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ONLINE SHOPPING BEHAVIOR OF YOUNG RUSSIAN CONSUMERS

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Online Shopping Behavior of Young Russian Consumers

**Abstract**

The goal of the thesis is to find out online shopping experiences and habits of young people in St. Petersburg, Russia, find out the differences in shopping habits between Russian and foreign electronic commerce, and to describe the problems that the target group has faced. Also attitude towards Finnish online stores is studied. The research is conducted with the help of primary and secondary data.

The research is qualitative and was conducted in April and May 2013 in St. Petersburg. The research process consisted of the following phases: collecting secondary data and writing the theoretical section, collecting data through personal interviews, and analyzing data and reporting. 20 university students between 20 and 24 years of age from St. Petersburg were interviewed in personal interviews. The responses of the interviewees were written down. Additionally two experts from the field of electronic commerce and doing business in Russia were consulted.

The shopping habits of young Russian consumers differ between Russian and foreign online stores. Young Russians are more familiar with using Google as an information source and they are also familiar with using other payment methods besides cash. They rely highly on friends' recommendations when choosing Russian and foreign online stores. To attract Russian consumers companies should invest in online experience factors.

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Electronic commerce, Electronic business, Russia, Saint Petersburg, Consumer behavior

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# 1 INTRODUCTION

## 1.1 Background

Electronic commerce (e-commerce) business in Russia is growing at high speed as broadband connections are getting more common. At the moment Russia has the largest number of online users in Europe. Russia's huge market size is driving competition among online retailers. No single player dominates the e-commerce market in Russia, and thus there is room for new businesses. Consumers are looking for wider product selection, cheaper prices and convenience. These factors are boosting online sales.

This growth provides an excellent opportunity for foreign companies to expand their businesses to Russia with the help of e-commerce. Especially in the St. Petersburg and Moscow regions the growth of e-commerce is remarkably fast. Currently 30 million Russians are shopping online, but online sales represent only 2% of the total retail sales (Kiuru 2014). In 2015 online shopping is expected to be 5% of the retail sales (CentroBit 2014). These facts demonstrate the huge potential of the Russian e-commerce market clearly.

E-commerce is a rather new trend in Russia, and often Russian online shoppers are considered to be conservative. Establishing an online store for the Russian market is considered to be extremely challenging due to problems in logistics and infrastructure. Favoring a cash-on-delivery payment system is also viewed as a major challenge. In addition new rules related to customs procedures (e.g. demand for extra documents) are a great challenge to cross-border online sales.

This thesis offers an overview of the e-commerce business and how it has affected consumer behavior. Specialties of the Russian e-commerce market are also described in addition to providing information at the global level. The research section offers information about the online consumer behavior of young Russians.

## **1.2 Aim of the thesis**

The aim of the thesis is to find out online shopping experiences and habits of young consumers in St. Petersburg, Russia, to find out the differences in shopping habits between Russian and foreign online stores, and to describe the problems that the target group has faced. The empirical study is a qualitative research. Data for the research was collected with the help of personal interviews with 20 young Russians between the ages of 20 and 24 from St. Petersburg. The research questions are:

- What is the current state of e-commerce business in Russia?
- What, why and where do young Russians online shoppers buy?
- Are there any differences in perceptions and the usage between Russian and foreign online stores?

## **1.3 Outline of the study**

The thesis consists of three parts; the theoretical section, the research section and the results section. The theoretical part aims at providing information about consumer behavior and processes related to it in the context of e-business and e-commerce, introducing e-commerce business in Russia and describing Russian online shoppers. Additionally the specialties of consumer behavior in Russia are presented. The research section describes the qualitative study conducted by interviewing young Russian consumers. The results section presents the interviews, and finally conclusions are made, including options for Finnish companies to start operating in Russian e-commerce market.

## 2 E-COMMERCE

### 2.1 E-commerce

The definitions of e-commerce vary a lot. Some of them only include the actual purchasing of goods by consumers, while others take into account providing information, communication within an organization and purchasing between companies.

E-commerce can be defined as all electronically forwarded transactions between a company and a third party (Chaffey 2011, 10). Thus it includes business-to-business selling and a company's internal processes supporting buying, selling, recruiting and planning activities, for instance (Schneider 2010, 4). Additionally non-financial transactions, such as customer service, cooperating with business partners and electronic transactions within a company are a part of e-commerce (Turban, King, Lee, Liang & Turban 2010, 47). Broad definitions include the purchasing but also all activities before and after the purchase in the supply chain (Chaffey 2011, 11).

Cabinet Office 1999: "E-commerce is the exchange of information across electronic networks, at any stage in the supply chain, whether within an organization, between businesses, between businesses and consumers, or between the public and private sector, whether paid or unpaid" (Chaffey 2011, 11).

"Electronic commerce or Internet commerce refers to buying or ordering goods via the internet for a consumer's personal consumption or a household's consumption, regardless of whether the invoice for payment arrives later or the goods are paid immediately via electronic banking, credit card, electronic payment of similar. Internet commerce consists of orders made on ready electronic forms and sent over the Internet and commerce in online stores. Electronic commerce comprises both domestic and foreign electronic commerce" (Statistics Finland 2014).

The terms electronic business (e-business) and e-commerce are often mixed and used as synonyms. However, e-business is a more detailed and broader concept than e-commerce, and e-commerce is a part of e-business (Figure 1). E-business includes selling, purchasing or exchanging goods, services or information over the Internet (=e-commerce) and other telecommunications networks. Additionally, it consists of functions such as advertising, publishing of information, scheduling, distribution, payment and service. (Albaum & Duerr 2011, 46.) Some definitions consider that the

term e-business refers to a company's internal activities, and e-commerce refers to company's external activities (Turban et al. 2010, 47).

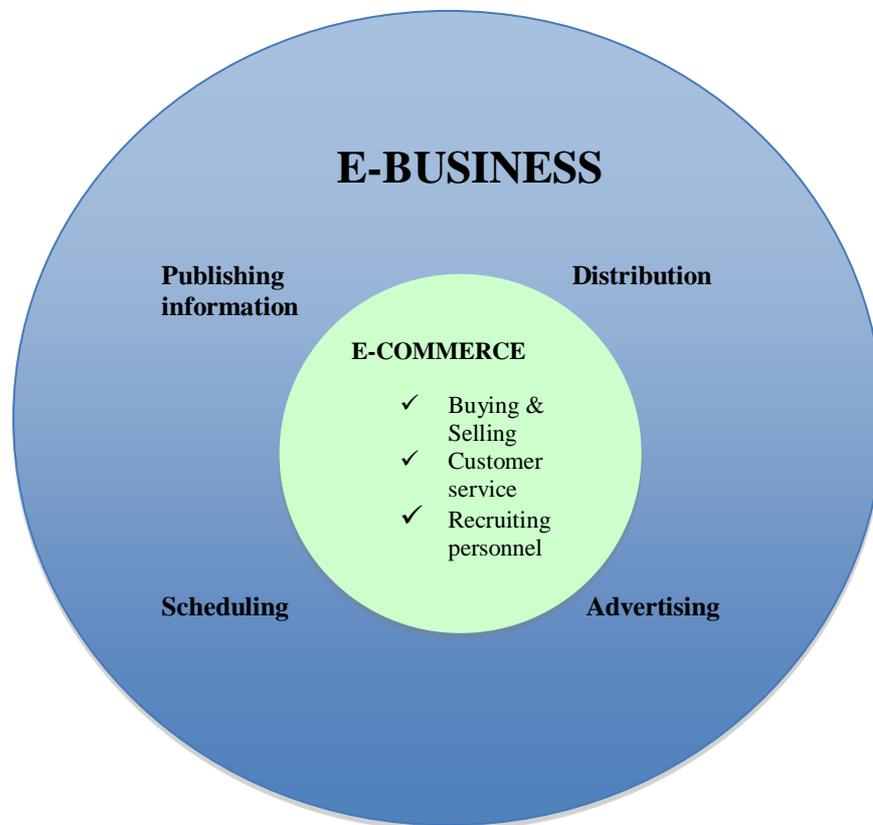


Figure 1. The relationship between e-business and e-commerce

The form of e-commerce depends on the extent of digitization (the transformation from digital to physical) of products and/or services, the processes (ordering and payment) and the delivery method. The composition of these elements varies among companies. If all the elements are digital, a company is running on pure e-commerce. If a company has a mixture of physical and digital elements, e-commerce is partial. All companies having at least one digital element are considered to be e-commerce businesses. (Turban et al. 2010, 47.)

All components of e-commerce require efficient management operations (Turban et al. 2010, 50). Infrastructures such as a company's messaging and information distribution and multimedia content create a basis for all electronic commerce applications (Figure 2). The applications are supported by people, public policy, marketing and

advertisement, support services, and business partnerships. (Turban et al. 2010, 50.) Companies need to be able to change their infrastructures and supporting services to meet the changing requirements of e-commerce applications. E-commerce businesses are for example driven to adapt their websites for mobile devices due to the growing popularity of mobile commerce (m-commerce). M-commerce is a new term that has appeared when smartphones and tablets have become more popular. M-commerce business is growing fast and it can be seen as a subsection of e-commerce (Tan 2013). It can be determined as informational and financial transactions carried out by using mobile devices such as smartphones and tablets (Chaffey 2011, 177).

Companies might also have to redesign for example their purchasing processes and acquire new technology to adopt electronic purchasing (e-purchasing). E-purchasing aims at automating and extending buying and selling processes starting from the order and ending up at the payment of suppliers (Trade Facilitation Implementation Guide 2014).

