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**E-COMMERCE IN RUSSIA- CHALLENGES AND OPPORTUNITIES
FOR FOREIGN DIGITAL SERVICE PROVIDERS.
CASE: CHANNEL PILOT SOLUTIONS GMBH**

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Title

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Abstract

E-commerce is continually flourishing, propelling the evolution of new trends and technologies. Although the Russian e-commerce market shares the same trends as those worldwide (move to OMNI, IT, cross-border and mobile), it has its considerable differences from other markets, in particular the European markets. E-commerce in Russia undeniably has enormous potential. Understanding these differences and the ability to incorporate them into business activities is a critical prerequisite for a company's success.

The objective of the thesis is to investigate the Russian market in terms of current trends in e-commerce affecting the business activities of the start-up Channel Pilot Solutions, a digital service provider, and identifying opportunities for further business development in Russia.

The study includes qualitative research methods, observations, interviews and first-hand experiences. Based on these and on the assessment of the company's capabilities, opportunities and recommendations are provided.

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Page of Appendices 2

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Russian e-commerce, digital service, e-commerce, e-service provider

CONTENTS

| | | |
|-------|--|----|
| 1 | INTRODUCTION | 4 |
| 1.1 | Background | 4 |
| 1.2 | Channel Pilot Solutions GmbH..... | 4 |
| 1.3 | Objectives of the research | 5 |
| 1.4 | Methodology | 5 |
| 1.5 | Outline of the report | 6 |
| 2 | E-COMMERCE IN THE GLOBAL CONTEXT | 7 |
| 2.1 | E-commerce and the omnichannel principle..... | 7 |
| 2.2 | Global megatrends in e-commerce..... | 10 |
| 2.2.1 | Business aspects | 10 |
| 2.2.2 | Technological aspects | 12 |
| 2.2.3 | Societal aspects | 12 |
| 3 | E-COMMERCE DEVELOPMENT IN RUSSIA | 13 |
| 3.1 | Insight into the Russian e-commerce market..... | 13 |
| 3.2 | Business environment of e-commerce in Russia | 17 |
| 3.2.1 | Political and economic context | 17 |
| 3.2.2 | Legal and regulatory context..... | 18 |
| 3.2.3 | Technological context | 21 |
| 3.2.4 | Social context..... | 22 |
| 4 | IMPLICATIONS FOR CHANNEL PILOT..... | 23 |
| 4.1 | First experience in the Russian market | 24 |
| 4.2 | Current challenges in business environment..... | 26 |
| 5 | OPPORTUNITIES FOR CHANNEL PILOT IN RUSSIA | 27 |
| 5.1 | SWOT analysis | 28 |
| 5.2 | Opportunities and recommendations for Channel Pilot..... | 32 |
| 6 | SUMMARY | 36 |
| | REFERENCES..... | 37 |

APPENDICES

Appendix 1 Review of indirect competitors

1 INTRODUCTION

1.1 Background

E-commerce has a direct impact on a company's relationship with suppliers, customers, competitors, and partners, as well as how companies market products, advertise, and use brands (Laudon & Traver 2017, 8). From the technology perspective, an e-commerce business is constantly facing new challenges. Yet the ongoing development of e-commerce technologies provides e-merchants with new sophisticated software and cloud-based solutions, which considerably facilitate companies in tracking and analysing the flood of online data, and in optimizing the online buying process. Thus, business intelligence driven by advanced e-commerce technologies enables online merchants as well as brick-and-mortar stores to neatly deal with big data and use information in order to better understand their customers, efficiently brand and market their products, accordingly segment the market, and set aligned pricing strategies.

1.2 Channel Pilot Solutions GmbH

Channel Pilot Solutions was founded in 2012 in Hamburg, Germany. The company provides a cloud-based tool (or SaaS: a software-as-a-service) offering professional multi-channel online marketing and assisting web shops in listing their products on all the popular marketing and sales channels (price comparison sites, shopping portals, marketplaces, retargeting platforms and affiliate networks), for instance Amazon, eBay, Google Shopping, Rakuten, and Kelkoo. The Channel Pilot tool has features such as data feed management, product data optimisation, market price analysis, dynamic pricing, A/B-testing, budget controlling, and performance evaluation (key performance indicators). (Channel Pilot 2017.)

In a nutshell, the Channel Pilot e-commerce suit is a hub for online retailers to manage and control listings, and thus sales, on different sales channels. The tool provides web shops with an access to 2,000 sales channels in more than 40 countries.

Channel Pilot quickly established a foothold in the local market as a leading service provider for multichannel marketing. In 2015, thanks to fundraising, the company was able to start expanding to other countries. Nowadays, the major markets for Channel Pilot from the perspective of customer base and revenue are Germany, the UK and France. Additionally, the company has clients in Spain, Italy, the Netherlands, the USA, Sweden and Russia. The customers include small and medium businesses as well as many top retailers and brands, such as Nivea, Mercedes-Benz, Bon Prix, myToys, and many others.

1.3 Objectives of the research

The research is aimed at investigating the Russian market in terms of the current trends in e-commerce and business practices in this realm, so as to delineate the challenges the company faces and the opportunities the company could thrive on.

The objectives of the research are:

- Scrutinising the tendencies in e-commerce development in Russia
- Identifying practices that impede doing business for foreign digital service providers
- Analysing opportunities for establishing favourable business processes and business development

Eventually, the recommendations for the company were produced based on a market analysis and the business practices inherent in Channel Pilot.

1.4 Methodology

The research methods included both qualitative and quantitative research. Primary data was collected by means of observations and interviews with the CEOs of Channel Pilot, with the Russian Business Development manager, who started the business development in Russia, as well as the author's first-hand experience while dealing with Russian customers' accounts as a Business Development Manager. Qualitative research methods were used in the form of text analysis and interpretation. Studying articles and books on

e-commerce as well as following posts in e-commerce blogs and forums provided relevant secondary data.

1.5 Outline of the report

The first part of the research provides an overview of global e-commerce with regards to the importance of e-commerce presence and an omnichannel strategy. It also deals with e-commerce technologies in terms of software and solutions available nowadays for companies in order to run e-commerce operations. This chapter reveals the implications of the global megatrends in e-commerce by considering trends from business, technological and societal perspectives.

The second part is devoted to the development of e-commerce in Russia. This part of the research provides an insight of major trends in the Russian e-commerce, pinpointing the business environment from the political, economic, legal, technological and societal perspectives.

The next part consists of showcasing Channel Pilot's first experience in conducting business in Russia and the current challenges associated with the business activities. This part also provides an analysis of the company's strengths, weaknesses, opportunities and threats in the context of the e-commerce market in Russia. Based on this part of the research the last part offers recommendations for the company in terms of business conduct in the e-commerce market of Russia.

The data for the market analysis was amassed from various sources representing monetary values in different currencies. Hence, it is important to provide currency conversion given the exchange rate: 1 EUR = 1.18 USD; 1 EUR = 67.75 RUB (ECB 20.10.2017).

2 E-COMMERCE IN THE GLOBAL CONTEXT

2.1 E-commerce and the omnichannel principle

E-commerce continues to grow rapidly, involving not only the big players on the market, but also small and medium-sized enterprises as well as entrepreneurs. This means competition ramps up and customers are harder to win, easier to lose and fastidious in price and user experience. In order to keep pace with this severe competition, companies need to be mindful of and able to accordingly react to the latest e-commerce trends.

E-commerce has not replaced existing retail chains and physical stores, although it has provided small online-only companies with opportunities to succeed. Obviously, the retail industry is undergoing fundamental transformations driven by digital technologies. As merchants adapt to the digital environment, the line between physical and digital commerce is becoming increasingly blurred. “While technology provides the infrastructure, it is the business applications—the potential for extraordinary returns on investment—that create the interest and excitement in e-commerce” (Laudon & Traver 2017, 182). New technologies equip businesses with new business intelligence for organising production and business transactions, which in turn requires reviewing business strategies and adjusting them to new, constantly evolving conditions.

