QIWI and Yandex.Money for offline cash collection networks

Figure 6.1 Source: TNS, 2014

9 Opportunities and challenges

After the main important aspects of e-commerce business attractiveness have been analysed in this Thesis work it is now possible to go through the results and make a list of the opportunities and challenges foreign and local entrepreneurs may face while starting online business in Russia.

9.1 Opportunities

Summarizing all information collected during the study research it was identified what kind of opportunities e-retail sector in Russia is offering to entrepreneurs willing to start e-commerce business in the country. These opportunities have to be taken into consideration when an entrepreneur has to make a decision if it worth trying to enter Russian e-commerce market.

1. Huge customer base

Number of internet users in the world and particularly in Russia is constantly growing. Nowadays Russia is considered as number one country in Europe and number six in the world by internet penetration rate – 71.3% of the 143,439,832 people or 102,258,256 internet users. If only people in the age range 18-64 years are considered (consumers with higher purchasing power) Internet penetration rate is 76% out of approximately 97 million people, 26% of them or 25.22 million are online buyers

2. Constant growth and popularity

 Russia`s internet penetration rate has more than doubled in the last 7 years. E-commerce sector turnover in the world grew by 13.3% or 455 billion euro from 2014 to 2015. There is an estimation sales within the industry will possibly grow for about 18% from 2015 to 2016. Compared to foreign retailers, even biggest Russian online stores have humble turnover figures, so there is still a big room for the growth.

Many Russian and foreign offline retailers having local presence in the country are opening e-commerce websites for their business. Some examples: H&M, Vans, Okey.

3. Features of the consumer behaviour

According to Hostfede`s cultural dimensions model Russians are Long term oriented nation. They are pragmatic and able to adapt its traditions to changing conditions and innovations. Usage of mobile devices or tablets is getting increasingly popular in the country.

On average 16% of Russian consumers are buying products online weekly, 37% monthly and 42% few times a year what is not far from global online survey results.

The most important driver to buy online is cheaper price. Other important factors are wider variety of products and convenience.

4. Access to regions

In the beginning of developing of e-commerce in Russia online shopping was extremely concentrated in big cities only. However, with developing infrastructure and logistics regions are slowly catching up. Regional market is relatively untapped and is less competitive.

5. Non-cash payments are getting more popular

Despite 80% of Russian consumers still prefer Cash on Delivery payments, bank card and electronic money payments are getting more popular (at least in big cities).

6. Growing cross-border sales

For foreign entrepreneurs growth of cross-border sales (mostly with China) can be considered as advantage. Many Russian consumers are buying from foreign retailers due to lower prices and unavailability of desired goods in Russian online and offline stores.

9.2 Problems, mistakes and solutions

There are many opportunities Russian e-commerce market is offering to entrepreneurs. However, there are still many challenges and problems businesses may face as the industry is currently entering the period of consolidation and 51ussian51tion.

Working in densely taken niches

Large local and foreign online stores are dominating in Russian e-commerce market and constantly expanding their product range. For example, competing in apparel industry with famous "Wildberries" is totally impossible, while baking customizable cakes might be a good option, because none of the big e-retailers would do that.

However, if entrepreneur has a big capital, reliable investors and well-structured business plan it may be worth trying to work even in taken niches. In this case hard advertising will be required what will cause very high costs. What is more there has to be something special about the new business in order to beat competitors: lower prices, unique product range and extremely professional customer service.

Ignoring importance of logistics

Poor development of infrastructure and logistics in the country cause severe delays in product delivery what brings customer dissatisfaction. Russian Post – the biggest national postage service provider is the way behind European standards for the industry.

Successful online businesses are developing their own infrastructure and/or use only well-known and reliable third party logistics services as well as maintain good relationships with them and with suppliers.

Working for investor attraction only

It is very important to have a business model oriented on profit generation not only attraction of investors. At the moment Russian e-commerce sector is less attractive than in previous years. Investors are mainly interested in business growth and expansion. Business can grow in terms of sales and territory of coverage; however actual profitability of the business may be zero or even negative.