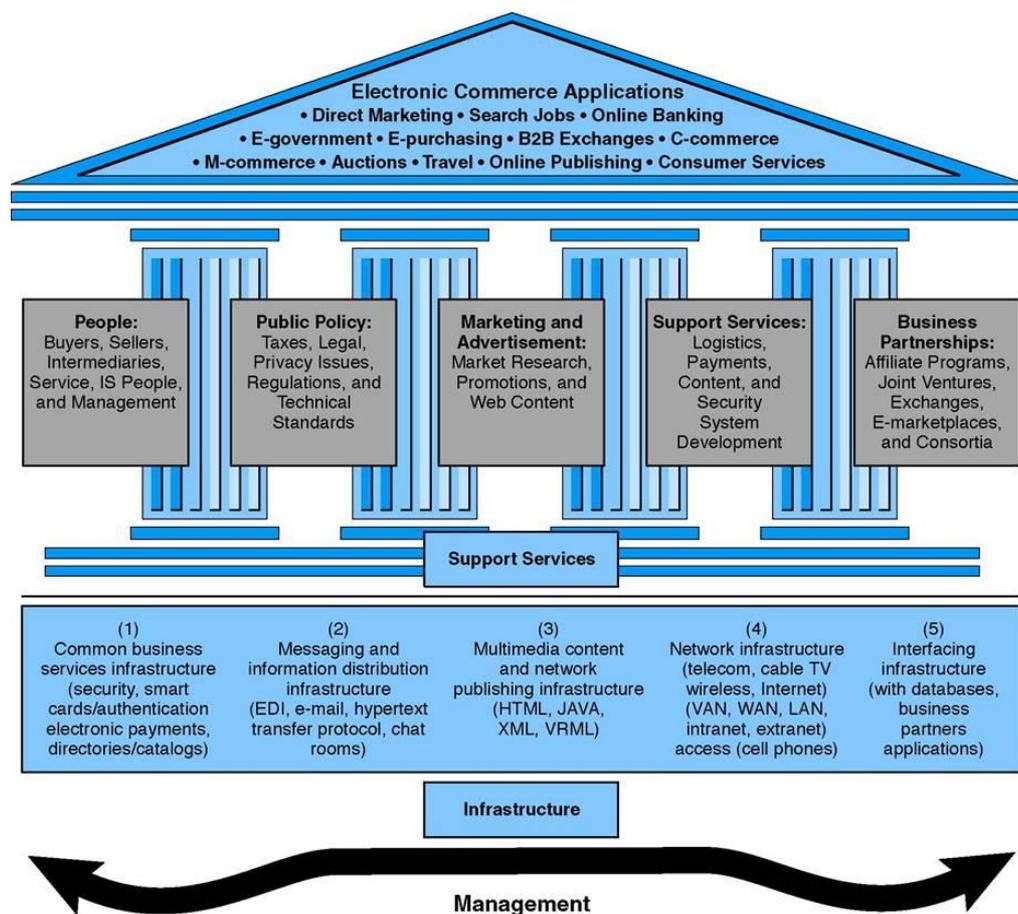


Figure 2. A Framework for E-Commerce (Source: Turban et al. 2010, 50)

There are different types of e-commerce, and it can be split into four categories (Hom 2013):

1. **Business-to-consumer (B2C) e-commerce.** B2C e-commerce refers to companies selling goods or services to consumers online.
2. **Business-to-business (B2B) e-commerce.** B2B e-commerce is transactions between businesses. For instance distributors selling to retailers.
3. **Consumer-to-consumer (C2C) e-commerce.** In C2C e-commerce consumers are selling goods directly to each other.
4. **Consumer-to-business (C2B) e-commerce.** In C2B e-commerce consumers offer goods or services to companies. An example of C2B e-commerce would be a blogger advertising a company's products on his/her blog.

This thesis concentrates on business-to-consumer e-commerce, and next different perspectives of e-commerce are presented.

### **2.1.1 E-commerce perspectives**

E-commerce can be also divided into different perspectives concentrating on separate aspects of e-commerce. A communications perspective means delivering information, goods or services or using electronic payment methods. A business process perspective involves utilization of technology aiming at the automation of business transactions and workflow. A service perspective seeks to find solutions for reducing costs and simultaneously offering faster service delivery and increasing its quality. The last perspective, online, means the actual purchasing and selling of goods and information online. (Chaffey 2011, 10.)

### **2.1.2 Sell-side e-commerce**

E-commerce has two sides: buy-side e-commerce and sell-side e-commerce. Buy-side e-commerce refers to purchasing resources from suppliers to an organization, and sell-side e-commerce refers to an organization selling products and services to consumers. (Chaffey 2011, 11.) In addition to selling products to consumers, sell-side e-commerce

involves the marketing of products and services with the help of Internet technologies. (Chaffey 2011, 15.) This thesis concentrates on sell-side e-commerce.

There are four different types of sell-side e-commerce sites, each of which has different objectives targeted to different markets. Companies can either use one of the types or combine several of them. The four types are:

1. *Transactional e-commerce sites*. These are for consumers to purchase products or services. The sites also offer information for consumers who wish to buy offline. Retail sites, travel sites, and online banking belong to transactional sites.
2. *Services-oriented relationship-building websites*. These sites provide information and encourage consumers to buy and build relationships. The information is available on the website and via e-newsletters. The sites do not offer products for purchasing but aim at boosting offline sales. The information provided for customers is very detailed.
3. *Brand-building sites*. Products cannot be bought online on these sites. They aim at supporting the brand. Typically these sites are for low-value, high-volume fast-moving consumer goods.
4. *Portal, publisher or media sites*. These sites present information, news, or entertainment and provide various topics. A portal means that the information is available on the website which contains links to other sites. Also social networks belong to this category. (Chaffey 2011, 15.)

## **2.2 Drivers of e-commerce adoption**

E-commerce enables reaching a larger customer base and it aims at achieving customer loyalty among new customers. Additionally it encourages existing customers to repeat purchases. These factors are important for companies in terms of profitability and generating value to a company. Companies adopting e-business and e-commerce will gain both tangible and intangible benefits. The first tangible benefit is increased sales. A company will reach new customers and new markets, which increases its revenue. (Chaffey 2011, 30.) Online stores are able to sell 24 hours a day without any additional costs. Besides reaching and finding customers more efficiently, it is easier to find business partners (Turban et al. 2010, 69.)

E-business and e-commerce also boost repeat purchases of existing customers, and marketing costs are reduced due to time reduction in customer service, online sales, and the reduced costs of producing marketing material. Companies do not need large inventories and thus save on inventory costs. Competition among suppliers increases and again this saves money. Additionally e-business makes for instance the recruitment process more efficient. (Chaffey 2011, 31.)

Several intangible benefits are also gained. E-business and e-commerce helps companies to enhance their brand and to achieve faster marketing communications among other things. They also enable faster product development and thus responding to changing market needs faster. E-business and e-commerce make it possible to offer better and quicker customer service. Customers are able to send their questions whenever they need to through feedback forms. Some companies also have a chat service, which means that someone answers consumers' questions immediately. With the help of e-business and e-commerce organizations are able to manage their marketing information and customer information more efficiently (Chaffey 2011, 31).

### **2.3 Risks and barriers related to e-business and e-commerce**

E-business has many benefits but of course risks are also involved. Some companies have invested in e-business but have not achieved the benefits they expected. In these cases the reasons can be mistakes in executing the plan or choosing the wrong approaches to their target market. These risks are strategic risks. Practical risks are mostly related to failures in customer service, which leads to losing customers or customers preferring offline buying. Companies might send e-mails without customers' permission and hereby break privacy and data protections laws. Missing packages or lengthened delivery time also lead to losing customers. Additionally it is important to make sure that all messages, feedback and questions are answered and received. (Chaffey 2011, 35.)

In addition to the risks for businesses there are risks for consumers. According to the European Consumer Centres Network (ECC-Net) consumers are facing an increased amount of fraud related to cross-border online shopping. The first typical fraud is false

websites selling cheap electronics. Consumers pay their order, but the products are never delivered. Fraud related to the buying of used cars is also common. The seller asks the buyer to pay a deposit, and after receiving it the seller gives information about the delivery time and date. The car is not delivered and the seller claims that it is blocked at customs. The buyer is asked to pay extra to get the car. After this the seller disappears. (European Consumer Centres Network 2013.)

Problems related to false products, free trials and data phishing also occur. In case of tickets, customers have paid large sums for tickets that they never receive or that do not even exist. Some customers have found electronic devices such as phones at a cheap price, and after paying they are asked to pay more to cover delivery or tariff costs. One problem noticed in the European Union is returning the goods and specifically getting a refund. Problems with delivery, payment, and language selection have occurred even if the website is selected to be friendly to cross-border purchases. (European Consumer Centre, Finland 2011.) These problems related to online shopping are identified in the European Union but could appear also elsewhere.

#### **2.4 Payment systems**

Even though e-commerce involves many other aspects besides the actual financial transactions between a company and a customer, payment systems are a very important factor in e-commerce business. The popularity of e-commerce has entailed a wide range of payment methods. A paper check is a safe payment method for consumers since they do the transaction only after receiving the ordered goods. Often a check is not possible in cross-border sales since it is a risk for the selling party. (European Consumer Centre, Finland 2013.) Additionally sending paper checks is expensive (Schneider 2010, 495). The most common payment method is credit card. It is easy since customers need to give their credit card number and expiry date on the website. Currently also a card verification number (CVN) is required which makes using a credit card safer. (Whitehouse 2013.) Customers can choose if they pay the whole balance at once or if they pay a set minimum amount each billing period. Credit cards are widely accepted among online stores globally. Along with credit cards debit cards are a popular way to pay online purchases. With debit cards, the purchases are charged from the customer's bank account and transferred to the seller. (Schneider 2010, 497.)

Electronic cash has also gained popularity among consumers. Electronic cash is a convenient and easy way to pay purchases. All consumers are not willing to or able to obtain credit cards, and electronic cash is a great substitute for cards (Schneider 2010, 502-503).

“Electronic cash (e-cash or digital cash) is a general term that describes any value storage and exchange system created by a private (nongovernmental) entity that does not use paper documents or coins and that can serve as a substitute for government-issued physical currency” (Schneider 2010, 502).

Another efficient payment system is an electronic wallet (e-wallet). Like a physical wallet, an electronic wallet includes credit card numbers, electronic cash, personal identification and the owner’s contact information. An electronic wallet provides all the information at an online shopping website’s checkout. When using an electronic wallet consumers need to enter their information only once instead of doing it separately on each e-commerce site. Consumers select the goods that they want to purchase and then just click their electronic wallet to complete the order. An electronic wallet can be either a server-side electronic wallet or a client-side electronic wallet. A server-side electronic wallet saves customer information to a server belonging to a seller or wallet service provider. A client-side electronic wallet saves the information to a consumer’s own computer or smartphone. (Schneider 2010, 509.)

## **2.5 E-commerce in numbers**

E-marketer forecasts that the global sales through e-commerce will increase 20.1% and exceed 1.1 trillion euros (1.5 trillion US dollars) in 2014. E-commerce will continue its growth also during the next three years (Figure 3). The increasing number of online and mobile users in emerging markets, the increase in m-commerce sales, evolving shipping and payment methods and major brands entering new international markets are the main reasons for the growth. (e-Marketer 2014.)