Nowadays e-commerce is inextricably linked with the omnichannel phenomenon. Yet not every company is able to successfully implement an omnichannel strategy. According to Business Insider (2016), in today’s and future’s e-commerce business environment the winners will undoubtedly be those who are adept in omnichannel sales. As customers are becoming more tech-savvy and increasingly turning to the Internet to search and make purchases, brick-and-mortars are striving to retain their customers by adopting new digital technologies, particularly in-store technologies.

In addition, even if retailers do not sell online, it is crucial for them to embrace the four types of e-commerce, which are illustrated in Figure 1.

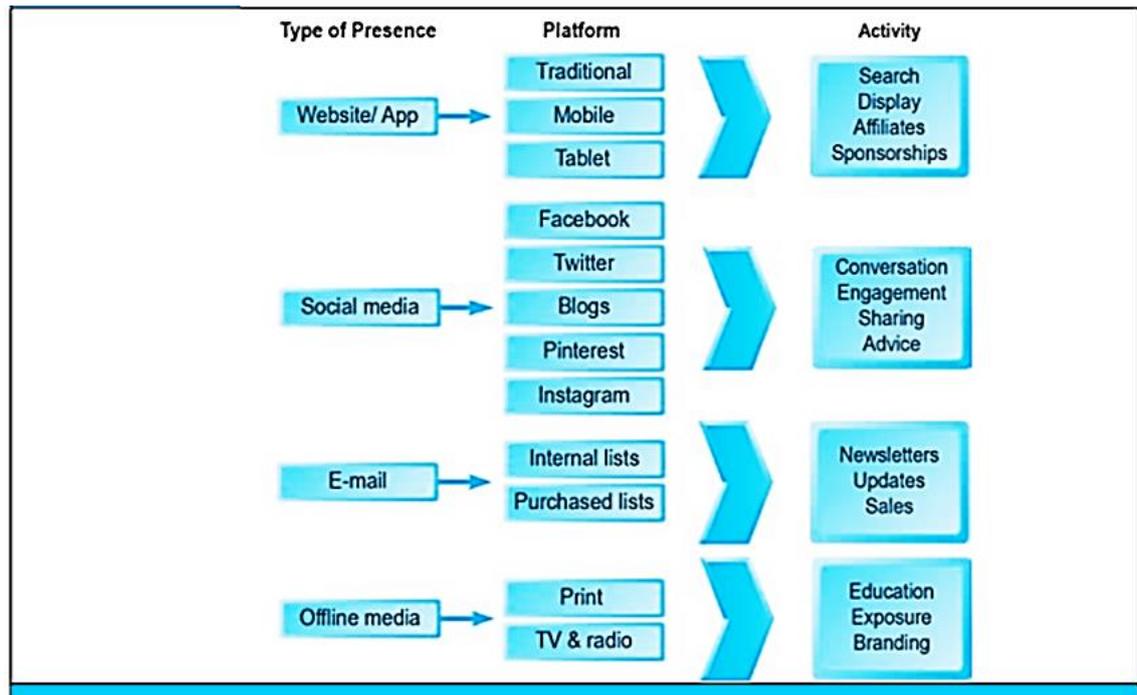


Figure 1. E-commerce presence map (Source: Laudon & Traver 2017).

For each type of presence, there are different platforms, and for each of the platforms there are associated activities that companies need to consider. Customers expect convenience and a variety of options when making a purchase. The omnichannel principle implies a seamless experience for customers, irrespective of the sales channels they use, whether it is online shopping from a desktop or mobile device, or a purchase via phone, or in a physical store. As Business Insider (2016) declares, brick and mortars must be able to seamlessly carry the experience online, through social media, and on mobile devices. Even online giants like Amazon are experimenting with physical locations in order to accommodate their customers in a multitude of ways (Business Insider 2016). This customer experience fosters the brand awareness, its familiarity and strengthens relationships with customers. As a result, companies get a positive brand image and higher retention rates.

To successfully implement the omnichannel strategy, merchants exploit different software and e-commerce solutions to build a smooth infrastructure. E-commerce technologies simplify the complex processes in running a business and enable people with non-technical backgrounds to oversee intricate e-commerce operations. In order to manage the entire e-commerce machine, companies need such software and solutions as content

management system (CMS), for instance, Magento, PrestaShop, Shopify; customer relationship management (CRM), for example, Pipedrive, Salesforce, Insightly; software for accounting, software for enterprise resource planning (ERP), solutions for fulfilment, inventory management, purchasing management, and many others.

E-commerce solutions come in two basic forms with many varieties of each form: on-premise solutions, which are installed and managed on-site by developers of a company; and cloud-based solutions or SaaS (Software as a Service), which are much more hands-off from a technical standpoint (Bigcommerce 2017).

The purpose of e-commerce solutions is to put everything a company needs to run a web store in one place and to provide a user-friendly interface to control and manage all operations. Modern technologies enable a smooth integration of data, which can be linked to e-commerce software, so that data sharing is not manual, but automatic (Bigcommerce 2017).

The main benefits of e-commerce software are (Bigcommerce 2017):

- Simplification of marketing: built-in search engine optimisation (SEO), optimisation of data feed, expanding the reach etc.
- Automation of shipping and taxes: Printing shipping labels, calculating sales taxes based on customer location, and sending notification emails to customers.
- Product data management: SKUs (stock keeping unit) and ID of articles.
- Customer and order management: emailing customers, checking order status, modifying orders.
- Enhancing overall user experience.

Overall, companies have at the moment plenty of e-commerce tools and solutions for an omnichannel strategy, which enable them to deliver convenient, seamless, and relevant shopping experiences by personalizing each customer's needs.

2.2 Global megatrends in e-commerce

E-commerce business is not driven merely by technologies, and thus, its implications have to be considered in different contexts. Major trends in e-commerce, notable for 2016-2017, can be defined from a business, technological and societal perspective.

2.2.1 Business aspects

From the business perspective, all forms of e-commerce continue to grow at a fast rate. In particular online retail is still flourishing worldwide, with a global growth rate of over 20%, and even higher in emerging markets such as China, India, and Brazil. Mobile e-commerce has rocketed to prominence with over 2 billion people using mobile apps worldwide. It will eventually make up more than 50% of all e-commerce sales in China, India, and South Korea, and over 33% in the UK and Germany. (Laudon & Traver 2017, 58.)

In 2016, worldwide retail e-commerce sales totalled USD 1.86 trillion (EUR 1.58 trillion), and they are projected to grow to USD 4.48 trillion (EUR 3.80 trillion) by 2021. “More global internet connectivity, coupled with a growing shift toward the convenience of “e-tail,” is resulting in billions of consumers around the world turning to ecommerce to fulfil their daily needs” (Shopify 2017).

The biggest players in online-retail worldwide are Amazon (USA), eBay (USA) and Alibaba (China). The Figure 2 displays the top 10 leading countries in e-commerce market in terms of sales, in billion EUR.