PESTLE issues

Political and economical issues are currently bringing a lot of pain to Russian e-commerce. High level of corruption, Western and Russian sanctions, lowered custom thresholds, currency exchange fluctuations, devaluation of ruble, fall of GDP all cause general decrease in Russian business profitability, lowered purchasing power as well as reduction of the overall e-retail business attractiveness level.

Through the Hofstede`s 6D analysis of Russian society it has been concluded there is a huge Power Distance in the country, the society is rather Collectivistic than Individualistic, has Feminine features and high Uncertainty avoidance. Russians are also Long Term oriented and are highly restrained society. It is very important to take all of the above research results into consideration in order to find a correct approach to Russian consumers and business partners.

Legal side of e-commerce in the country is not only very complex due to high level of bureaucracy, but is also constantly changing. It is very important for both local and foreign entrepreneurs to keep an eye on legislation updates and changes.

Environmental issues have to be considered due to high usage of transportation and natural resources involved in the e-commerce related operations.

Poor understanding of customer behaviour and target audience

Identification of target audience and understanding of its representative's behaviour is crucial for every type of business. Russian peak online shopping times are also slightly differ from the rest of the world. It is also important to consider criteria by which consumers evaluate an option of purchasing goods from a particular online store.

Russian consumers are mainly focused on the lowest price and only then product range, delivery service and customer service.

Lack of attention to buying trends

It is important to keep an eye on buying trends of Russian consumers. Despite Electronics is the most popular product category, the fastest growth has been noticed in leisure items and sporting, pet and children products and apparel categories.

Cash on Delivery as the most popular payment method

Cash on delivery is a big headache for e-retailers despite it helps to build trust between a seller and a buyer. Customers are supposed to pay for an item after it has been delivered; however a customer may change his or her mind, so delivery will be just waste of money and time. What is more COD service costs are very high. Many European online sellers do not even have an option of COD.

Electronic payments are slowly gaining popularity in Russia though. Online retailers have to promote and encourage online payment methods and make the payment process as easy as possible.

Highly competitive market

Many purely online retailers in Russia are currently facing financial difficulties and many even went bankrupt in recent years. However, large traditional retailers are progressively investing in development of e-commerce and open online stores.

 The most successful Russian e-commerce shops are also offering Omnni-chanel solutions for their customers in order to destroy the wall dividing online and offline shopping and improve trust. They are building pickup points and physical warehouses/stores in order to attract more customers. What is more, many foreign online retailers do not have physical stores in the country so it can be considered a competitive advantage.

Ignoring importance of website structure, content and automation

Wrong information about the availability of products and poor product description have a negative impact on the online business. Those mistakes mostly happen due to lack of integration of the website with the software containing the database. Concerning the content side, many e-retailers try to save money on website design and development by searching cheap and inexperienced copyrighters and photographers. They ignore obvious fact that nowadays consumers pay a lot of attention to website design and structure and like it to be user friendly and well organized.

10 Conclusion

It goes without saying Russian e-commerce is a complex and challenging industry, but it also has a great potential to growth and improvement. Current political and economic problems in the country cannot be easily solved, purchasing power of consumers is quite low, logistics and infrastructure development is very slow and harsh competition is destructive for many current and new players.

However, forecasts for the future of e-retail in Russia are rather positive than negative. If Russia will gain economic stability, improve international relationships and continue developing of infrastructure and technologies it has all chances to become one of the world`s leading markets for e-commerce.