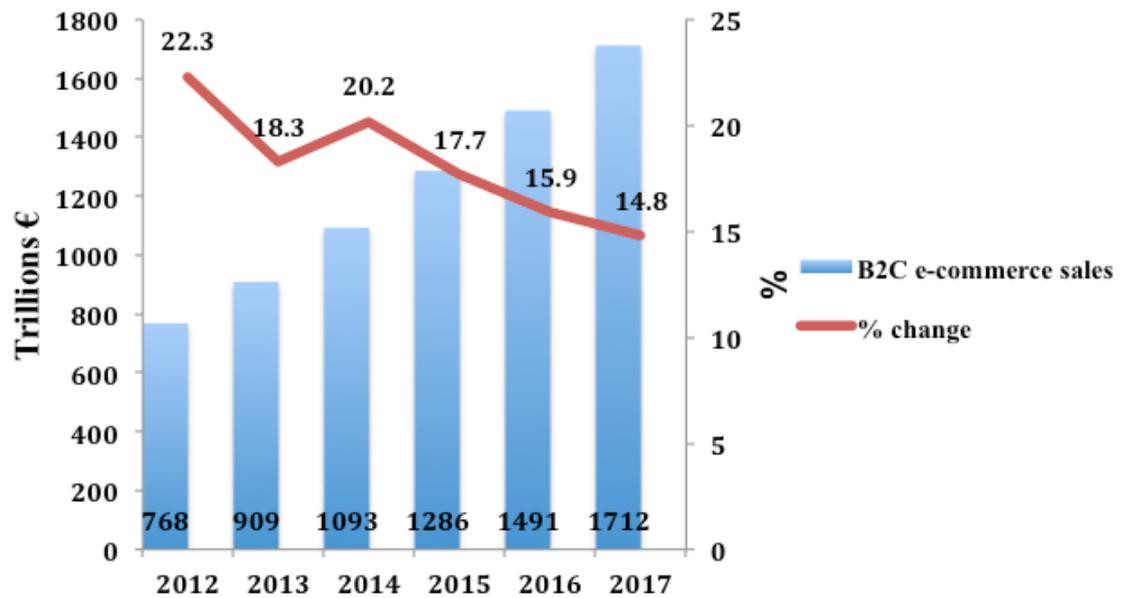


Figure 3. B2C e-commerce sales worldwide 2012-2017 (e-Marketer 2014) Figure modified by author.

Compound annual growth (CAGR) is an average growth rate of an investment, sales, or any other variable over a time period of several years. It describes the growth rate of a variable that is assumed to grow steadily. (Anson, Fabozzi & Jones 2011, 489.) The CAGR of worldwide B2C e-commerce sales between the years 2012 and 2017 is 17.4%. It includes ordered goods and services and also booked leisure and unmanaged business sales. It consists of orders and bookings completed using the Internet with a computer or any other device. The CAGR also takes into account all payment methods and all orders and bookings “regardless of the fulfillment”. (e-Marketer 2014.)

Emerging markets have large populations starting to use the Internet and making their first online purchases, and growth of e-commerce sales is the biggest in developing countries (Table 1). New Internet users who have gained enough confidence to make their first online purchase start to make repeated purchases and eventually are confident enough to buy more expensive goods and services. Especially in Western Europe the growth is much more moderate. At the moment the US is the biggest e-commerce market, but China is expected to pass the US in 2016. (e-Marketer 2014.)

Over 1.2 billion people in the world use mobile devices to access the Internet, and mobile traffic covers 15% of all Internet traffic. Consumers are getting more comfortable with using their mobile devices since 63% think that they will use them

more for online shopping during the next couple of years. Tablets are comfortable to use due to the bigger display size. Tablet users spend 50% more on online purchases than PC users and they are also almost three times more likely to buy online than smartphone users. (Mobify 2013).

Table 1. B2C E-commerce Sales Growth Worldwide, by Country, 2012-2017, % change (e-Marketer 2014)

	2012	2013	2014	2015	2016	2017
<b>China</b>	93.7%	78.5%	63.8%	43.3%	34.4%	29.4%
<b>Indonesia</b>	85.0%	71.3%	45.1%	37.2%	26.0%	22.0%
<b>India</b>	35.9%	34.9%	31.5%	30.3%	24.5%	20.0%
<b>Argentina</b>	31.1%	6.3%	24.0%	18.0%	12.0%	10.0%
<b>Mexico</b>	55.8%	41.9%	20.0%	14.5%	10.0%	5.0%
<b>Brazil</b>	21.8%	16.5%	19.1%	8.5%	6.9%	6.0%
<b>Russia</b>	34.4%	19.4%	17.1%	10.8%	6.9%	5.2%
<b>Italy</b>	17.0%	16.8%	15.3%	13.5%	12.0%	10.6%
<b>UK</b>	14.5%	16.3%	14.2%	12.2%	9.2%	8.2%
<b>Canada</b>	15.0%	14.2%	14.0%	13.5%	12.5%	11.5%
<b>Spain</b>	10.0%	10.0%	13.8%	11.9%	10.0%	8.0%
<b>Sweden</b>	18.4%	16.2%	13.3%	10.3%	9.0%	8.4%
<b>US</b>	14.2%	13.4%	11.8%	11.4%	10.9%	10.4%
<b>Norway</b>	14.9%	12.7%	11.0%	10.8%	8.1%	7.2%
<b>Denmark</b>	14.3%	12.4%	10.6%	8.9%	6.5%	5.9%
<b>France</b>	32.3%	10.3%	10.0%	9.8%	7.6%	7.1%
<b>Netherlands</b>	12.7%	11.4%	9.4%	8.4%	6.3%	5.3%
<b>South Korea</b>	12.7%	9.6%	7.4%	4.8%	4.3%	3.6%
<b>Germany</b>	25.6%	5.7%	7.4%	6.9%	6.5%	6.1%
<b>Japan</b>	12.3%	-10.2%	7.1%	6.7%	5.6%	5.0%
<b>Australia</b>	10.5%	6.0%	5.7%	5.1%	5.0%	4.2%
<b>Finland</b>	4.3%	4.4%	3.7%	3.2%	2.7%	2.5%
<b>UK</b>	14.5%	16.3%	14.2%	12.2%	9.2%	8.2%
<b>WORLDWIDE</b>	<b>22.3%</b>	<b>18.3%</b>	<b>20.2%</b>	<b>17.7%</b>	<b>15.9%</b>	<b>14.8%</b>

Worldwide B2C e-commerce sales growth percentages include ordered goods and services and also booked leisure and unmanaged business sales. It consists of orders and bookings completed using the Internet with a computer or any other device. It also takes into account all payment methods and all orders and bookings “regardless of the fulfillment”. In case of China the numbers include sales from companies utilizing C2C platforms and they exclude Hong Kong. In India about 70% of total B2C e-commerce

sales comes from digital travel sales. The percentages concerning the US do not include event tickets. (e-Marketer 2014.)

## **2.6 Future trends**

A usage of mobile devices for searching products and shopping online is becoming more common, and thus e-commerce businesses should invest in developing their online store platforms to be convenient to use with mobile devices (EcommerceBytes 2014). Mobile optimization is extremely important since 30% of mobile shoppers do not purchase if the site is not optimized for mobile devices. Recommendations of consumers are a good way for companies to gain new customers. Even 57% of mobile users would not recommend a company having a badly designed mobile site. There is also the possibility of losing customers to competitors if the site is not optimized for mobile users since 41% of consumers have moved to competitor's site. (Mobify 2013.) Another trend is shorter delivery times. Businesses are competing with their delivery times, and customers are expecting them to get shorter; some even demanding next-day delivery (Steiner 2014).

Since consumers are very demanding, companies have to get more creative and offer new innovations. Online store businesses have started to move towards product encyclopedias containing for example detailed pictures of products and reviews of other customers. Net-a-porter is an example of a fashion retailer that has adopted product encyclopedia. In addition to several detailed product pictures, they give detailed information about the size, fit, and materials. Net-a-porter also has editor's notes in the product description, information about current trends, and suggestions for other pieces for creating a complete style. It offers services such as fashion advisors to help to get advice and building a wardrobe. (Ben-Shabat, Moriarty & Nilforoushan 2013, 4.)

### **3 E-COMMERCE AND CONSUMER BEHAVIOR**

#### **3.1 Theory of consumer behavior**

Consumer behavior describes the buying behavior of final consumers. Final consumers refer to individuals and households who buy goods and services for their personal consumption. (Armstrong, Kotler, Saunders & Wong 2008, 238.) Additionally, consumer behavior studies all the processes involved in selecting, purchasing and using of products and services (Solomon, Bamossy, Askegaard & Hogg 2010, 6). A broader definition also takes into account groups and organizations in addition to individuals and households:

“The field of consumer behavior is the study of individuals, groups, or organizations and the processes they use to select, secure, use and dispose of products, services, experiences, or ideas to satisfy needs and the impacts that these processes have on the consumer and society” (Hawkins & Mothersbaugh 2010, 6).

In order to be successful companies need to understand and study consumer behavior. It is crucial in making decisions about product and service choices and targeting their products or services for the right customer group. Marketers try to find answers to questions: What do consumers buy? Where do they buy? When do they buy? Why do they buy? How do they buy? Who buys? (Armstrong et al. 2008, 238.)

Customers respond to marketing activities in different ways depending on marketing stimuli and other stimuli. The Four Ps; product, price, place and promotion form marketing stimuli. Other stimuli consist of economic, technological, political and cultural forces in a buyer's environment. Both marketing and other stimuli enter the buyer's black box and result in certain buyer responses: product choice, brand choice, dealer choice, purchase timing, and purchase amount (Figure 4). (Armstrong et al. 2008, 239.)

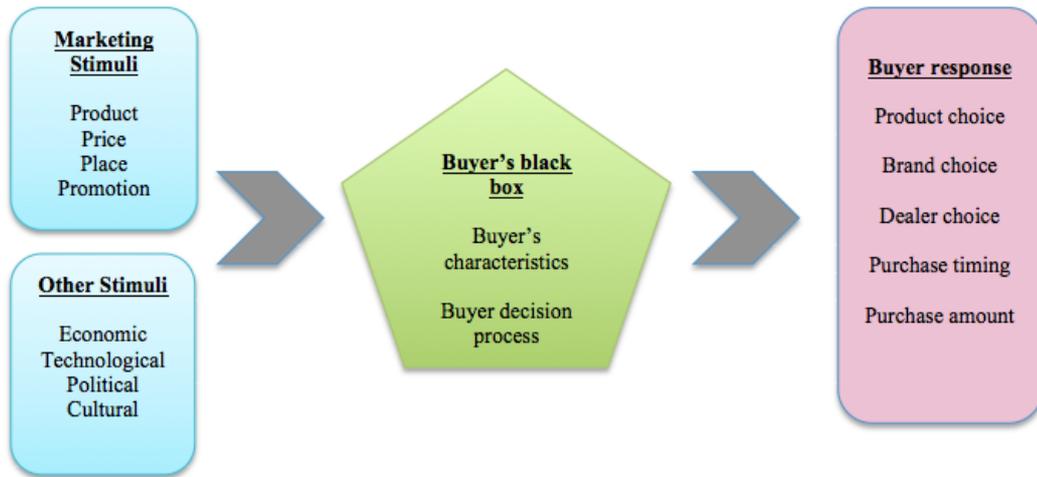


Figure 4. Stimulus-response model (Armstrong, Kotler, Saunders & Wong 2008, 239.)  
Figure modified by author.