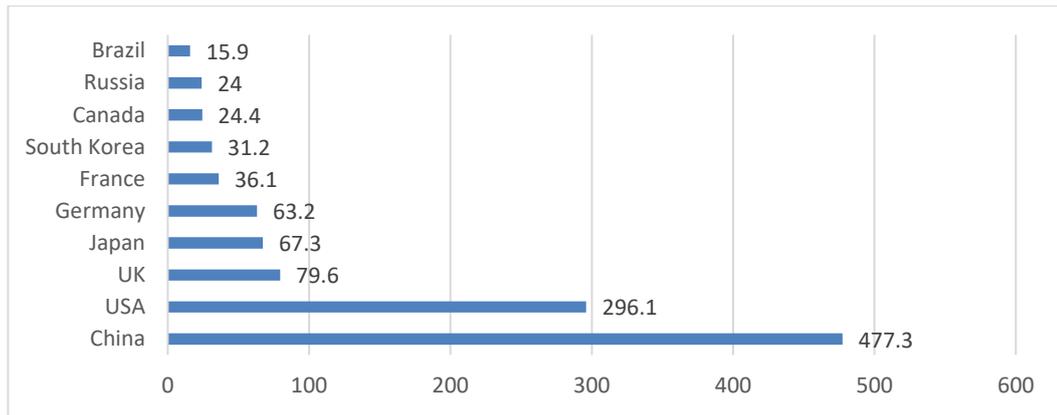


Figure 2. E-commerce sales by country, billion EUR (adopted from Source: Национальный исследовательский университет 2016)

Although India is not included in the top ten countries in this realm, the Indian e-commerce market is worth mentioning. This market is growing at a very fast pace indicative of a gradual increase in the standard of living as well as the rapid Internet proliferation into regions (Национальный исследовательский университет 2016)

Another trend for business is the growth of social e-commerce supported by social networks such as Facebook, Pinterest, and Instagram, which provide online merchants with marketing, search, and buy buttons, enabling consumers to actually make purchases. For instance, Facebook has realized that its users have been exploiting the platform for selling and buying in local communities for a long time and, as a result, this year (2017) it has launched a new service – Marketplace – which enables Facebook users to sell and buy, which connects sellers and buyers in order to agree on price and delivery. Thus, Facebook has gone into competition with eBay. (Channel Pilot 2017.) Instagram continues broadening its selling functions. One of them was entering the biggest e-commerce platform in the USA, BigCommerce, which provides e-merchants with advertising campaigns, promotion in social media, management of orders, delivery and other services. (Oborot.ru 2017.)

A local e-commerce wave is growing nourished by increasing interest in on-demand services such as Uber and Airbnb. In turn, such companies accumulate billions in capital and show tremendous growth. B2B e-commerce worldwide continues to strengthen and grow to EUR 19.8 trillion. (Laudon & Traver 2017, 58.) Small business and entrepreneurs are continuously flooding e-commerce marketplaces and capitalising on the infrastructures created by industry giants such as Apple, Facebook, Amazon, Google, and eBay.

2.2.2 Technological aspects

At the technological level, mobile e-commerce continues to evolve at exponential rates. The mobile platform provides access to the Internet from a variety of mobile devices, such as smartphones, tablets, and other ultra-lightweight laptop computers via wireless networks or cell phone services. Mobile devices are playing an increasingly prominent role in Internet access, and this induces companies to create new business models and practices, and in some cases, it completely destroys existing business models and companies. (Laudon & Traver 2017, 54.)

Facilitated by technologies such as cloud computing, cellular networks, and Wi-Fi, mobile devices have become marketing, shopping, reading, and media viewing means, and are continually transforming consumer behaviour. Mobile, social, and local have become driving forces in e-commerce. The mobile platform infrastructure has also resulted in yet another e-commerce innovation: on-demand services which are local and personal. “From hailing a taxi, to shopping, to washing clothes, these new businesses are creating a market space where owners of resources such as cars, spare bedrooms, and spare time can find a market of eager consumers looking to buy a service in a few minutes using their smartphones”. (Laudon & Traver 2017, 49.)

Another technological trend is the ongoing development of sophisticated software and cloud-based services and solutions for e-commerce, which significantly assist in tracking, analysing and controlling big data. The Internet of Things, comprised of billions of Internet-connected devices, continues to grow exponentially, and will only add to this flood of data in the coming years (Laudon & Traver 2017, 57). The need for advanced tools and software for an e-commerce business poses challenges for online retailers who always seek possibilities to refine the processes in online business.

2.2.3 Societal aspects

From the societal perspective, the user-generated content, created by millions of people and shared through social networks, photo- and video-posting, and blogging sites and apps, precipitates significant privacy issues as well as concerns over commercial and governmental privacy invasion. The major digital copyright owners have increased their pur-

suit of online piracy with mixed success, while reaching agreements with the big technology players such as Apple, Amazon, and Google to protect intellectual property rights (Laudon & Traver 2017, 57). “Taxation of online sales, particularly cross-border sales continue posing challenges for governments. Sovereign nations have expanded their surveillance of, and control over, online communications and content as a part of their anti-terrorist activities and their traditional interest in law enforcement. Online security, or lack thereof, remains a significant issue, as new stories about security breaches, malware, hacking, and other attacks emerge seemingly daily” (Laudon & Traver 2017, 57).

By and large, advances in underlying information technologies and continuing innovations in business and marketing promise as much change in the next decade as was seen in the previous two decades. Essentially, e-commerce companies have to be able to identify the technological, business, and social forces which have shaped and continue to shape the e-commerce environment.

3 E-COMMERCE DEVELOPMENT IN RUSSIA

E-commerce in Russia is in an early phase of its development. Analysing the Internet market and business environment in Russia provides an understanding of e-commerce in the market.

3.1 Insight into the Russian e-commerce market

In order to gain an insight into the e-commerce market in Russia, it is essential to have a look at the Internet market first. Russia had lagged behind most European countries in Internet proliferation, but it caught up quickly until 2016 and reached 70% (East-West Digital News 2017).

Notably, there is a regional discrepancy in Internet users - the Internet proliferation in Moscow region and St. Petersburg surpasses the country’s average (68%), whereas inhabitants in small towns are less practiced Internet users. This contrast is attributed to the

differences in the standard of living, purchasing power and development of broadband and wireless Internet access, as well as computer and Internet literacy. However, the number of Internet users in regions, particularly mobile Internet users, has an upward trend at the moment partly due to mobile accessibility and connectivity. (East-West Digital News 2017.)

Online shopping in Russia has become a common way of consuming, specifically in Moscow, St. Petersburg and other Russian cities. Online shopping expansion in Russia, being still immature compared to some Western European countries, is expected to catch up in the long term with the most advanced countries such as the UK, where up to 85% of Internet users are involved in online shopping. However, for 2016 it was evident that many nationwide e-commerce companies documented higher purchase activity in cities with a population between 300,000 and 1 million. As a result, Moscow and St. Petersburg are no longer the focus solely for many online retailers, who have turned their focus towards other regions in Russia as well. (East-West Digital News 2017.)

Large domestic retailers started becoming involved in the e-commerce market in Russia much later than Western countries. In addition, there has been a trend towards online-offline integration over the last few years, implying that brick-and-mortar stores have been developing their e-commerce activities, whereas several online players, on the contrary, have gone offline. The crisis that struck the Russian retail in 2014-2015 has not stalled this trend. Several offline retailers have been struggling to maintain the development of their offline chain in a financially sustainable way, resulting in the refocusing and reallocation of resources towards e-commerce projects. (East-West Digital News 2017.)

According to data provided by Data Insight (2017), Russian e-commerce has recently experienced a most rapid growth. In 2016 it was worth RUB 920 billion (EUR 13.5 billion), which is up 21% in comparison to 2015 (Figure 3).