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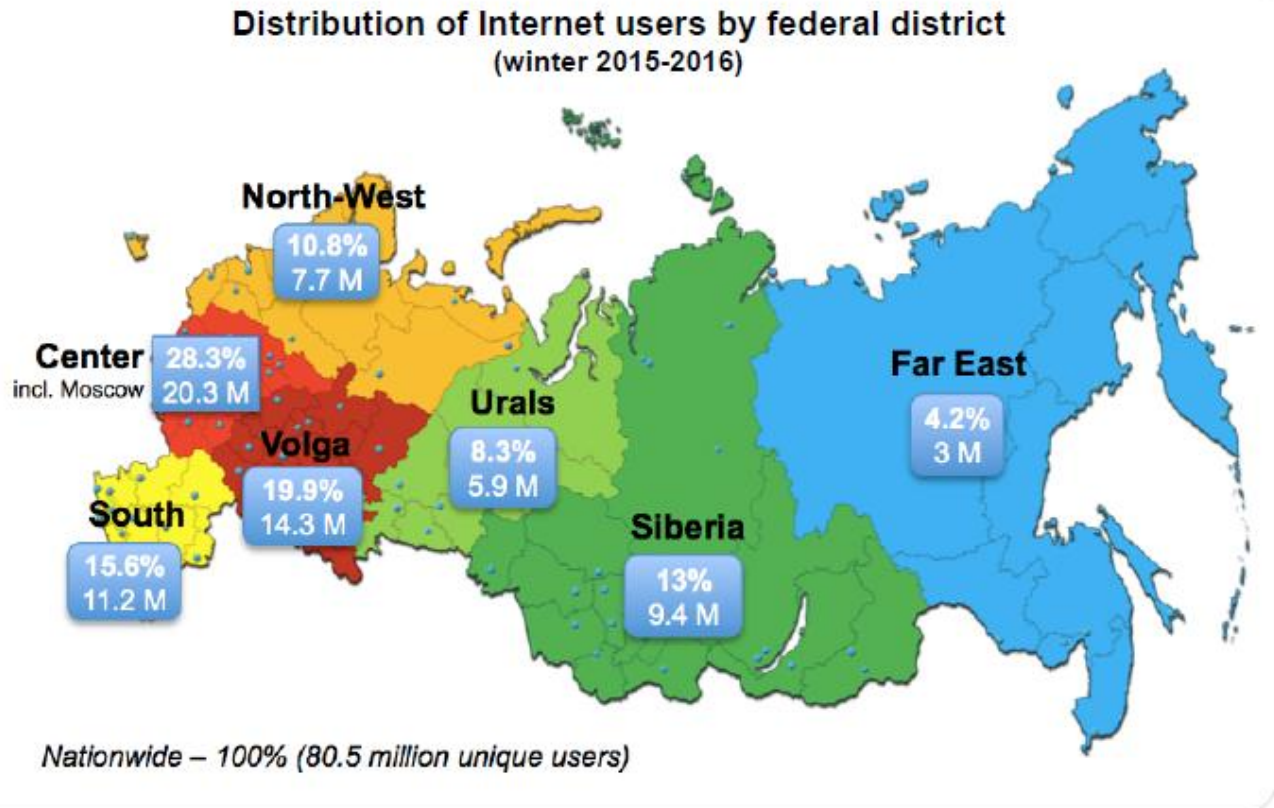
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Appendixes