Marketers want to figure out how the stimuli inside consumer's black box (buyer's characteristics and buyer decision process) affects the buyer response.

Before the actual purchase decision consumers pass through five stages: need recognition, information search, evaluation of alternatives, purchase decision, and postpurchase behavior. It is vital for marketers to understand this whole process instead of only concentrating on the purchase decision. In case of frequently bought products consumers skip some of the stages. (Armstrong et al. 2008, 265.)

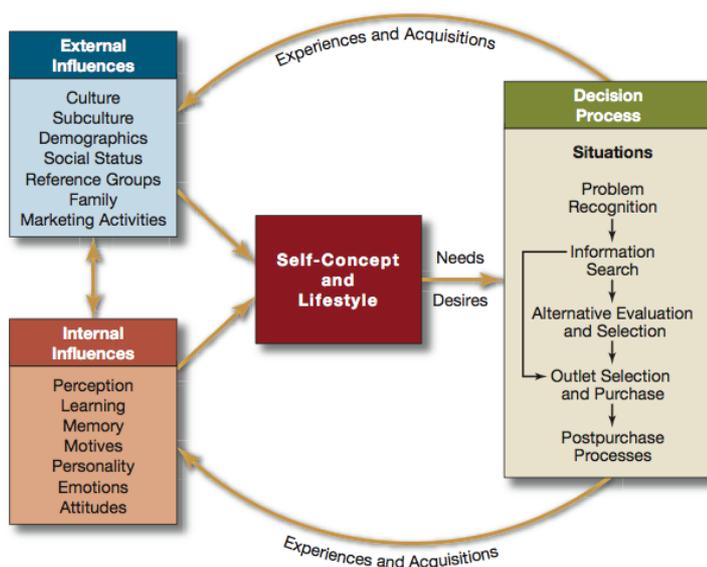


Figure 5. Overall model of consumer behavior (Hawkins & Mothersbaugh 2010, 27-28)

The overall model of consumer behavior summarizes the structure and processes of consumer behavior and it also includes the consumer decision process (Figure 5). The buyer's decision process includes all the stages that buyers go through when choosing products. With frequently bought products or cheap products for example, consumers can skip some stages. Consumers' decisions are based on the mixture of internal and external influences, and companies utilize them in classifying potential customers and customizing products that fulfill their needs. (Hawkins & Mothersbaugh 2010, 27.)

Consumers' buying behavior differs depending on the products. Buying a new smartphone requires more effort than buying milk. Additionally differences between milk brands are not as remarkable as differences between smartphone brands. Based on the needed effort and the number of differences between brands buying behavior can be divided into four types: complex buying behavior, dissonance-reducing buying behavior, habitual buying behavior and variety-seeking buying behavior. (Armstrong et al. 2008, 261.)

Complex buying behavior is applied in situations where the level of consumers' involvement is high, differences between brands are outstanding, and also when the product is expensive or for instance very self-expressive. Often these kinds of products require a lot of information search and learning from the customer. Customers go through a three phase learning process consisting of establishing beliefs about the product, then construct attitudes and finally making a purchase choice. Dissonance-reducing buying behavior means that consumers are highly involved in the buying situation, and the product is an expensive, infrequent or risky purchase. However, differences among brands are modest. (Armstrong et al. 2008, 262-263.)

With cheap and frequently purchased products consumers undertake habitual buying behavior. Consumers' involvement is low and brand differences are rather small. Consumers are not necessarily loyal to a certain brand, and they do not actively seek information about the products and differences among brands. When consumer involvement is low but the brand differences are remarkable, consumers apply variety-seeking buying behavior. Again consumers are not loyal to a certain brand. For example

consumers might buy bread and after trying it make conclusions about it and next time buy a different bread brand. (Armstrong et al. 2008, 263-264.)

### **3.2 The impact of e-commerce on consumer behavior**

E-commerce and the Internet have definitely had a great impact on consumer behavior. Consumers have access to a wide range of products and diverse information sources. They can obtain products that they cannot find from their home country. They can shop whenever they want to and wherever they want to. Tablets and smartphones have made online stores even more accessible to consumers. In 2012 there were 6.3 billion mobile subscriptions, and in 2013 the number increased to 6.8 billion. A quarter of all searches is conducted via mobile devices. (UK Trade & Investment 2014.)

#### **3.2.1 The Six Cs**

To be able to attract consumers, online stores have to offer them benefits that differentiate them from their offline store and competitors' online and offline offers. The common benefits that make consumers choose an online store instead of an offline store can be summed up in Six Cs: (1) content, (2) customization, (3) community, (4) convenience (5) choice and (6) cost reduction. (Chaffey 2011, 37-39.)

In online stores consumers have access to more detailed content that offers in-depth information. E-commerce is highly interactive and companies can easily offer the type of information about their products and services that individual customers want to receive. And vice versa customers are able to provide their information (e-mail address, preferences and purchase history) to companies. (Kardes, Cronley & Cline 2011, 335.)

Consumers in developed and developing countries go through the same steps before purchasing online. They research product features, pricing, shipping methods, and return policies. They look for information from brick and mortar stores and websites. Furthermore, they ask for advice from friends and read opinions of other consumers from social media and blogs. (A.T. Kearney 2013.) PricewaterhouseCoopers' (PwC)

research shows that in 2012 49% of consumers followed brands or retailers in social media. In 2013 this percentage was already 59 (PwC 2013).

The amount of information available can be also confusing, and consumers need to eliminate information that does not meet their needs. A recommendation agent is a decision aid that helps customers to eliminate unsuitable alternatives. It is based on utilizing customers' purchase history to find information about their preferences. A comparison matrix is another interactive decision aid. Customers can choose products and then compare them side-by-side. With the help of these decision aids consumers manage to make better decisions and manage a large amount of information more efficiently. (Kardes et al. 2011, 335.)

Companies can customize their online offerings for each individual customer. They can for example make recommendations based on the customer's previous purchases. (Chaffey 2011, 37.) Customization can pursue consumers to buy products based on recommendations instead of first recognizing a need like in the traditional buyer decision process. Additionally for example e-mails informing and reminding about ongoing or coming offers can lead to a decision to purchase a product or service.

Some years ago consumers mainly used computers to read emails, but today 36% of emails from retailers are read on mobile devices. Emails have a great influence on buying decisions since they influence 71% of mobile purchases. (Mobify 2013.) When consumers surf the Internet they come across with an enormous number of advertisements. Also these advertisements can trigger the need to purchase. So overall, after the appearance of e-commerce and e-business, consumers make purchases more spontaneously and without necessarily first recognizing the need by themselves.

Consumers can discuss their experiences with products, ask questions from other consumers and read recommendations in chat-rooms, forums, blogs, and social media sites such as Facebook. (Chaffey 2011, 37.) Even 66% of consumers think that the opinions of other consumers are important when purchasing goods or services online. The most popular social network sites used for finding reviews and opinions are Facebook (73%), Twitter (59%), and LinkedIn (52%). (Onbible 2014.)

E-commerce has reduced the importance of salespeople in shops as an information source since only 24% of consumers researching or considering a product/service think that they are important information sources. Television and newspapers/magazines are important information sources for 34% of consumers but they enable only one-way communication, i.e. delivering a message from a company to consumers. Search engines are the most important sources of information for consumers; even 71% consider them to be important. Additionally personal recommendations, websites of well-known brands and well-known retailers are significant information sources. (Chaffey 2011, 497.)

Some companies offer customers the possibility to review their products on the online store webpage, and thus instead of going to the actual store and asking the personnel to tell about the product features, customers can easily obtain this information just by visiting the company's website. Convenience is one factor encouraging online shopping. Consumers can purchase their products at any time, and in cases of digital products such as music they are even able to use the product right away. (Chaffey 2011, 37.)

A wide product range is also an advantage of online stores, and consumers can easily compare products and price ranges of different companies. Cheap price is often what consumers are looking for. (Chaffey 2011, 37.) E-commerce has given consumers more power; they have more knowledge, and price transparency has increased so they can switch to another brand more easily (Chaffey 2011, 277).

More and more people are purchasing online, but it takes time before consumers are confident enough to make their first purchase. After they gain the confidence and make their first purchase, the usage of online stores is likely to become frequent, and the consumer will buy more expensive products. (Chaffey 2011, 204.) Developing markets have high growth potential, but their online consumer behavior is less auspicious, and technology adoption rates are lower. These countries can be called next generation markets. Often next generation markets have lower Internet penetration rates. The largest next generation markets are China, Brazil, and Russia, where a lot of people live in areas where Internet connections are rare. When these consumers access the Internet,

40% of them are going to shop online even though the financial and logistical infrastructures are poor. (A.T. Kearney 2013.)

Online consumer behavior varies greatly between different product groups (Figure 6). E-commerce has changed dramatically the way consumers buy for example travel tickets and holidays. Before the e-commerce availability consumers used travel agencies to book flights and trips. The websites offering the booking of trips can either belong to a travel agency or it can be a price comparison website. (Ingot 2011.)

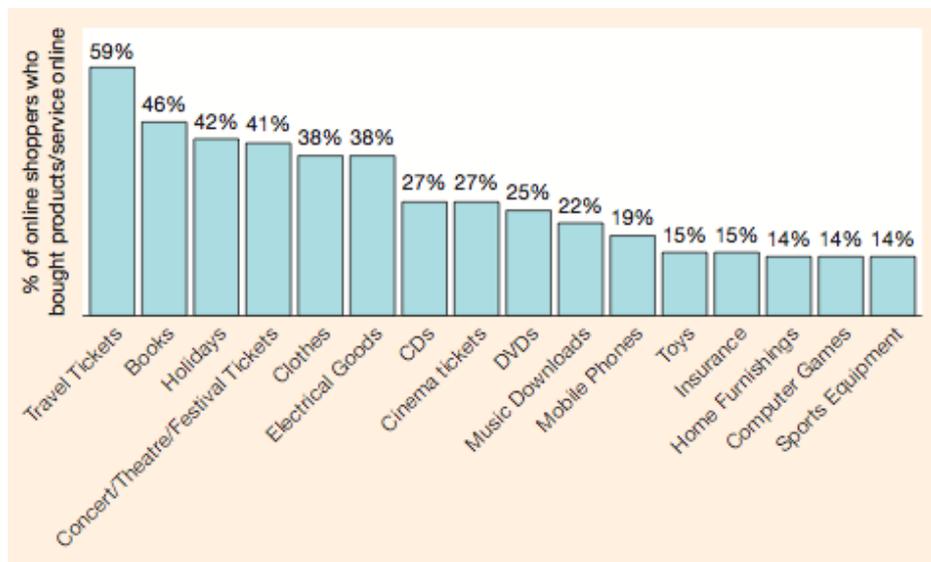


Figure 6. Variation in purchase rates of online products and services in Europe (Chaffey 2011, 204)

Electronics are a product group bought online. All the product features can be easily described to customers, and customers can easily find information about them and read product reviews. Different markets have different reasons for the popularity of buying clothes online. For instance in Russia people living in certain regions have an access to products that they cannot find from local stores. In developed countries such as Germany clothes are popular because they are “risk-free” purchases. Many online store websites have pictures of virtual models wearing the clothes, and customers can see the products from all angles. Often online stores offer free delivery and easy return policies that allow consumers to return the products at a low price or even for free. (A.T. Kearney 2013.)