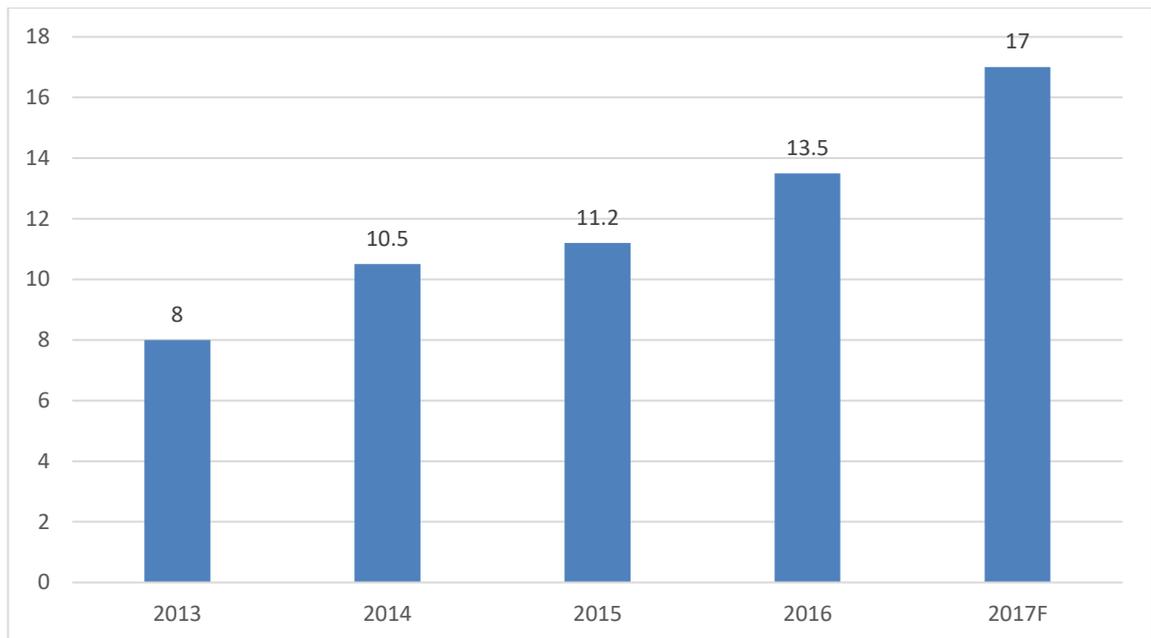


Figure 3. The volume of the e-commerce market in Russia, billion, EUR (Source: Data Insight 2017)

As stated by the Association of Internet Trade Companies (AITC; AKIT), the market is expected to exceed RUB 1.1 trillion (EUR 17 billion) by the end of 2017. However, online purchases only account for 3.3% of the total retail turnover, as opposed to 10% in the US and 13% in the UK (TASS 2017).

Notably, cross-border e-commerce is maintaining significant growth rates, considerably surpassing the local market (Figure 4). The segment of cross-border trade has increased 33% in the first half of 2017 year-on-year to RUB 178 billion (EUR 2.6 billion), which means the share of cross-border trade free of tax was 35.7% in the first half of 2017. The Association (AITC) expects the share of cross-border trade to stand at 37% in the total structure of Russia's e-commerce, amounting to RUB 420 billion (EUR 6.3 billion) in 2017 (TASS 2017). The biggest share of foreign goods ordered by Russian customers comes from China (90%), followed by the European Union (4%), the United States (2%). In monetary terms, China accounts for 52%, the EU for 23%, and the US for 12% (TASS 2017).

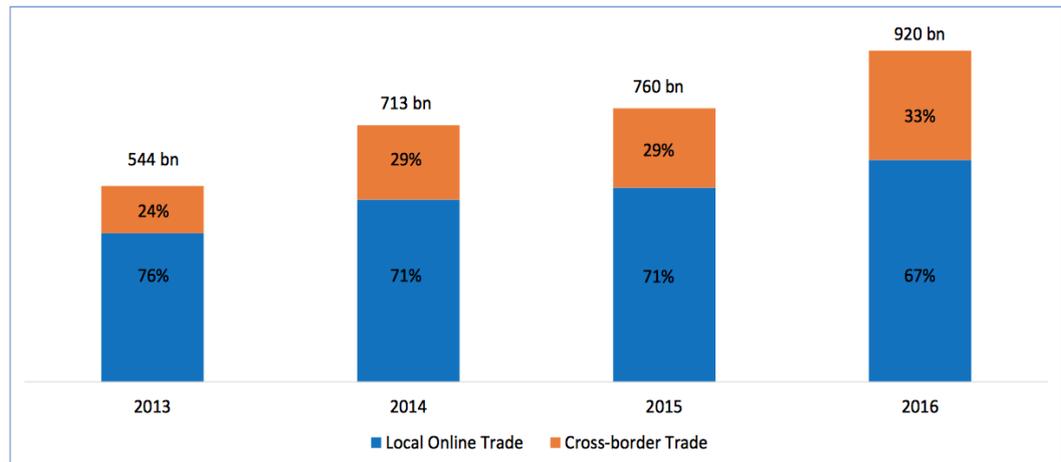


Figure 4. Online retail market, turnover in RUB (Source: АКИТ 2016).

Given that China represents the biggest share of cross-border sales in Russia, the most visited website in Russia is Aliexpress.ru, followed by Ozon.ru and Eldorado.ru (Figure 5).

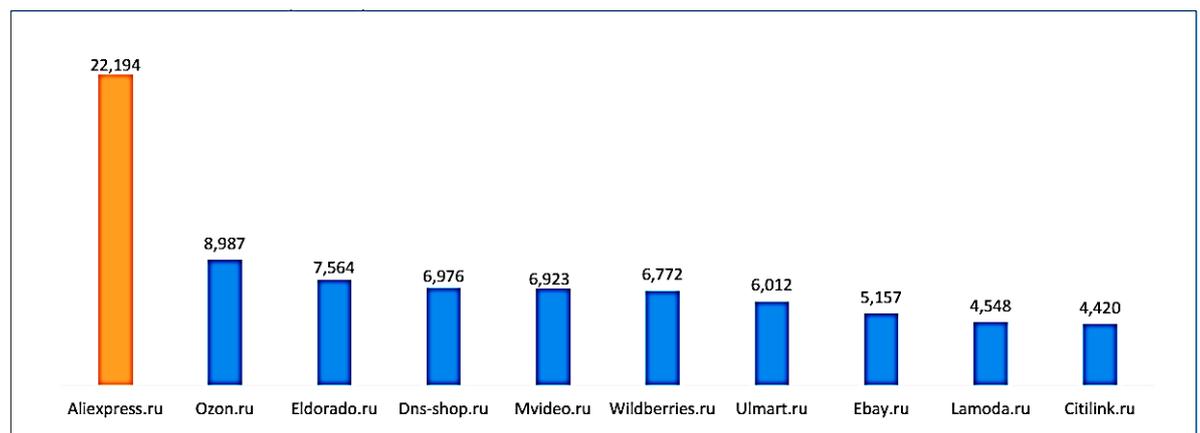


Figure 5. Most visited e-commerce websites in Russia, in millions (Source: East-West Digital News 2017).

Russian e-commerce has the same trends inherent in global e-commerce: move to OMNI, IT, cross-border and mobile. The share of online orders made via mobile devices continues to grow and accounts for approximately 30% of orders at large web stores. However, the Russian market has significant differences in logistics and payments compared to the European market. Although cash on delivery (COD) still remains the most popular payment method (58% of orders in domestic segment in 2016), this trend is declining and there is a migration from COD to online pre-payment. In addition, along with the decline in COD, the share of courier delivery is decreasing. Instead, online retailers provide their

customers with more and more pickup points, such as Click & Collect and Parcel Shops, which is reflected by the growth of omnichannel retailers. (Ecommerce Foundation 2017.)

3.2 Business environment of e-commerce in Russia

This chapter deals with the significant trends and factors in the political, economic, legal, technological and social environments shaping the e-commerce industry in Russia.

3.2.1 Political and economic context

Economic volatility is directly linked to the political volatility. The heightened political tensions and the economic downturn in 2014-2016 hit Russian companies and consumers, which is reflected in business. The impact of the oil price decrease since 2014, coupled with Ukraine related sanctions and existing structural weaknesses in the economy, led to a GDP decline during past years (Figure 7). However, the International Monetary Fund expects the Russian economy to return to limited growth in 2017 and 2018 (TASS 2017).