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

North-West — 10.8% — 7.7 M

Center incl. Moscow — 28.3% — 20.3 M

Volga — 19.9% — 14.3 M

South — 15.6% — 11.2 M

Urals — 8.3% — 5.9 M

Siberia — 13% — 9.4 M

Far East — 4.2% — 3 M
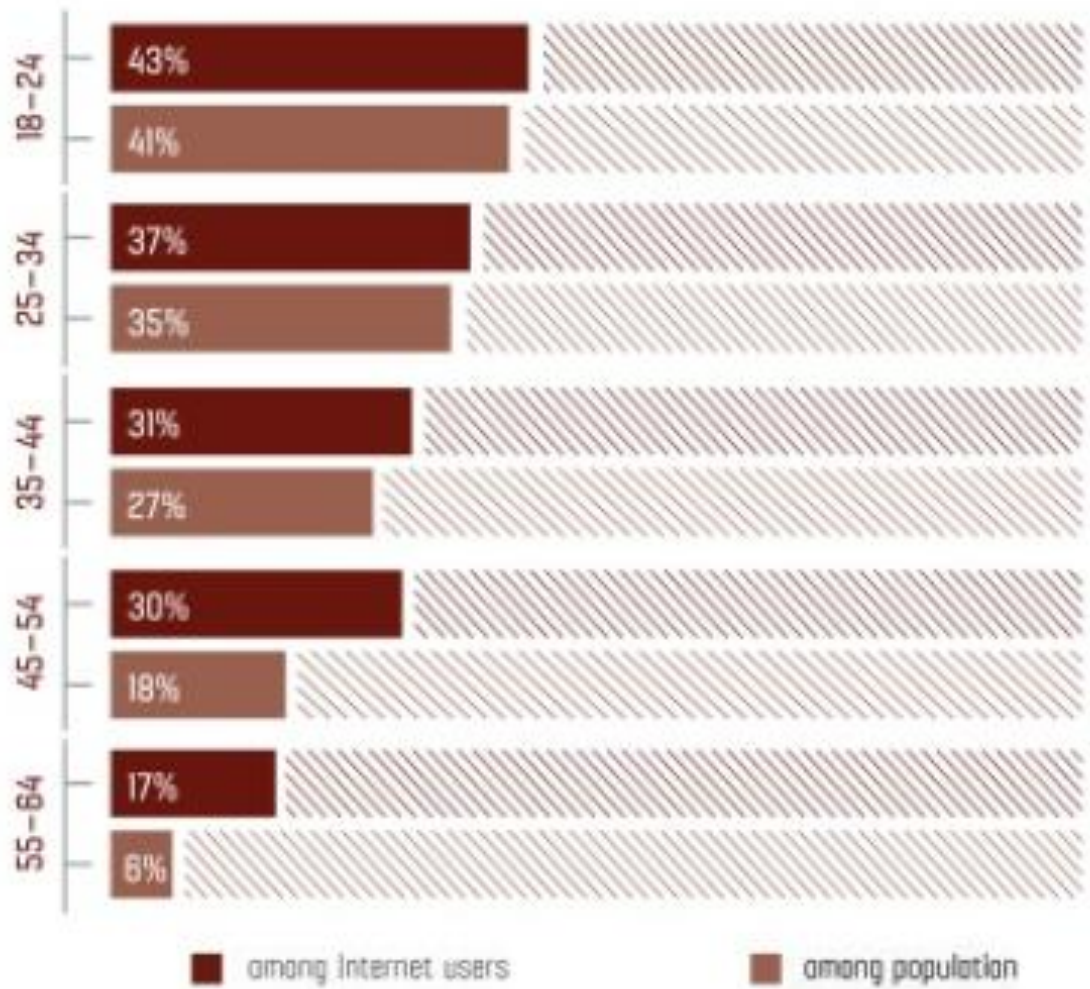
Nationwide – 100% (80.5 million unique users)