Buying for instance insurance online is not that common, and consumers use the Internet as an information source instead of buying them online. However, there are significant differences between countries. (Chaffey 2011, 204.)

Consumers' information search costs and transaction costs have dropped, and the number of available options and communication between consumers has increased due to the Internet. This means that consumers have more power than before. (Kardes et al. 2011, 341.)

### **3.2.2 The online experience**

Some researchers apply the traditional model of consumer behavior also into online consumer behavior and do not see any differences between traditional and online buying behaviors. Some researchers though have added the step of building trust or confidence to the online buying process. In addition to the personal and environmental uncontrollable factors, a company's marketing activities can affect the decision making by bringing inputs to the consumer's black box. (Constantinides 2004, 112.)

Online marketers can influence consumers' decision-making process by utilizing traditional marketing tools, but the main way to influence it is a creation and delivery of proper online experience (Figure 7). The online experience (Web experience) is formed by a mixture of online functionality, information, emotions, cues, stimuli, and products/services. A company's website and the interaction platform for a company and its customers are the main factors in creating and delivering the Web experience. (Constantinides 2004, 112.)

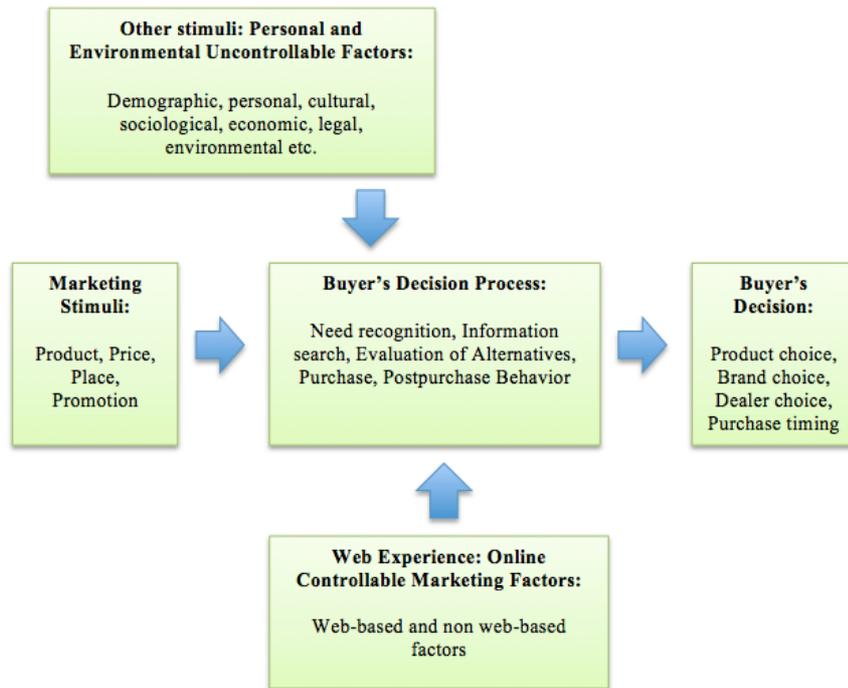


Figure 7. Factors affecting the online consumer's behavior (Constantinides 2004, 113) Figure modified by author.

The online shopping experience consists of four phases; (1) home page design, (2) product catalog, (3) order form, and (4) customer support. These factors are web-based, and companies need to be able to manage all of them to survive on the e-commerce market. Translations into multiple languages, the visibility of contact information, and the speed of page loading are examples of home page design factors that influence the online shopping experience. Customers cannot see and touch the products, and it is important to have comprehensive product descriptions in the online catalog. For instance presence of a product search engine, clear labeling of out of stock items, and special offers are key features related to the product catalog. (Tamimi, Rajan, Sebastianelli & Cummings 2002.)

The third phase is completing an order form. At this phase a customer should be able to see all costs (shipping cost, sales, tax etc.) and to add, remove, or change items. Customers want to have multiple payment options and want to get assistance in completing the transaction if needed. Furthermore, it is crucial to make completing the transactions as easy as possible for example by using pre-registered customer information. Online customer service and support is a critical stage and it forms online shoppers' general experience. Tamimi et al. (2002) has suggested that critical web-based customer support options should include:

- Instant automated merchant notification of orders
- Clearly designated return policies and restocking charges
- Issuance of order tracking numbers for products purchased
- Order cancellation options
- Order changing options (flexibility)
- Help or online customer service.

There are also important non web-based quality factors that companies should take into account. Billing needs to be accurate, and products should be delivered on time. If customers have questions that are not answered on the company website, customers should have the possibility to reach a customer service provider. Product descriptions should be reliable, which means that customers receive what they had expected. Additionally, it is important that products are easy to return. All these factors influence the shopping experience significantly, and by investing in them a company can enhance its credibility and customers are more likely to make repeat purchases. (Tamimi et al. 2002.)

## **4 E-COMMERCE IN RUSSIA**

### **4.1 The Russian e-commerce market**

Russia has the largest number of Internet users in Europe with 70 million users, which is about a half of the whole population (A.T. Kearney 2013). The number is expected to grow to 80 million in 2015 and to 130 million in 2025. Even 90% of Russian Internet users use social networks and 50% use online stores. They prefer Russian search engines and social media sites. Yandex is the most popular search engine since 65% use it, whereas only 25% use Google. The Russian social network site Vkontakte has three times more users than Facebook. (Pesu 2013.)

About half of Russian adult population is using the Internet on a monthly basis. In 2012 the Internet penetration rate was 51% in Russia. In Germany it was 84% and in the United States 78%. (East-West Digital News 2014.) Internet penetration rate varies greatly between regions, and it is highest in Moscow and St. Petersburg (Figure 8).

In 2013 59% of Russians were using the Internet. In 2001 the amount was only 5% and thus the growth has been enormous. However the percentage differs greatly among social groups. Over 80% of students, senior managers, directors, and leading specialists are regular Internet users, whereas 9% of retired people and 13% of people over 55 years old use the Internet. According to the Public Opinion Foundation (FOM) about 50.1 million Russians (43% of Russia's adult population) older than 18 years use the Internet on a daily basis, and 64.4 million adults (55% of Russia's adult population) are online at least once a month. (Bogodvid 2013.)

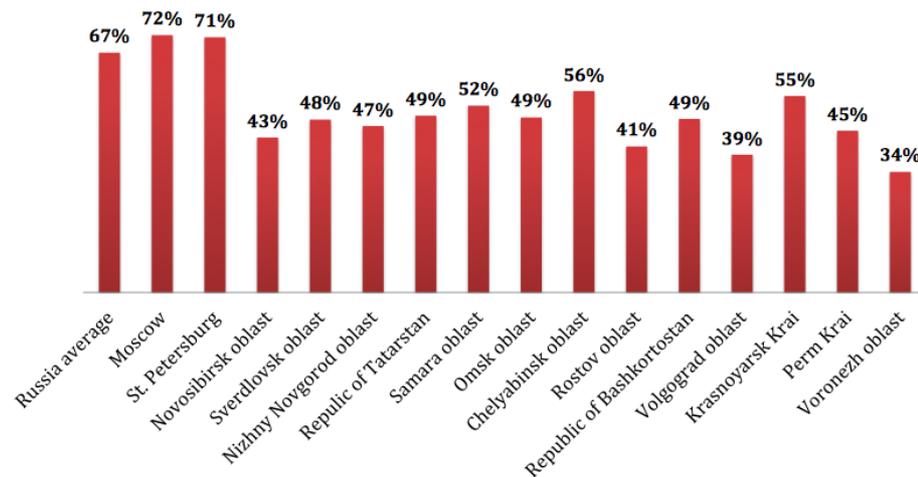


Figure 8. Internet penetration rate (Pesu 2013)

Fixed-line broadband is not available in all regions, and the penetration is only about 25%. The price of fixed-line broadband varies greatly among the regions. For example, in Moscow, St. Petersburg and Yekaterinburg, broadband with unlimited traffic costs from 7 to 11 euro (from 10 to 15 US dollars) per month, while in Murmansk it can cost up to 88 euro (120 US dollars). Service quality among Internet service providers is poor since it may take even a year from making the order to get a working ADSL connection (Solovjova 2013).

In 2012 the total market value of e-commerce in Russia was almost 8.4 billion euros (400 billion rubles) and in 2013 it was nearly 16.5 billion US dollars (520 billion rubles). The share of physical goods was 11.5 billion US dollars (350 billion rubles). Additionally the value of cross-border sales was approximately three billion US dollars. (East-West Digital News 2013.)

E-commerce business in Russia is developing and growing rapidly, approximately 25% per year. However, the biggest growth is focused in big cities such as the Moscow and St. Petersburg, while other regions are behind the development. Moscow and St. Petersburg cover about 60% of Russia's e-commerce sales, but only 15% of the whole population. Moscow and St. Petersburg's advantages are higher broadband penetration, higher income level, higher population density and the fact that infrastructure is better. Sales through e-commerce in Moscow and St. Petersburg are expected to grow by 30%

through 2020, whereas in other regions the expectation is 20%. (Pesu 2013.) Even though the growth of e-commerce business is mainly concentrated in Moscow and St. Petersburg, there is growth also in Novosibirsk and Yekaterinburg (Rudarakanchana 2013).

For people living in regions outside Moscow and St. Petersburg e-commerce offers a possibility to buy brands that are not available in the region's offline stores. Even if the delivery time is long (weeks), consumers are ready to wait for the products with good prices. (Ben-Shabat et al. 2013. 11.) Also overseas e-commerce has grown fast within the last few years (Pesu 2013). In 2012 the Russian Post (Почта России) reported that the number of packages coming from abroad doubled in 2012 compared to the previous year (The Moscow Times 2012).

Electronics and books are the most common goods bought online and are expected to cover a big part of online sales in the future as well (Pesu 2013). Shoes and clothes are a growing sector in online sales. In 2012 Russian fashion online retailer Lamoda.ru moved from place 27 to place 4 in the top 30 online stores list in Russia. (Sikorska 2013.) The most popular services bought online are airline and train tickets and in addition event tickets and software (East-West Digital News 2014).