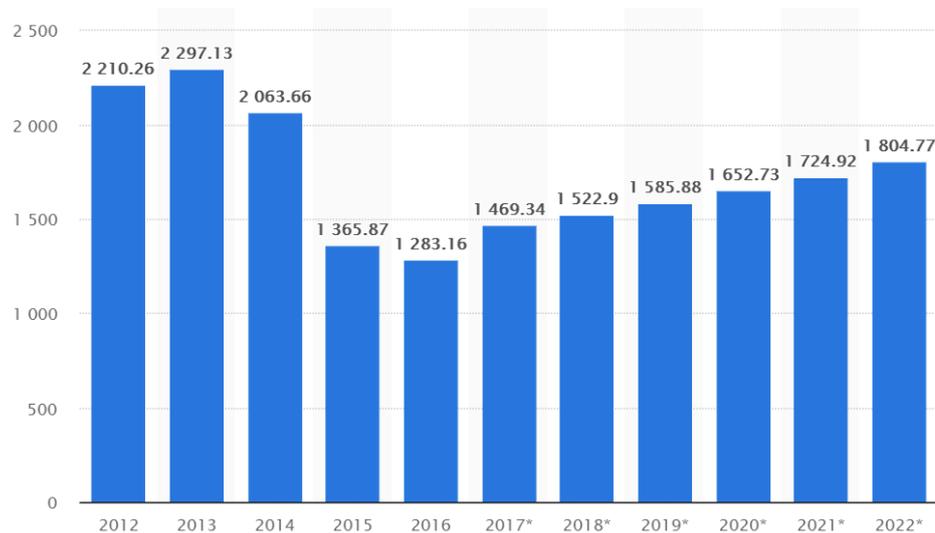


Figure 6. GDP in USD, billion (Source: Statista 2017).

Sanctions imposed by the EU and USA on Russia have limited the possible areas of cooperation and trade in a number of fields. In addition, the reciprocal response of the Russian government has brought about the import substitution activities in the country, which in turn has resulted in new trade barriers affecting foreign companies. (GOV.UK 2017.)

Regardless of the fact that Russia has the smallest population of the BRIC economies, it is the wealthiest in per capita terms by a considerable margin. This implies that it has a large and growing middle class, representing money and tech-savvy consumers who seek quality and innovation, and a growing retail sector. Russia's domestic supply of consumer goods and services is still underdeveloped, so there are opportunities to develop new business, e.g. e-commerce (GOV.UK 2017).

3.2.2 Legal and regulatory context

Legislation in Russia is frequently changing, and it is a common occurrence with lesser orders and directions. These often contradict higher-level laws, at which point the higher-level laws prevail. Often, lower-level acts are enacted as tools to clarify and amend other effective laws (Ecommerce Worldwide 2017).

Troublesome regulations continue to impede private-sector development. The regulatory system encounters corruption and a lack of transparency. Weak property rights are a significant hindrance to economic progress and an impediment to foreign investment. "The rule of law is not maintained uniformly across the country, and the judiciary is vulnerable to political pressure and inconsistent in applying the law. Corruption in government and the business world is pervasive, and a growing lack of accountability enables bureaucrats to act with impunity" (Heritage 2017). Russia's ranking in the World Bank's "Doing Business" Index for "Resolving Insolvency" is 54 out of 190 economies (The World Bank 2017). All transactions endure control which requires customs clearance applying to both import and export transactions, and certain loans.

There have been certain **legal trends in e-commerce in Russia** in 2016 and 2017, which profoundly affect this business.

The year 2016 saw several tendencies in the regulation of the Russian e-commerce market. The legislative changes adopted in 2016 have had a strong impact on the IT companies and digital services providers. (Deloitte 2017.)

Starting in 2017 there is a VAT imposition on the digital services provided by foreign IT-companies. According to the Federal law № 244-FZ "On amending parts one and two of the Tax code of the Russian Federation", which came into force on 01 January 2017, the

provision of services in electronic form by foreign IT-organizations to Russian individuals and legal entities in Russia is subject to VAT taxation (Lidings 2017).

The scope of electronically supplied services (e-services) includes (Deloitte 2016):

- Online licensing of software (including computer games) and databases, including updates and add-ons;
- Licensing digital use of electronic editions and publications (materials), graphics, musical, and audio-visual content;
- Online advertising services, including using digital software and databases; offering online advertising platforms;
- Online placement of offers to buy (sell) goods (works, services) and property rights;
- Storing and processing information provided by a person that has online access to such information;
- Provision of access to online search engines;
- Provision of domain name services;
- Provision of real-time computational capacity for placing information in information systems;
- IT system and website administration;
- Online statistics maintenance;
- Online customer search / provision of information on potential customers;
- Provision of technical, organisational, informational and other capabilities (platforms) realised through information technologies and systems for the purpose of establishing contacts and closing deals between sellers and buyers;
- Online services requiring data input by consumer; data search, filtering and queried for relevance; provision of requested data via IT networks;
- Enabling / maintaining of the commercial or personal Internet presence, supporting users' online resources, providing access to such resources and providing the capability to modify them.

Services not considered electronically supplied (Deloitte 2016):

- Providing access to Internet;

- Consulting via e-mail;
- Sale of goods (works, services) ordered online, but delivered offline;
- Licensing of software, including computer games, and databases on physical memory devices.

In the case of supplying e-services to individual Russian customers, foreign companies must register with the Russian tax authorities, report and pay VAT (18%). In B2B cases Russian companies registered in Russia and acting as tax agents assess and pay VAT, which is withheld during each money transaction to a supplier and immediately transferred to the Russian Government. Importantly, if the contract on digital services between a Russian corporate consumer and a foreign e-service provider does not include VAT, the tax agent (a Russian company) must increase the price for services rendered by the amount of VAT and pay it from its own budget. (Главбух 2017.)

The law on Use of Cash Registers Equipment No. 54-FZ amended in July 2016 also significantly affects the e-commerce industry in Russia. In 2017 Russian retailers, including online retailers, must replace old cash registers with new equipment supporting online transfer of data to tax authorities. Since the new law requires more information in invoices and accounting documents and a new intermediary is involved, data will be transferred to fiscal data operators. They will forward it to tax authorities. Retailers may need to upgrade existing software. (Morgan Lewis 2017.)

Cross-border transfer restrictions in terms of anti-sanction activities (amendments introduced in April 2017 to the Federal Law on the National Payment System) may affect the receipt of payments from Russia, the use of Russian payment operators as well as participation in payment systems (Morgan Lewis 2017).

Due to the law on personal data localisation, which requires all online sites to store personal data on Russian servers, access to the social networking site LinkedIn has been blocked since November 2016. Being the number one social network in the lead generation, LinkedIn provides many companies with the possibilities to grow their businesses. Thus, the LinkedIn block cuts access to millions of partners and prospects. Facebook and Twitter, both accessible in Russia, are among those online sites which still store their data out of Russia, whereas Apple and Google have complied. (TC 2016.)