Source: FOM

Top 25 Russian e-commerce sites in 2015

Rank	Change from previous year	Site	Specialization	Sales volume		Nb of orders	AOV	
				Rubles (mln)	USD equivalent* (mln)		Rubles	USD equivalent*
1	+1	ULMART.RU	Non specialized site	36 800	589	7 360	5 000	80
2	+1	WILDBERRIES.RU	Clothing, footwear and accessories	32 000	512	17 000	1 900	30
3	+1	CITILINK.RU	Non specialized site	24 800	397	2 840	8 700	139
4	+2	MVIDEO.RU	Electronic appliances	20 400	326	1 570	13 000	208
5	-4	EXIST.RU	Car parts	17 300	277	6 650	2 600	42
6	+3	ELDORADO.RU	Electronic appliances	16 900	270	2 090	8 100	130
7	+1	SVYAZNOY.RU	Electronic appliances	16 700	267	1 720	9 700	155
8	+23	KUPIVIP.RU	Clothing, footwear and accessories	16 600	266	1 770	9 400	150
9	-2	OZON.RU	Non specialized site	15 200	243	5 180	2 900	46
10	0	KOMUS.RU	Office items	12 900	206	1 250	10 300	165
11	-6	LAMODA.RU	Clothing, footwear and accessories	12 600	202	4 350	2 900	46
12	+21	DNS-SHOP.RU	Electronic appliances	12 000	192	1 070	11 300	181
13	-2	BONPRIX.RU	Clothing, footwear and accessories	11 300	181	2 890	3 900	62
14	-2	UTKONOS.RU	Groceries	9 300	149	1 820	5 100	82
15	+3	HOLODILNIK.RU	Electronic appliances	7 990	128	264	30 300	485
16	+5	MEDIAMARKT.RU	Electronic appliances	7 380	118	615	12 000	192
17	+2	ONLINETRADE.RU	Non specialized site	7 200	115	1 150	6 200	99
18	+10	PETROVICH.RU	Items for the home, DIY	7 100	114	483	14 700	235
19	-2	TEHNOSILA.RU	Electronic appliances	6 350	102	776	8 200	131
20	+5	SHOPPINGLIVE.RU	Non specialized site	4 780	76	797	6 000	96
21	+3	LABIRINT.RU	Books and toys	4 300	69	2 620	1 600	26
22	-2	220-VOLT.RU	Items for the home, DIY	4 030	64	525	7 700	123
23	+13	SHOP.MTS.RU	Electronic appliances	4 000	64	473	8 400	134
24	+2	EUROSET.RU	Electronic appliances	3 950	63	438	9 000	144
25	-12	SPORTMASTER.RU	Sporting goods	3 800	61	684	5 500	88

* The dollar calculations by EWDN are based on the average exchange rate in 2015

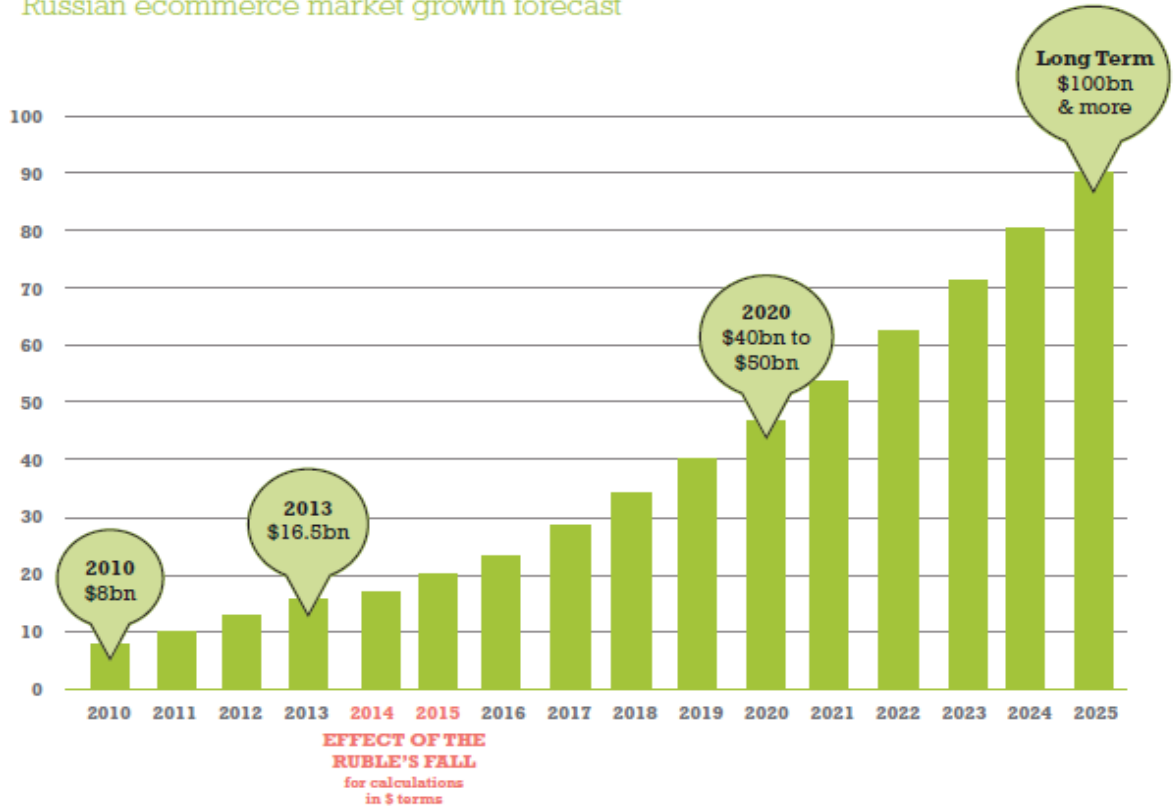**Fig. 2.4.** Percentage of online shoppers in the internet audience and in the population by age