Russia's growing number of online shoppers provides foreign companies an excellent opportunity to expand since domestic markets are often already saturated (Solovjova 2013). Additionally, living costs are rather low and thus the amount of disposable income for middle and upper class is higher than in many other markets (Solovjova 2013.) In 2002 only 7 million Russians were speaking English. This is less than 5% of the population, and thus it is important for foreign companies to have their online store websites in Russian language. (Interstice Consulting 2011.)

## **4.2 Challenges related to e-commerce**

Logistic infrastructure is a major problem in Russia's e-commerce business (Pesu 2013). It is not possible to deliver goods to all regions even if there would be potential buyers. Russian Post covers most of the regions, but the delivery times can be long and

it does not meet the world service standard. (Sikorska 2013.) Some online retailers are taking care of distribution by themselves in order to offer efficient delivery also to small cities (A.T. Kearney 2013). The disappearance and stealing of parcels is also a big problem (The Moscow News 2013).

Often Russians do not trust online payment systems and do not consider them to be safe. Thus, cash-on-delivery is the most common way to pay goods bought online. (Pesu 2013.) People from the regions outside Moscow and St. Petersburg are especially unfamiliar with credit cards, web money payments, or online payment services and they do not trust in them. One reason for not using online payment services is a commission; for instance Yandex.Money charges a commission from 3 to 5% from the purchase price. (Sikorska 2013.) Also returning or exchanging the products is seen as a disadvantage. (Pesu 2013.)

Some Russian Internet users use online stores as information sources but they make the actual purchase offline. They want to read about the product features and see the price but buy the products in a store. (Peltonen 2013.) The Finnish online store Caima Sport selling sports and fashion to Russia has faced a problem that Russians do not always trust that the store really exists. Many of their current customers have first travelled to Finland to see the actual store and only after that have they purchased online. When the customers have seen that the online store actually works and is reliable, many of them have become regular customers and ordered in large quantities. (Miettinen 2013.)

Legislation for foreign e-commerce in Russia has been very liberal. Currently Russians have to pay tariffs and taxes only when the value of a purchase exceeds 1000 euros a month, and thus the price differences between online and offline stores has been tremendous in some products categories. This has also partly explained the fast growth of e-commerce. (Dobrowolski 2014.) In the beginning of 2014 the Ministry of Economic Development and the Ministry of Finance agreed individual Russian consumers have to pay taxes for purchases over 150 euros (RBK 2014). Additionally there is a weight limit of 31 kg per person per month (The Paypers 2014).

The Russian Government also reformed the customs rules. Previously parcels from foreign online stores needed to have a copy of the customer's Russian ID, including the

registration address. Additionally, it needed a copy of the order list and a photo of ordered goods. The new customs rules state that packages need to have an original bank statement demonstrating the payment, original copy of the contract and photocopy of the credit card used for payment. (Kuchma 2014.) Because of these new limitations, the express delivery operators DHL Express, FedEx, and DPD stopped delivering goods to individual Russian online shoppers (East-West Digital News 2014).

The new rules concerning customs duties affect foreign online retailers selling to Russia, but the growth of Russian online stores will continue (Post & Parcel 2014). Some companies such as UPS continue shipping to Russia despite the new rules. However, there are delays in delivery because of the increase in formal customs entries. The companies cannot guarantee deliveries to be on time. (Postal Technology International 2014.) Foreign online store firms prefer to use Western delivery companies, but because of the new regulations, the Russian Post is expected to get extra business (Russia News 2014).

### **4.3 Russian consumers**

The population of Russia is about 140 million, and 73% of its inhabitants live in urban areas. In Moscow and St. Petersburg the standard of living is higher than in the rest of Russia, and income levels in these two cities is two times higher than the national average. In 2003 the average income per month was less than 146 euros (200 US dollars) and today it is more than 730 euros (1000 US dollars). Since personal income tax is only 13% and Russians do not have a lot of debt their disposable income level is high. The average mortgage is only 130 euros, whereas in the Eurozone it is 12,370 euros and in the USA 26,040 euros. (Pesu 2013.) The newness of consumer credits is one factor explaining the small amount of debts. Today credits are more common, but interest rates are high: the lowest interest rate for a mortgage is 8%. (Solovjova 2013.)

Today's Russian consumers can be characterized with show off behavior. They are not used to having a lot of money to spend, and because their income levels have risen, they want to show off with their purchases. During the Soviet times there was a shortage of goods, and today when everything is available, Russians want to buy. (Solovjova 2013.)

Pesu (2013) has classified seven different types of Russian consumers: innovators, achieved, stable, spontaneous, upwardly oriented, traditionalists, and saving oriented (Figure 9).

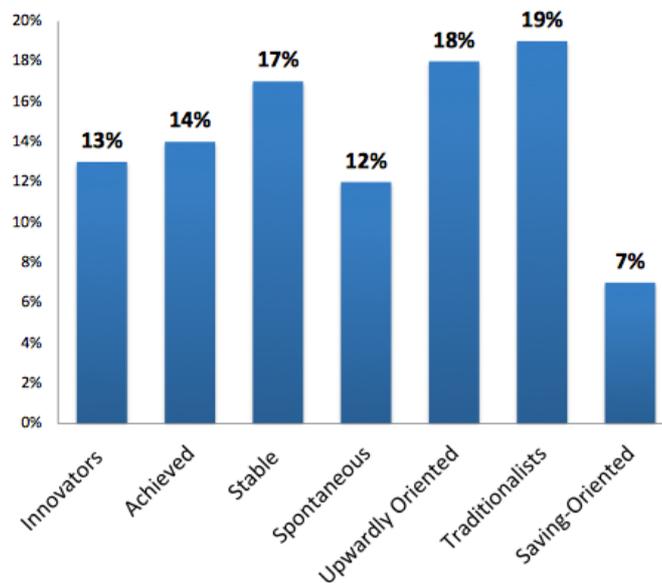


Figure 9. The Seven types of Russian consumers (Pesu 2013)

Innovators (13% of Russian consumers) are eager to purchase new products and social status is of a great importance for them. Thus innovators prefer famous brands that are trusted. Additionally, innovators hold high consumption potential. They spend money on leisure activities such as sports, concerts, and theaters. When they travel, they are looking for new experiences. Innovators can be described also as confident consumers. (Pesu 2013.) It takes time before consumers are confident enough to make purchases online. Based on their characteristics innovators would be potential online shoppers.

The consumption potential of achieved consumers is also high. They prefer quality products that they have perceived to be good and do not pursue new products. Achieved consumers buy well-known brands but not as expensive ones as innovators. They are also ready to spend time on finding products with the best discounts. Achieved consumers are more conservative with their shopping habits than innovators. (Pesu 2013.)

Stable consumers plan their purchases more and buy only what is necessary instead of making spontaneous purchases. They do not spend so much on leisure activities but focus on necessities. Their consumption potential is a little higher than what the average Russian has. They do not desire novelties and mainly look for reliable quality products. (Pesu 2013.)

Spontaneous consumers do not possess any distinct shopping habits and are very impulsive buyers. They consider discount when making purchases but for example prefer their favorite food products even if some other brands would have discount prices. (Pesu 2013.)

Upwardly oriented consumers have low consumption potential and the income level is higher than the average income level. For them a product's price is more important than quality and reliability. They tend to buy products that are new and heavily advertised. Additionally, they look for discounts and are willing to purchase online if they find better discounts. (Pesu 2013.)

The last group is traditionalists. Mostly traditionalists consist of pensioners and people with low incomes. They prefer traditional products and do not look for new advertised goods. Traditionalists think about the future rather than buy products for everyday consumption and they do not spend a lot on hobbies and other leisure activities. Usually they purchase at discount stores. (Pesu 2013.)

The sales of pharmaceuticals, mobile phones, broadband, and beer in Russia are the highest in the whole of Europe. Moscow has overtaken Paris and London in retail sales, and it is predicted that by 2025 Russia will be the largest consumer market in Europe. Russian men are more prone to trying new products than women and men also pay attention to the brand more often than women. Russians are loyal to luxury brands, and the market for luxury brands is expanding. Russians do not trust new companies easily and they are demanding and doubtful about the information provided. (Pesu 2013.)

### **3.4 Russian online shoppers**

Online shopping is a relatively recent trend in Russia since almost half of the online shoppers (in the United States only 10%) made their first online purchase within the past two years. In Russia an average online shopper has been using e-commerce for three years (the United States eight years). Over half of the people who have not purchased products online want to see the product before the purchasing decision. However, this is about to change when the popularity of e-commerce grows and more products are available online. The most common reasons for online shopping are lower prices, saving time, convenience and reviews of other online shoppers (Pesu 2013).

Typically an online shopper is a female. They cover 64% of all online shoppers. Russian online shoppers tend to be from households earning more than 750 euros (30,000 rubles) monthly. (Pesu 2013.)

## 5 RESEARCH METHODS

### 5.1 Methodology

A qualitative research method is applied in this thesis. Qualitative research is used to understand people's beliefs, perspectives, and experiences (Brikci & Green 2007). Qualitative research gives answers to the questions how and why things happen in a certain way. It describes the process and meaning. (Cooper & Schindler 2013, 144.) Qualitative research seeks answers to the question of why people do something instead of finding out only what do people do (Marks 2000, 2).

Interviews are a common way to conduct qualitative researches. There are different types of interviews, and they can be highly structured using the same questions with each respondent or they can be unstructured conversations. In between these two extremes there are intermediate positions. Based on the structuring and formality interviews can be divided into three categories: structured interviews, semi-structured interviews and unstructured or in-depth interviews. (Saunders, Lewis & Thornhill 2009, 320.)

Semi-structured face-to-face interviews were used to collect primary data in this thesis. Each interviewee was interviewed separately. A qualitative interview gives an opportunity to ask additional questions and to ask for further explanations from the interviewees. (Saunders et al. 2009, 320.) The advantage of a face-to-face interview is that it enables to observe both nonverbal and verbal behavior (Cooper & Schindler 2013, 153).

Semi-structured interviews often start with specific questions and then continue with discussion based on an interviewer's probes (Cooper & Schindler 2013, 153). The researcher can also have a list of certain themes and questions to be covered. In semi-structured interviews the beforehand set themes and questions can vary between the interviews, and the order of them, based on the flow of the conversation, may also vary. (Saunders et al. 2009, 320.)

## 5.1 Research questions

The main research questions are:

1. What, why and where do young Russians online shoppers buy?
2. Are there any differences in the usage between Russian and foreign online stores?

A qualitative research concerning the above mentioned topic themes, was conducted by interviewing 20 young Russian university students. The interviews were face-to-face interviews in Russian language. Interviews consisted of certain themes (Appendix 1) and were semi-structured.