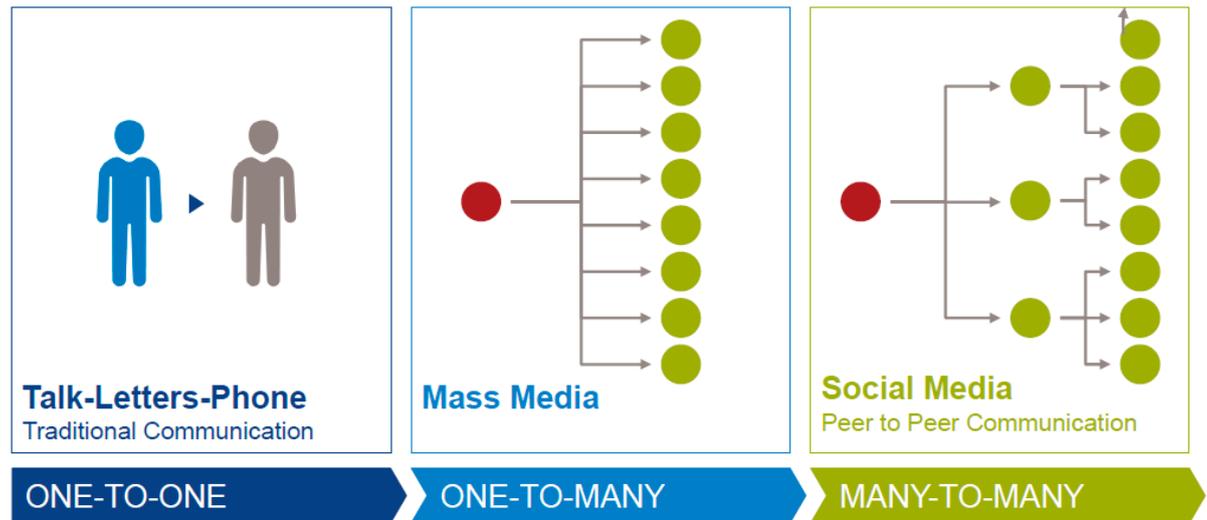
3.2.3 Technological context

The e-commerce industry in Russia drives the market for cloud technology. New legislation regarding payment triggers cloud applications, since it requires online cash registers from e-retailers. Due to this new law, most sellers are compelled today to transfer cash register receipts to the Federal Tax Service over the internet. (TASS 2017.)

The international market for cloud technologies has been growing six times faster than the IT market in general. Russian e-merchants tend to use cloud solutions, which are cheaper compared to building one's own IT infrastructure. However, the Russian market is still different in using cloud technologies from the global context. "While the rest of the world mainly uses SaaS (software as a service, i.e. when applications are hosted by third parties and accessible via a browser), in Russia companies prefer IaaS (infrastructure as a service, lease of virtualised computing resources over the internet). For large businesses, which use clouds more actively than SMEs, IaaS is more convenient given the scale and expenses". (TASS 2017.)

In terms of payment method, the Russian e-commerce market also has its particularities. Along with debit cards (Visa, Master Card), Russians are also inclined to pay online by using a digital wallet. Approximately 30% of all e-payments are made by using an eWallet such as Yandex.Money, Webmoney, QIWI, PayPal and RBK Money (in that order of importance). As PayPal only has a small market share in Russia, international merchants should consider these local strong eWallet methods of payment. (Ecommerce Foundation 2016.)

In addition, e-commerce drives the Russian logistics' market and attracts foreign investment. This is not only in the sense that the supply chain adapts, new warehouses are built to store and dispatch goods, but also logistics service providers seek new technologies to adapt to the changing behaviour of customers. Adjusting to e-commerce and increased home deliveries makes companies look for the latest technologies to stay ahead of demand. (ITE Transport and Logistics 2016.) As e-commerce in Russia grows, international players are also getting involved in the supply chain. "Itella Russia, the Russian branch of the company formed after the privatisation of Finland's postal service, launched a major new service for foreign e-merchants in Russia. The service, implemented with a



Picture 2. Communication models (Source: Ecommerce Solutions 2017).

Brands and products are actively discussed on Vkontakte (VK), the number one social network in Russia, between users within groups and communities.

It is crucial for e-merchants to incorporate the presence on social media into the overall strategy as well. Today social platforms are not only an effective means of communication with customers and supporting and enhancing customer relationships, but also they have introduced social commerce. Vkontakte (VK) provides e-merchants with a lot of possibilities. E-retailers selling their services and goods via VK can now receive payments from VK users more easily, with the money being sent to administrators and editors of events, public pages and communities in messages. In addition to stimulating social commerce, these features trigger transforming public pages into crowd funding platforms, which could be beneficial for start-ups and small companies. (East-West Digital News 2017.)

4 IMPLICATIONS FOR CHANNEL PILOT

This chapter reveals the first steps of the company towards the Russian market, the obstacles to business development that came up at the beginning, the measures and activities

that the start-up implemented in order to overcome these obstacles. The chapter also delineates the implications for the company after the first business processes were established as well as the current state of affairs of the company in the Russian market.

4.1 First experience in the Russian market

After the start-up established a foothold in the local market, in the beginning of 2015, it decided to go international. Along with countries such as the UK, France, Spain, and Italy, the company started considering the Russian market as well for its business development. The start-up saw enormous potential in these countries. (Priemer 2017.)

The initial market analysis was aimed at identifying the demand in the market, competition, potential customers, distinguishing big players in the e-commerce of Russia.

As the CEO of the company Ralf Priemer pointed out, one of the primary challenges on the way to business development in Russia was the fact that many e-commerce companies had no awareness of the issue they had with their product feed and, consequently, were not able to conceive the solution Channel Pilot offered them to resolve this problem. This stemmed from two factors. First, Russian companies were used to outsourcing these services to agencies. Second, they tended to do it in-house, manually. Since labour costs in Russia are relatively low compared to those in Central European countries, the Russian e-merchants prefer to involve additional people instead of using the solution provided by Channel Pilot. Hence, the company had to come up with the pricing appropriate for the Russian market. (Priemer 2017.)

From the very beginning the company also faced the obstacle in lead generation. Precisely, it struggled to find a target person, their contact details and eventually to reach them. The hierarchy and the organisational structure in the Russian companies differed from those in the European countries. A head of an e-commerce department or another person who was in charge of marketing was not a tech-savvy person, and communicating the product to them did not necessarily have a positive outcome. (Sadrieva 2017.)

The start-up launched the marketing campaign “try & buy”, while sending parcels with a gift and an offer to try the Channel Pilot tool for two months for free. Being one of he

effective ways of marketing in the European markets, this campaign turned out to be unsuccessful in the Russian market. Although it attracted approximately five e-merchants, ultimately, they did not consider using the tool further. This might be attributed to the fact that being a self-managing tool and an unknown solution it required customers' comprehension of it and independent work, which most Russian companies were reluctant to do. (Sadrieva 2017.)

As the business development manager for Russia, the current global partner manager pointed out, the main obstacle for business development was also the fact that Channel Pilot was not physically present in Russia. It was not and is not an issue for other markets, given that other countries managers travel to their markets in order to meet and train customers in using the tool. Apparently, due to the small size and immaturity of Russian e-commerce, all players of e-commerce in Russia form a community, where they share experiences and seek solutions. It was essential to be present in this community in order to be able to arrange face-to-face meetings, to build rapport for future business relationships. In addition, the Russian potential customers were daunted by the matter of dealing with cross-border transactions and the foreign country legislation and jurisdiction. For many large companies in Russia, it was crucial to sign a contract with a legal entity registered in the Russian Federation, in order to avoid ambiguity while dealing with foreign legislation and to be able transfer payments to accounts in Russian banks. In turn, for Channel Pilot the registration of a legal entity in Russia and the Russian taxation implied additional costs and risks, considering that the start-up was in its initial stage of the expansion into foreign markets. And thus, the company could not take those risks. (Sadrieva 2017.)

The most effective ways for customer winning were the participation in the tradeshow "ECOM Expo'15" held by oborot.ru in Moscow and personal appointments with potential customers. During these appointments the country manager was able to demonstrate the tool and vividly explain its functions. The real example of using the tool with one of potential customer's data feed proved effective. Thus, direct communication to customers, i.e. face-to-face meetings with them, resulted in the first customer winning. Further, the plain word-of-mouth brought more customers to the company, since the Russian e-merchants share solutions and experiences in the e-commerce community. (Sadrieva 2017)

The participation in the conference “Электронная торговля 2015” (“E-commerce 2015”) brought new customers and contacts from Yandex, which in turn led to the winning of new customers, too. The company came across the fact that some Russian e-merchants did not realise their problem and were unwilling to accept the need in the solution Channel Pilot offered them, and besides they were wary about the fact that the solution was provided by a start-up, not a mature company. However, eventually, the firm was able to win customers. (Priemer 2017.)