Legend: ▪ among Internet users   ▪ among population

AGE GROUP	average frequency of orders per year	average check, RUB
18–24	7.5	2,900
25–34	8.0	3,100
35–44	8.7	3,500
45–54	7.5	3,400
55–64	6.1	3,400

Russian ecommerce market growth forecast

Appendix 6

COMMENTS from IRecommen.ru - Ulmart. ru :

1. Oh nice! Now Ulmart has cosmetics as well. **Assortiment is widening**, that's awesome. **Prices are also ery affordable!**

2. Not only electronics but also cosmetics and perfume! **IT IS POSSIBLE TO PAY WITH WEB MONEY and other elctronic currencies.** What is motre they have **their delivery points in most of Russian cities, even in the very small towns.**

3. I'm very satisfied with Ulmart. Despite it does not always have lowest prices, you can obtain some **product brands that you won`t find anywhere else**.

4. Me and my husband have had 3 TV's from them. First two broke quite fast after the purchase, however, it's all under warranty and **no conflicts arised**. Our third TV works fine and I think it's not Ulmart fault, it's manufacturer who's responsible.

5. Ulmart is simply the best online store. **Order of any value will be delivered for free in just 1-2 days!** Sometimes it is possible to buy products from Sale section for a very **attractive price** ☺ I have already made 4 orders on Ulmart and will make some more soon!

6. I am not a big fan of online shopping, I prefer to touch and try an item before purchasing. However, some **products I like can only be purchased online**, as they are not available in local stores.

7. Ulmart, what happened? If I was writing this post 5 years ago I would rate it 5 stars. Not now though, **prices are very high (the way higher than in other online stores` websites**). ☹

8. Amazing online store with a **wide range of products and quick order fulfilment**

9. Feedback on Ulmart in Krasnodar. The shop really loves its customers**! Prices are very low!**

10. Tried to buy some things on Ulmart.I loved **they are quick and responsive, website interface is simple, convenient delivery conditions, they have sales quite often. However, some products are more expensive than in other shops and sometimes products ordered are defected.**

11. **Love they have Sales, promo codes and other lovely bonuses!**

12. Me and my husband were Ulmart`s loyal customers before we bought a defected TV from them. We didn`t check if the TV was ok when it was delivered and signed some documents. After that when we tried to return the TV Ulmart **representative told we can`t claim our money back as we signed the papers**.

13. They have **such a big assortiment** of, in fact, every type of product! That's awesome. I love unique things and that's what I can find there.

14. As it's a very cheap store and has everything you can imagine, I choose it as a main store for me. That is why I **really like the bonus point system they have**. The more you shop, the more beneficial it becomes for you.

15.I really like that you can ask a courier to unpack and test electronics right in front of them before you pay, so that there are **no conflicts afterwards**.

16. The most important factor to choose this store is **free delivery**, because sometimes in other stores delivery might be even more expensive than the product itself.