## 5.2 Research sample

In order to find out perceptions of young Russian consumers about online shopping, face-to-face interviews with 20 young Russian females and males from 20 to 24 years old were conducted. They were organized in May 2013 in St. Petersburg. The interviews were conducted in Russian language and the answers were written down.

Nonprobability sampling was used in choosing the sample group. Nonprobability sampling is subjective and is used when a certain pattern or scheme is chosen (interviewing only females or interviewing only people over 50 years old etc.). Nonprobability sampling was used in this thesis since information from young people was needed. (Cooper & Schindler 2013, 343.)

Two professionals, Timo Miettinen and Pekka Peltonen, were also consulted for information about e-commerce business in Russia. Timo Miettinen is one of the owners of the sports and fashion store Caima Sport in Lappeenranta, Finland. Caima Sport has a brick and mortar store but additionally an online store delivering products to Finland and Russia. Miettinen has worked in the field of international marketing and internet service development for over 20 years (Caima 2014). Pekka Peltonen, the CEO of the Markinvest consulting company, was interviewed via e-mail. Markinvest offers services for companies planning to start exporting to Russia for instance. It is specialized in Russian, Ukrainian, Belarusian and Kazakh markets (Markinvest 2014).

### **5.3 Validity and reliability**

Interviews for this thesis were conducted in St. Petersburg, and thus the results reflect young consumer's perceptions about online shopping in St. Petersburg. Moscow and St. Petersburg have more developed e-commerce infrastructure than other areas and thus the results do not represent attitudes of majority of young Russians. The sample consists of 20 university students and the research provides information about perceptions of young Russians studying at higher education level. The research sample is rather small but the results give directional perceptions about online shopping among young Russians.

Often face-to-face interviews are recorded to get more accurate information, but in this case the answers of respondents were written down. However, the interviews were written down carefully and conducted in Russian language to get reliable and accurate information. The answers were translated into English with the help of a translator. Sources in English, Russian and Finnish language were used to collect secondary data.

## **6 RESULTS**

This chapter presents the findings of the study. First the findings about the usage of Russian online stores are introduced followed by the finding about the usage of foreign online stores. Finally perceptions about using Finnish online stores are described and suggestions about strategies are made for Finnish companies wanting to establish an online store for Russian markets.

### **6.1 Usage of Russian online stores**

The interviewees were asked to tell about Russian online stores they had used, when the last time they had shopped online was, and additionally what they purchased. They were also asked to describe how they find new online shops and how they choose the shops they buy from.

There was a great variation in the answers concerning the last time that the interviewees purchased from a Russian online store. The answers varied from two years ago to two weeks ago.

The interviewees mostly trust friends' recommendations about online shops. Many of them said that they are not actively looking for information about new online stores to try but would be willing to try something new if friends recommended. Some respondents had not used Russian online stores and could not even name them but they had used foreign online stores instead. Even though in general social media is an important information source for online shoppers, none of the interviewees mentioned it. Electronics cover a big part of online sales in Russia, and the interviewees had used Russian online stores mainly for ordering electronics.

Ulmart and Ozon were the most commonly used Russian online stores among the respondents. Ulmart is the biggest Russian online retailer. It first started with selling computers but today sells also toys, beauty products, and office supplies among other things. (Dennys 2014.) Ozon is the second largest online retailer in Russia (Euromonitor International 2013). It offers for example electronics, books and clothes (Ozon 2014).

Ozon is somewhat similar to the world's largest online retailer, Amazon (Khrenikov 2013).

"I think the last time I used a Russian online store was two months ago. I ordered a router for my computer from Ulmart. I have not used any other Russian online shops. I was going to buy a router and my friend advised me to order it from Ulmart because he had a good experience with it. I have only used Ulmart so far but if I would like to try some other online store I would ask recommendations from my friends. I think that is the most reliable source of information," Female 23 years old.

"The last time was six months ago and I bought an XBOX game. I have bought from Ozon, IC and Kassir.ru. I have seen for example Ozon's advertisements on some other webpage and I decided to check it out. I have also got emails from Ozon. I think that advertisements and friends' recommendations are a good way to find new shops and get information," Male 20 years old.

"I have not used any Russian online shops. I cannot even name any of them. I think the foreign ones are more popular. I think I can find everything from the foreign online stores, so I have not even considered of using the Russian ones. And as I said earlier, I do not even know any Russian ones," Female 21 years old.

"I bought components for my computer from Ulmart a month ago. I was reading information about the components from the Internet and saw Ulmart's advertisement somewhere. Then I went to their website and decided to order. But in general I usually use Google for finding information/new shops," Male 21 years old.

"I have not used any Russian online stores because I have not seen anything interesting that I would like to order," Female 20 years old.

### **6.1.1 Reasons for using online stores**

Online stores have to provide some benefits compared to offline stores to be able to get customers. The interviewees told about the advantages that online stores have. They also pointed out the disadvantages. Saving time and money were the considered to be advantages, and not being able to see and touch the product as disadvantages.

"At least saving time is an advantage. I can just sit at home and do my shopping. I think that a disadvantage is that sometimes companies do not have the products on stock and then I have to wait for them," Male 20 years old.

“Often prices are lower in online stores, and I can also save time by shopping at home. But it is hard to assess the goods without seeing and touching them in real life. That is a disadvantage,” Female 21 years old.

The interviewees were asked to give examples of good and bad Russian online store websites and they were asked to tell the reasons for their choices. Ozon’s website divided opinions: some respondents thought that page contains too much information. On the other hand some thought that the website is good because of the vast amount of information. A simple search function was considered to be a very important feature in evaluating online store websites.

“Pop-music.ru is a good one! The structure of the page is good, and it is easy to navigate. I think Ozon is not good. I do not like the structure, searching for products is difficult, and there are too many advertisements on the page,” Male 20 years old.

“Ulmart is good because the search is comfortable and simple. There is also enough information about the products. Avito is a bad one. I just do not like the appearance of the page,” Female 21 years old.

“I like Ulmart’s website because the search is so easy to use. Avito is bad because I do not like the idea of buying from complete strangers. I cannot trust them. But this was not so much about the website...” Female 22 years old.

“I like Ozon a lot. It offers a lot of different products but is still easy to use. Bookpiter.ru is poor. I have to pay for the products in advance and I do not like that” Female 21 years old.

“IC is a good online shop because the website is simple and easy to use. Ozon is not so good. There is way too much information on the website and I think it is messy,” Male 23 years old.

### **6.1.2 Problems related to Russian online stores**

The interviewees told about the problems that they had faced with Russian online stores. Only 3 respondents out of 18 had not had any problems. The most common problem was delayed delivery. Often fast delivery is promised for people living in big cities such as Moscow and St. Petersburg, but the interviewees said that it does not work always. They said that sometimes the delivery is very fast (two or three days) but sometimes it might take even a week longer than promised. However, the interviewees were ready to wait if the offer was good. One respondent has also faced a problem with

false products, which was mentioned earlier. All the below mentioned problems might be hard to solve since Russia does not have a law especially about e-commerce practices (East-West Digital News 2013).

“False products. Unfortunately there are companies trying to sell fake products,” Male 21 years old.

“Delay in the delivery has been a problem sometimes. I have had to wait for my order much longer than expected,” Male 21 years old.

“Sometimes the products look very different than in the pictures on the websites. And even the description might differ from the real product,” Female 21 years old.

“I have experience only with Ulmart, but I can say that I did not get my order on time,” Female 24 years old.

“I have not had any problems,” Female 20 years old.

“I have not faced any problems,” Female 21 years old.

“Problems... Well, sometimes they (companies) do not have the real price on the webpage and I have had to actually pay more than I thought. And the company does not always have the products in stock. I feel that it is also frustrating to try to agree on the delivery time with a courier. It is almost impossible,” Male 20 years old.

As mentioned earlier, the respondents told that one problem with online stores are delays in delivery. They also mentioned that it is not a problem if the delivery time is for example one week, but if a company promises to deliver in two days and there is a delay, it is annoying. The delivery times varied from two days to 14 days if a delay occurred.

“I got my order from Ulmart quickly. Just in 2 days,” Female 21 years old.

“It usually takes from one to seven days to get the parcels. So it (delivery) is quite fast,” Male 20 years old.

“Delivery time from Ulmart has been about three days I think,” Female 22 years old.

“If I remember correctly the delivery time from Ozon took two or three days,” Male 20 years old.

“From Ozon I got my delivery in five days. I think it is ok,” Male 21 years old.

Ulmart uses collection points to deliver their goods to consumers. Collection points are located all around Moscow and St. Petersburg. Russians are not opposed to picking up their purchases from collection points if they are in a convenient location. (Ratcliffe 2014.) The respondents used courier services and collection points, which was the most popular delivering option. The interviewees favored collection points because they can pick up their orders when they have time and they do not have to agree on the delivery time with a courier. Some respondents liked the courier service because it is possible to try on for example clothes for 15 minutes and then return them immediately to the courier if they do not fit.

### **6.1.3 Payment methods**

Russians prefer to use cash for paying their online purchases since many of them do not have a credit card or they are afraid of using them online. The use of credit cards is getting more common, but still about 75% of Ozon's sales are paid with cash. (Marson 2013.) Russians trust more in e-wallets like Yandex, Qiwi and Webmoney than in credit card payment, and these e-wallets are a good alternative for cash payment. (Ratcliffe 2014.) Payment methods were also discussed with the respondents and they seem to prefer e-wallets and credit cards. Only two of the respondents who had used Russian online stores had paid with cash.

“I have always paid with my credit card,” Male 20 years old.

“I have used PayPal, web-money and Sberbank online payment,” Male 20 years old.

“Qiwi and Visa. I think they are handy,” Male 21 years old.

“I have paid with credit card and also debit card,” Female 21 years old.

“I usually pay with credit card but sometimes I have used cash,” Female 24 years old.

### **6.2 Foreign online stores**

The second part of interviews concentrated on the foreign online stores and their usage. Respondents named foreign online stores that they know and the ones that they had used. Additionally, they told why they had or had not used foreign online stores. They

told when the last time they used foreign online stores was and what they bought from them. Lastly they told where they find new stores.

Amazon and eBay were the most well known foreign online stores, and the respondents had mainly used Amazon and eBay and they had mostly ordered clothes and accessories from them. Some women had used online fashion stores like Asos and Net-a-porter. Friends and Google were the most often used information sources. Only two respondents had not used foreign online stores.

“I know Amazon and eBay but I have only tried eBay. And I have ordered clothes. Actually I was just curious and wanted to know if it works and that is how I first decided to order from eBay. And a friend said that eBay is a good online store. After that I have looked for discount products from eBay. Last time when I ordered was 1.5 months ago. For Information about foreign online stores I look from Google,” Male 21 years old.