Another hurdle that the start-up faced was an issue with contracts and legislation. As opposed to other markets, where General Terms and Conditions published on the company’s website are sufficient to make a contract, Russian e-merchants required rather formal, paper-based agreements including all the terms and conditions. In addition to this, the fact that Channel Pilot is beholden to German legislation and jurisdiction intimidated the Russian customers when considering signing a contract. They preferred to refer to the Russian jurisdiction, particularly in case of disputes. (Priemer 2017.)

4.2 Current challenges in business environment

At the moment Channel Pilot has nine Russian customers; half of them are big players in e-commerce in Russia. There are also two ongoing test projects that might lead to profitable agreements.

Dealing with the customers in Russia requires complete support on every stage, incurring additional technical support resources. The fact that nowadays Russian online shops also tend to outsource services in marketing and managing data feeds diminishes the effect and importance of webinars and training sessions on using the tool for e-merchants.

The negotiation process with Russian prospects normally takes a while, since the results of discussions and proposals are considered by the management board of a company or even several departments until they reach the final decision maker. After parties reach an agreement, the contract has to be verified by a law department, which also is time-consuming and might take at least one month.

The lead generation remains difficult, and finding contact details and reaching target persons and decision makers is also today complicated. The social network LinkedIn is known as a number one platform for lead generation and contacting professionals and it is beneficial for other markets. Being blocked in Russia, it also complicates the process of lead generation.

The law regarding e-services provided by foreign IT companies, which came into force at the beginning of 2017, hinders the business development, too. For the Russian companies it entails additional costs in the amount of 18%. Thus, the price for services increases. Besides, the payment matter is still an issue. To make a cross-border transaction, Russian banks require along with invoices acts of services rendered and reports on services rendered. In order for the Russian customers to be able to make payments for services, certain documents have to be prepared and sent to Russia via a courier, which entails extra expenses and paperwork for the company. Although the start-up has already an established payment process with the Russian customers, while providing original documents every four to five months, in turn, it incurs risks and means that the company receives payment after four to five months of service provision.

There are Russian merchants who are willing to sell in the European markets and use the Channel Pilot tool to market and list their products on the European channels. However, one such project was put on hold due to the requirements on the certification of products. Meanwhile, this prospect changed its focus to other markets, former Soviet Republics.

5 OPPORTUNITIES FOR CHANNEL PILOT IN RUSSIA

In order to discover opportunities for the company in the Russian market, it is essential to analyse internal and external factors that affect or might affect the company's performance. Based on the research of the market, observations and interviews, capabilities and deficiencies of the company were identified.

5.1 SWOT analysis

Assessing the company's strengths and weaknesses as well as the market's opportunities and threats provides an insight on the company's competitive position and risks it might encounter in the business environment.

Strengths

Country of origin effect - "made in Germany"

The country of origin effect (Made in Germany) implies the awareness of a technologically advanced country, guarantee of quality, high standards not only in terms of service, but also in terms of data security, all of which are important particularly for the e-commerce realm.

Research and development

The company regularly invests in research and development, which requires IT resources. The start-up works constantly on the improvement of the solution, expansion of its functions and modules, so that the tool is suitable for various e-commerce markets and meets the demands of those markets.

Unique solution in the Russian market

The Channel Pilot tool could be considered as a unique solution in the Russian market, although there are local providers offering presumably similar services (see below).

Experience in the market

The company has been working in the Russian market since 2015, and the tool has the functions that are in alignment with the requirements of the channels used by e-merchants within the Russian market. Besides, the company has contacts in Yandex, which allow the start-up to swiftly resolve issues arising in this channel.

Flexible pricing, customised tariffs

While creating a proposal with tariffs, the start-up normally takes into consideration the size of a company, its budget for marketing and its purpose of using the tool (e.g. exploiting the tool merely for price comparison sites requires less technical support, whereas integration with marketplaces endures a long on-boarding process and might entail further technical support).

Channels for marketing and sales around the world

The tool offers channels not only on the Russian market, but also in many countries around the world (e.g. the European countries, the USA). It is appealing to the Russian e-merchants who strive to sell abroad, since Channel Pilot is experienced in operating in the European markets and has partnerships on which it can capitalise.

Weaknesses

No awareness of the solution in the market

As opposed to other advanced e-commerce markets (e.g. the UK, Germany, France), the Russian e-commerce players are not aware yet of such solutions. Hence, marketing campaigns and communication about the product are different from those aimed at the European countries and have to be adjusted to the Russian business environment.

Need in additional technical support for the Russian customers

The Channel Pilot tool is self-managing tool. After a webinar and a basic training session on using the tool, the European customers are able to exploit it on their own. Given that the Russian e-merchants do not have any analogue in the market, these measures are not sufficient for the majority of the Russian customers and, thus, they require the overall support including on-boarding and technical issues in using the tool. Russia is not a primary market for Channel Pilot, and the company does not have sufficient technical support resources, which are allocated in accordance with the major customers' requests.

No integration with the Russian marketplaces

The Channel Pilot tool offers solely one-directional connections with the Russian feed-engines, price comparison sites, and affiliates. This implies that there is only data export, no data import, as compared to the bi-directional connection with marketplaces (eBay, Amazon, CDiscount), providing the possibility to manage and control orders in the tool.

Opportunities:

Growing e-commerce market

Russian e-commerce is developing. E-merchants are seeking advanced solutions. As the cofounder and CEO of AliExpress Jack Ma said, Russian e-commerce is still immature; it is on the stage China was on 12 years ago. Yet, this market offers a lot of opportunities. (E-PEPPER 2017.)

Growing need for cloud solutions

E-commerce in Russia propels cloud technology to the market. The need in cloud solutions is increasing, since it is cheaper than building an own IT infrastructure, and e-merchants in Russia are realising this. (TASS 2017.)

Incentive projects and partnerships to engage and support Russian webstores to sell abroad

In June 2017 eBay Russia, Ozon.ru and the Russian Export Center signed an agreement to grow Russian non-commodity exports via e-commerce channels. This collaboration is promoted at the governmental level, and involvement into it could bring a lucrative project (E-Pepper 2017).

Threats:*Differences in using clouds*

International e-merchants chiefly use SaaS (software as a service). Russian e-merchants still prefer IaaS (infrastructure as a service). For large businesses in Russia, IaaS is more convenient given the scale and expenses (TASS 2017).

Legal and regulatory factors

The new law requiring most e-sellers to transfer cash register receipts to the Federal Tax Service over the internet might imply the need in additional IT resources (if speaking about the integration with another cloud system).

VAT on e-services provided by foreign companies implies an increase in prices for services for Russian e-merchants.

The requirements on certification of products for the European market impede the process (CE Certification 2017). The Russian e-merchants willing to sell abroad face the issue with certification of products, resulting in a project put on hold.

The payment process poses a risk resulting in invoices being paid late and additional outlay for the company.

Indirect competition

There are indirect competitors for Channel Pilot in Russia providing e-merchants with digital services for feed optimisation, management of listings, price analysis. The review of indirect competitors is provided in Appendix 1. As the experience of dealing with the Russian market proved, the Russian companies prefer to outsource these services to agencies, rather than applying a solution.

Comparing the services of indirect competitors to the Channel Pilot solution and given the tendency of Russian e-merchants to outsource such services, these companies might seem more appropriate for the current situation on the market. Yet, the Channel Pilot tool is more technically advanced and has long-term benefits.