17. This is the best online store I know so far. Actually, the only drawback I can identify is that sometimes **website is working slowly** and you know what? That's because they have huge traffic. And why is that? Because they are awesome.

18. My grandmother does not use computer, but I want her to have access to this store. So I gave her their **physical catalogue** and telephone number. Now she can order things on her own. I hope she won't splash her pension.
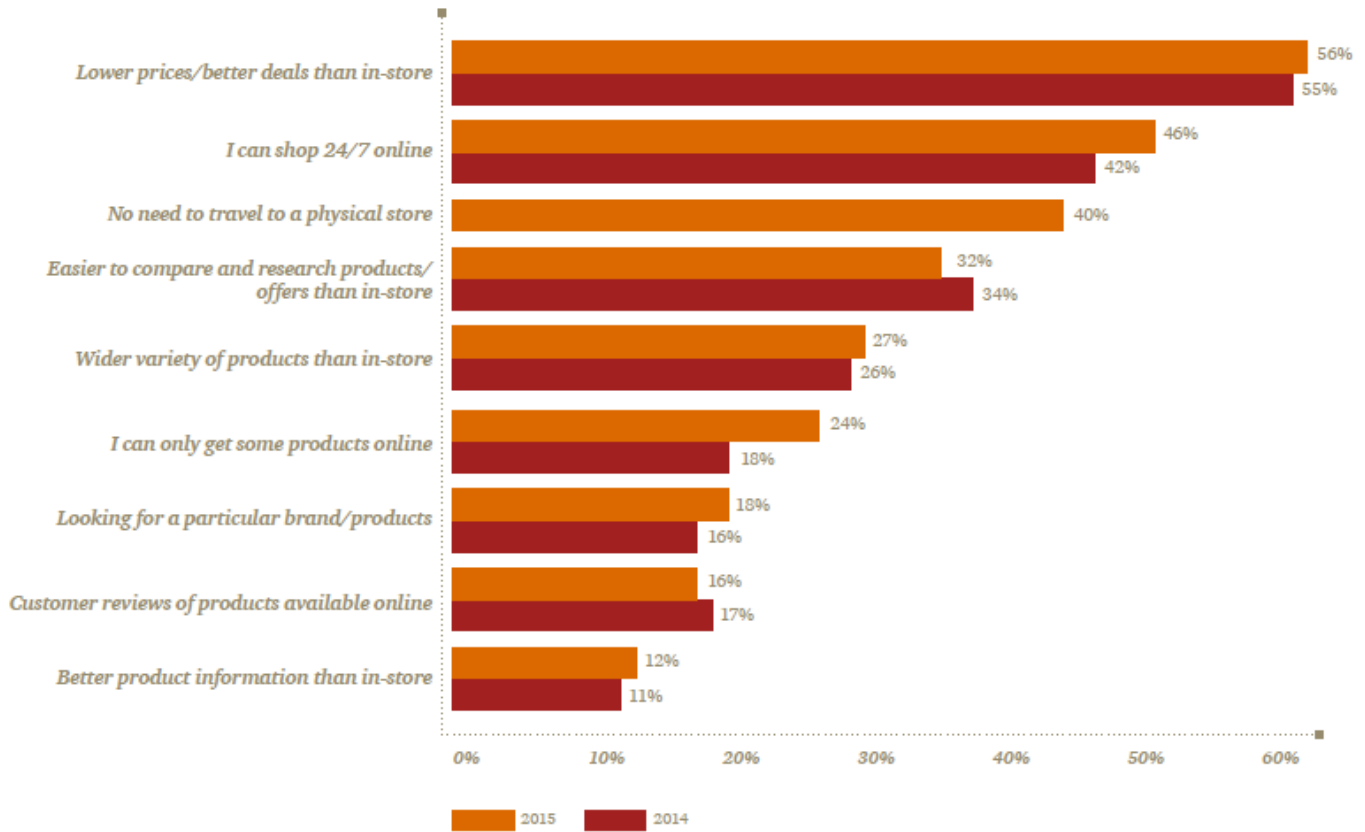
19. Never seen any **referal system** in other online stores. That's a good innovation of Ulmart. It's even connected to their bonus system – you recieve bonuses not only for your purchases, but for the purchases of your friends as well.