“I have used eBay and that is also the only foreign online store that I know. I have ordered computer parts. I use it because of cheap prices. I googled eBay and decided to try. Last time was a month ago. If I look at information about new stores I use Google,” Male 21 years old.

“eBay, Asos and Witt. I have used just eBay but I have been thinking about ordering from Asos. From eBay I have bought clothes and accessories because there is a wide product range and prices are cheap,” Female 20 years old.

“I know a lot of them; Net-a-porter, Luisaviaroma, eBay, Handteck, Booking.com and Asos. I have ordered clothes from Net-a-porter and Asos because clothes are cheaper abroad and it is possible to find a lot of exclusive things. My friend told that hey are reliable and good online stores. Last time I ordered about a year ago. If I look for information about some new shops I use Google,” Female 21 years old.

“eBay and Taobao, those are the ones that I know. I have used Taobao because products are cheap there and delivery is very quick. I have ordered a lot of clothes, watches, shoes, and children’s clothes. I think I used them last time last year. I do not remember when exactly. My Chinese friend told about Taobao and said that everyone uses it in China so I decided to try. For information about new online stores I look from Yandex and also ask from friends,” Female 21 years old.

“Actually I ordered some DVDs yesterday from Amazon. I have ordered also books from Amazon. But I also know eBay. Just have not tried it. I looked for information about foreign online stores by searching from Yandex and found Amazon. But I think Amazon is enough; I do not want to find any new ones,” Male 21 years old.

“I have not used Russian or foreign online stores. I think it is too complicated. It is easier to go to an actual store. I do not have time to figure out how to use them. But I know AppStore and eBay. And if I would order from a foreign online store I would order Apple’s products from the USA.” Male 21 years old

“I have not used any but I know eBay and Amazon. I can find everything that I need from Russian online stores. I once thought about ordering an iPhone from some German online store but then decided to buy it from a normal store since it is easier,” Male 20 years old.

When good and bad online store websites were discussed some respondents liked eBay because of its easy search function but some said that there are too many advertisements. Amazon also got criticism because of the advertisements. Taobao was another popular foreign e-commerce among the respondents. Taobao is a Chinese e-commerce site and one of the largest ones in the world. It has 500 million registered users and it sells close to 50,000 products every minute (Xu 2014). Taobao was popular because of cheap prices, but long delivery times and the lack of English or Russian language option were criticized.

“I think all the international online store websites are pretty good,” Female 21 years old.

Amazon has not established its website in Russian but it ships some products to Russia. Expedited shipping to Russia takes from 9 to 16 business days, and priority shipping only from 2 to 4 days depending on the location and chosen shipping system. (Amazon 2014.) Delivery times of Ozon vary from two days up to 20 days depending on the location. In Moscow the delivery times can be 2 days, but in the regions outside Moscow and St. Petersburg it can take even 20 days. (Ozon 2014.) The long delivery times demonstrate the logistical problems in Russia. However, it seems that for example Amazon is able to offer faster delivery than Ozon within Russia. Since Ozon and Amazon are very similar and Amazon offers faster delivery times it could be successful in the Russian e-commerce market.

### **6.2.1 Advantages and disadvantages of foreign online stores**

When the advantages of foreign online stores were brought up everyone mentioned either the wide product range, lower prices, or both. Clearly, long delivery times were

mentioned as disadvantages. Not having the possibility to use foreign online store websites in Russian language was pointed out.

“Things are cheaper in foreign online stores. I trust that they sell only original things and not fake ones and I think foreign online stores have a wider range than Russian online stores. But it would be nicer to use them in Russian language...” Female 22 years old.

“Foreign online stores are cheaper, but sometimes the delivery time is too long,” Female 21 years old.

“Foreign online stores have a wider product range,” Female 20 years old.

“I think that foreign online stores usually have a cheaper price and more products. But I do not like that I cannot know if the delivery will be on time,” Male 21 years old.

The research showed that the respondents have very different experiences with delivery times. Even though they had ordered from the same online stores the delivery times varied greatly. Some had got their parcels within one week, while others have had to wait even two months.

“I ordered from eBay and the delivery time has been from one to two months. It is too long,” Male 20 years old.

“The delivery times have been ok. Usually about two weeks,” Female 20 years old.

“I am not so happy with delivery times. I think I have had to wait a month normally. But the parcels are coming from abroad so I understand that it might take some time,” Male 21 years old.

“I think the delivery times are not so long... About one week. Like in Russian stores,” Male 21 years old.

“They (delivery times) are too long. I have waited even two months,” Male 20 years old.

### **6.2.2 Payment methods**

Credit card was the most favored payment method among the respondents. They trust that they will get what they have ordered and willing to pay in advance. Also PayPal was popular. Consumers can make payments and money transfers through the Internet

and they only need to give their e-mail address to create a free account. If the purchases are domestic, buying with PayPal is free. In international purchases there is a currency conversion fee. Additionally a receiving party has to pay a fee. PayPal is available in 190 countries and it has 24 different currencies. (PayPal 2014.)

“I always use cash on delivery. I just do not want to pay in advance before seeing the products,” Female 21 years old.

“I pay with visa because it is easy,” Male 21 years old.

“PayPal is the best way to pay,” Male 23 years old.

“I use credit and debit card,” Female 21 years old.

### **6.3 Finnish online stores**

The possibility of ordering from Finnish online stores was also discussed. Only a few Finnish companies have utilized the possibilities that the Russian e-commerce market is offering (Digitoday 2011). The number of Russian tourists in Finland has decreased in the beginning of the year 2014, and at the same time the amount of invoice and tax free purchases decreased 30% in March (compared to the year 2013) (Mentula 2014). The reason for this is weakening ruble, which has affected especially the Russian middle class (Savon Sanomat 2013).

The Russian e-commerce market could be a new possibility for Finnish companies to develop trade between Finland and Russia. According to senior advisor from Lappeenranta University of Technology Tuomo Summanen, Finland has a good possibility to succeed in the Russian e-commerce market because there are plenty of businesses in the market and the market is not monopolized. The biggest e-commerce companies have a market share of about 4 or 5%, and the 30 biggest Russian e-commerce companies have a market share of 40%. (Vehviläinen 2014.)

When considering Finnish online stores the respondents said that they had not thought about this possibility before. However, they would be willing to order from Finland if they would know of some Finnish online stores. Most of the respondents could not specify any certain products that they would like to order, but for example food products and clothes were mentioned. The importance of the Russian social network site

Vkontakte stood out in the discussion: the respondents thought that it would be crucial for Finnish companies operating in the Russian markets to be present in Vkontakte.

The Finnish company Caima Sport has invested in customer service online in Vkontakte, where current customers and potential new customers can ask questions. The company also provides information actively about their new products and discounts for example. (Miettinen 2013.) Caima Sport offers customer service also via the phone in Finnish, English, and Russian (Caima 2014).

## **6 CONCLUSIONS**

### **6.1 Differences between the usage of Russian and foreign online stores**

There were significant differences in the usage of Russian and foreign online stores. The respondents ordered mainly electronics such as computer components. Clothes were the biggest product group bought from foreign online stores. The respondents stated that they order clothes from abroad because they want to find something different to wear. Yandex is the leading search engine in Russia with a 65% share, whereas Google has a 25% share (Pesu 2013). The interviewees were mainly using Google to find information about foreign online stores. They stated that they find more information and better information by using Google. According to the respondents young people are familiar with Google and use it a lot, while older people prefer Yandex.

Older people do not understand English, and often the foreign online store sites are not translated into Russian and older people cannot use them. The respondents had studied English and were able to use sites in English, but said that it would be more comfortable to have them in Russian. Also problems in incorrect translations have occurred, and the interviewees thought that sites that are not translated properly into Russian do not seem reliable.

Russians favor paying their online purchases with cash, but the interviewees preferred payment with credit card or PayPal. They had used credit cards and PayPal in Russian and foreign online stores. The discussions revealed that the respondents think that young people are more comfortable paying with a credit card or electronic wallets, and older online store users only use cash.

### **6.2 The online experience**

The research shows that online experience factors play a significant role in customer satisfaction. Simplicity and clearly presented accurate information were important features. In foreign online store websites also the proper translation into Russian language would have made the online experience more pleasant. Special offers and user-friendly search engine were emphasized in the factors relating to products. Friends

were stated as the most reliable information sources with Russian and foreign online stores. Cheaper prices and trustworthiness were the main advantages of foreign online stores. Russians trust that foreign online stores do not sell counterfeit products.

### **6.3 Finnish online stores**

The respondents had a positive attitude towards the idea of using Finnish online stores. They said that they would trust the goods to be of good quality. If a Finnish company wants to establish an online store for Russian e-commerce markets, there are four possible strategies. The first option is to have the online store in Finland and to translate the website into Russian. The ordered products can be picked up from Finland or sent to Russia via post. The challenge is to get visibility and recognizability in Russia. If the products are sold to individual customers no certification is needed and tariffs are not paid if the value of goods is below the limit set by customs (at the moment 150 euros). Tariffs need to be paid in case of selling to organizations. (Peltonen 2013.)

The second option is to have a partner (Russian online store) in Russia who takes care of the delivery. The Finnish company would handle all the logistical solutions, certification and delivering the goods to the online store's warehouse. It would also provide product and price information to the Russian partner. The Russian online store would be responsible for marketing activities. The third possibility is to rent an online store from Russia. (Peltonen 2013.)

Finally it is possible to establish an own online store in Russia. Renting an online store or establishing it in Russia requires setting up an own company and hiring personnel to work in Russia. The Finnish company would also handle the delivery, customs clearance procedures, warehousing, and marketing. (Peltonen 2013.)

### **6.4 Further research**

This thesis studies the perceptions about online shopping from the perspective of young Russian university students from St Petersburg. To get more detailed information about the usage of Russian and foreign online stores a larger sample size is needed in the further studies. Also young consumers from areas outside St. Petersburg and Moscow

need to be interviewed to get more detailed information about their online consumer behavior.

For companies planning to establish an online store for Russian market it is important to carefully study the new legislation concerning foreign e-commerce. Big international delivery operators such as DHL Express and FedEx have stopped delivering parcels to individual Russian online shoppers and thus it is important to research other possibilities thoroughly.

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## **INTERVIEW THEMES**

### **Russian online stores**

1. Russian online stores that you know and have used?
2. What kind of products have you bought?
3. Reasons for using/not using Russian online stores.
4. Problems related to Russian online stores.
5. Paying methods.

### **Foreign online stores**

1. Foreign online stores that you know and have used?
2. What kind of products have you bought?
3. Reasons for using/not using foreign online stores.
4. Problems related to foreign online stores.
5. Paying methods.
6. The possibility of using Finnish online stores.