5.2 Opportunities and recommendations for Channel Pilot

Although the company has to endure difficulties in business with Russia, obviously there are opportunities on which it can thrive in the long-run, provided that the start-up invests resources into activities on business development.

Bi-directional integration with Yandex.Market

Yandex.Market is on the list of channels for the Russian market in the tool. Previously the one-directional connection of it was and is sufficient to barely list products on the channel. Nowadays, Yandex.Market has developed into a marketplace, enabling not only listings for e-merchants (CPC model – cost per click, buyers are redirected to a seller’s web store), but also managing orders (CPA model – cost per action, buyers purchase directly in Yandex.Market). For Russian e-merchants bi-directional connection with the channel could provide the possibility to manage all data within one interface of the tool. In addition, the bi-directional integration with the Yandex.Market could be beneficial for international sellers who endeavour to expand to Russia. Since Yandex is the biggest search engine in Russia (57%, compared to Google’s 37%) and it provides many services, Yandex is an essential gateway to the Russian e-commerce. (Yandex Radar 2017.)

Integration with other Russian marketplaces

Currently some of the biggest e-commerce players in Russia are the marketplaces Ozon.ru (universal marketplace), Lamoda.ru (fashion industry), Ulmart.ru (universal marketplace). Many Russian e-merchants are listing their product catalogues on these markets or are willing to list. The integration with these marketplaces could increase the likelihood of more customers’ attraction. (Ecommerce Foundation 2017.)

Participation in the project with eBay Russia

In June 2017 the Russian Export Centre signed a trilateral agreement with eBay Russia and Ozon.ru with the aim of supporting Russian non-commodity exports and engaging Russian sellers in international e-commerce. OZON.ru will promote Russian goods and aggregate them for publication on eBay’s international platform. The General Manager of eBay Russia and Emerging European Markets, Ilya Kretov, pointed out that there is

still no single, clear system for Russian sellers to enter the international market, and there remains the question of how to make their goods seen by a large number of buyers. (Russian Export Center 2017; E-Pepper 2017.)

Since the Channel Pilot solution has bi-directional integration with the eBay platform and experience in working with it, e-commerce managers have a deep understanding on how to optimise a data feed for this platform, the Channel Pilot tool could assist in this project from the technical perspective.

According to Data Insight and eBay, there is an international demand for Russian goods: 68% of all outward parcels purchased in Russian online shops go to Europe and far abroad countries, such as the USA and Canada (E-Pepper 2017).

Partnerships with agencies (SEO and SMM agencies, price analysis agencies)

When dealing with marketing and optimising product catalogues, Russian e-merchants are inclined to outsource these services to **SEO** (search engine optimisation) and **SMM** (social media marketing) **agencies**.

Ruward annually provides the top 100 SEO and SMM agencies in Russia. For instance, some of the biggest agencies, such as Demis Group, Kokoc.com, iConGroup, i-Media, could be considered as potential customers for the company (Ruward 2017; i-Media 2017; icontext 2017; Demis Group 2017; Kokoc Group 2017). Communicating the product to these agencies and raising their awareness of the solution would be apparently much easier than direct speaking to marketing teams of online shops. Marketing and e-commerce departments of webstores usually execute merely administrative and managing work and people involved into this work may not be familiar with technical issues. Whereas SEO and SMM agencies deal with data feed issues and are able to realise that they can reap significant benefits from cloud-based technology.

Two of all the features of the Channel Pilot e-commerce suite are **Market Price Analysis**, used for monitoring national and international marketplaces in terms of competitor price trends, and **Dynamic Pricing**. The former module amasses information about prices, product availability and relevant competitors on various platforms and presents the data in various forms such as flow charts, tables and graphs. The latter module on the basis of

the market price analysis enables online retailers to calculate their optimal prices and automatically adjust, so as to get the best and most attractive sales prices. (Channel Pilot 2017.) However, these features are not available in the Russian market. Thus, to include the features to the e-commerce tool and make it available for monitoring prices in the Russian market and dynamic pricing, the start-up could consider partnerships with such companies in Russia as Competera.ru and xmldatafeed.com. Both companies provide service on competitors' price analysis as well as dynamic pricing (Competera.ru 2017; xmldatafeed.com 2017.)

Participation in conferences and tradeshows in Russia

The biggest events for e-commerce in Russia are the tradeshow “ECOM Expo” and the conference “Электронная торговля” (e-commerce). Participation in these events proved already in 2015 to be a success.

“ECOM Expo” is the largest e-commerce technologies exhibition in Russia and Eastern Europe, which is organised by Oborot.ru and held in May, in Moscow. Along with the exhibition itself there are conferences carried out in the framework of the tradeshow. In 2017 the tradeshow had 220 exhibitors from leading Russian and foreign companies, providing services in e-commerce. More than 8,000 professionals took part in this exhibition. (ECOM Expo 2017.) Undeniably, the participation in ECOM Expo would provide the company with the opportunity to reach the target audience and build an awareness of the solution as well as find new customers.

“Электронная торговля” (e-commerce) is the largest conference in Russia on e-commerce, organised also by Oborot.ru and held in October, in Moscow. The conference gathers all the e-commerce community in Russia. Speakers and participants are from different fields: they are top managers and key employees from retail and e-commerce, providers of retail services and e-commerce and multichannel services, innovative companies (Электронная торговля 2017). All the participants in the conference are practically targets and prospective customers for Channel Pilot. A presentation of the e-commerce tool at the conference could be an effective way to communicate and showcase the solution to Russian companies. Besides, the conference enables getting useful contacts and arranging face-to-face appointments.

Intensive marketing activities

The company could tap into marketing activities in Facebook. The revival of the company's Facebook page resulted in new contacts. There is a community of e-commerce professionals in Facebook, where they discuss issues and share experience. Informing those professionals in the Facebook page might be beneficial for the company and could bring about the awareness of the product.

6 SUMMARY

E-commerce drives technologies which are constantly changing and improving. Nowadays, e-merchants are provided with numerous sophisticated software and cloud-based solutions which significantly assist them in managing big data, in optimizing the online buying process and in enhancing customer relationships.

The fast-growing e-commerce market in Russia offers enormous opportunities. Expanding e-commerce needs in the market are creating the demand for high-quality e-commerce technologies, particularly for cloud solutions. By offering a unique solution for the Russian market and a technically advanced tool, the company could capitalise on Russian e-commerce. Obviously, activities on the business development in Russia could result in lucrative agreements, provided that the company is able to invest its resources in business activities. Although the Russian e-commerce market has the same trends as worldwide, namely a move to OMNI, IT, cross-border and mobile, it has its considerable differences from other markets, in particular from the European market. Business activities need to critically consider and incorporate these differences.

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Review of indirect competitors

E-service providers in Russia, which can be considered as indirect competitors to Channel Pilot tool:

b2basket

Services:

- Listing and management with the provision of a personal account manager;
- Analysis of competitors on Yandex.Market;
- Feed recommendations;
- Integration with additional statistical systems;
- Installing SSL.

Drawback:

- no marketplaces (except Yandex.Market), only feed engines and price comparison sites;
- limited number of channels (14);
- provision of channels solely within Russia.

MarketMixer

Services:

- Product feeds optimization;
- Supplier products feeds connection;
- Automated product matching (mapping) for price monitoring;
- Databases and Image catalogues for opening and maintaining online shops.

Drawbacks:

- Limited number of feeds and products;

- Data update depends on the tariff: once per month; once per week; once per day; once per hour.

Competera.ru

Services:

- Price analysis;
- Competitor monitoring;
- Dynamic pricing

Drawbacks:

- No services on feed management and optimisation

xmldata.com

Services:

- Price analysis;
- Monitoring competitors' product;
- Generating reports

Drawback:

- No services on feed management and optimisation