20. Very convenient mix of a **physical and online store.** The physical store is not actually a store, but a room with terminals where you can order goods from Ulmart catalogue and **receive your order instantly** from an employee. I liked that in the catalogue you also can see **reviews of an item from other buyers.** The only disadvantage is that you can`t see an item in real life before you have ordered it.

Appendix 7

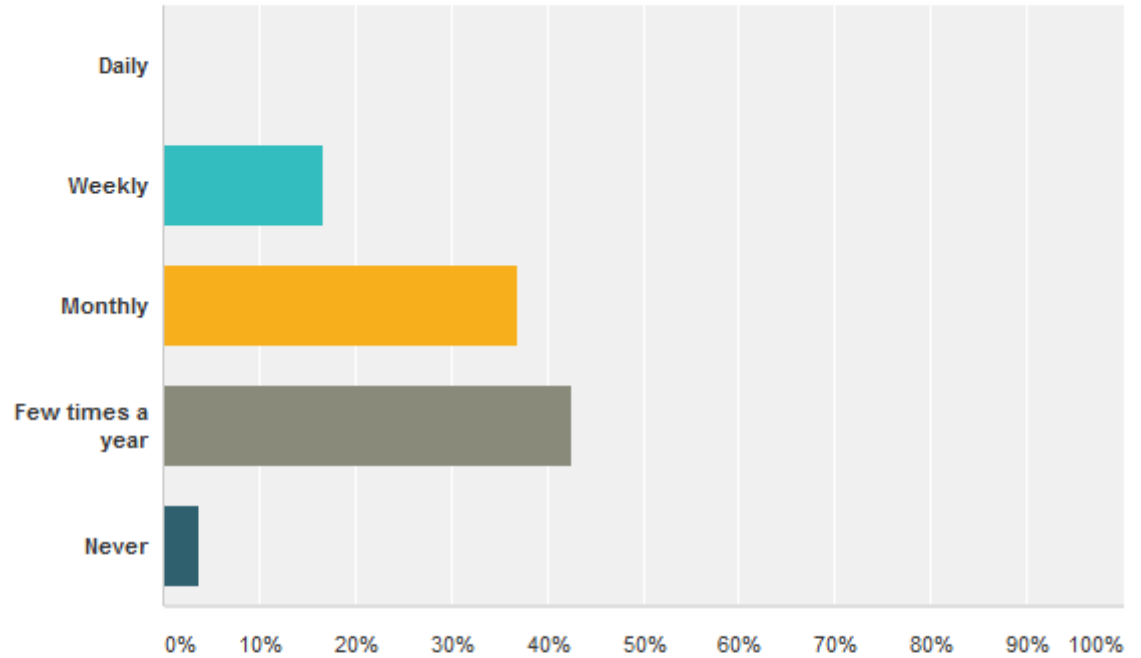Figure 2: Shoppers buy online due to price and convenience

Q: Why do you buy products online instead of in stores?

Source: Global PwC 2015 Total Retail Survey
Base: 19,067

How often do you buy products online?

Answered: 54   Skipped: 0

Answer Choices		Responses	
▼	Daily	0.00%	0
▼	Weekly	16.67%	9
▼	Monthly	37.04%	20
▼	Few times a year	42.59%	23
▼	Never	3.70%	2
Total			54

Appendix 9

Answer Choices	Responses	
Lower prices/ better deals	74.07%	40
It is more convenient	40.74%	22
Easier to compare and research products/offers than in-store	53.70%	29
Wider variety of products than in-store	51.85%	28
I can only get some products online	53.70%	29
Customer reviews of products available online	27.78%	15
Better product information than in-store	18.52%	10

Total Respondents: 54