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STUDY ON ECOMMERCE ALCOHOL MARKET IN RUSSIA

Thesis

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Abstract <p>Growing number of internet users' in Russia and high penetration of ecommerce, make Russian online trading a new emerging market. Russian ecommerce business consists of many segments and product line. Surprisingly, one of the potential segment for online business in Russia is considered an alcohol ecommerce. Despite the fact, an ecommerce alcohol business is illegal and prohibited, the market experiences a high competition and generates a lot of profits. Obviously, those profits neither documented nor taxed. Therefore, this study attempts to bring the light to the topic and measure its potential.</p> <p>The aim of the research is to describe the use of ecommerce in Russian alcohol market and analyze the ecommerce potential as a distribution channel for the foreign wine in Russia.</p> <p>The results of the study demonstrate that various ecommerce solutions are effectively used in Russian alcohol sales. However, legislative restrictions and difficult economic situation in the country can be a significant barrier for European company to enter the market. Low governmental control of the market caused limitations in data gathering and indicated difficulties for the research analysis. Yet, it was possible to identify that Moscow and Saint-Petersburg regions considered to be the most attractive cities to entering Russian market.</p>	
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# 1 INTRODUCTION

## 1.1 Background

Alcohol market is one of the most profitable business segment in Russia. The volume of retail sales of alcoholic beverages in Russia, at the end of 2015, amounted to 1.1 billion dollars (Fedushin 2015). Despite the fact, that many industries experience recession during crises years the annual growth of alcohol sale remains stabile 1% for the period of 2005 – 2014 (Fedushin 2015). Moreover, Russia remains its position in the top ten countries with the biggest alcohol consumption in the world (Moore 2013). These are only few examples to illustrate the scale of alcohol market in Russian region. Due to a high demand and long history the alcohol market in Russia was evolving and kept on development (Fedushin 2015). Thus, in 19<sup>th</sup> century Russian alcohol market was exposed to e-commerce and distribution through internet in particular (PPT 2015).

Such advantages like wider variation of products to offer, lower expenses, and availability of products 24/7, lead to a fast development of alcohol e-commerce and soon, it gained a big popularity among companies and consumers (PPT 2015). However, in 2007 the alcohol internet sale in Russia was prohibited by law and considered illegal (Fedushin 2015). Despite this fact, the number of Internet shops selling alcohol was decreased insignificantly.

In contrast to Russian alcohol e-commerce challenges, sale of alcohol via e-commerce in Europe has fast and stable growth. Raise of smart phone usage in 2014 caused a rapid growth of Europe alcohol internet sales. For example, in 2014 each third wine bottle purchased in Europe was bought via smart phone with the average price of 97 euro (PPT 2015). During 2014, European online wine sales increased for 32%. Furthermore, annual internet wine sales reached up to 3.3 million bottles and ensured 32 million Euros profit for online wine retailers (PPT 2015).

Examples of Russian and European markets clearly demonstrate the potential of alcohol e-commerce as a way to make grocery online stores more attractive for customers and profitable for owners. Yet, the power of law and legislations can be a strong driver or obstacle in the market development. For example, the latest Russian government consideration about the law that permits the alcohol online selling (Fedushin 2015) might change the market situation drastically. It is important to study the subject. Unfortunately, the lack of governmental control on the market and illegal aspects as a specificity of Russian business culture caused difficulties to analyze and forecast Russian ecommerce alcohol market and thus, there are not many research done in the area.

## **1.2 Aims**

The study focuses on the ecommerce usage as distribution channel for foreign wine in Russia.

The aims of the research are:

- Describe the use of ecommerce in Russian alcohol market;
- Analyze potential of ecommerce as a distribution channel/tool for foreign wine in Russia.

The research includes study of the market based on legal, social, illegal and technological factors. As the result of the thesis, general recommendations of the market requirements are provided in the research.

## **1.3 Methodology**

Quantitative data and research methods were used in the project. Most of the data was gathered from secondary sources as governmental/organizational reports, statistical databases, individual bloggers/researchers' articles. However, all obtained secondary data was verified with the specialist from the Russian alcohol market.

## **1.4 Case outline**

The thesis includes four sections: General overview of the Russian alcohol market, study on Russian e-commerce alcohol market, market peculiarities on e-commerce market and conclusions.

The first section describes the market including market trends, main players, legislation and other important aspects. At the end of the chapter Russian alcohol market is divided by 16 geographical segments. Further, data collection and analysis relates to the selected segments only. The second section observes similar aspects, but in the ecommerce context.

The third section includes information of all defined peculiarities of the market as price level, used payment methods, delivery options and other. The four section represents the research results of data collection and analysis.

## **2 RUSSIAN ALCOHOL MARKET**

Following chapter reveals general background information about Russian alcohol market. It includes current trends, legal issues, market regulations, illegal issues, marketing specificity, and main players on the market. In addition, the chapter provides information about distribution channels customers utilize to buy alcohol. Examples of ecommerce channels discussed in details in the chapter 3.

It is critical to point up that current research focuses on a foreign wine product segment. Yet, in most of the analyzed resources, wine products displayed together with champagne and spirits. In order to collect a rich data set, it was critical to analyze a wide range of commercial channels namely supermarkets, hypermarkets, physical and internet alcohol shops, wine shops, and wholesalers.

According to legislations, there are two groups of alcohol products in Russian market: registered products authorized shops with registered products and illegal shops with counterfeit or registered products. Although the market share of illegal shops is large, it has not been discussed in the research. Moreover, the current study includes information only from the registered and licensed products.

## 2.1 Legal restrictions

Drastic changes in Russian alcohol market took place in 2008. This year identified the start of a recession stage in Russian alcohol market (Business news 2013). The production volumes were decreased gradually by 21,1 % till the year 2013. For example, 19 million liters of alcohol drinks were produced in 2008 year in contrast to 15 million liters in 2013 (Business news 2013).

There are two main factors affecting alcohol market for the period from 2008 to 2013: financial crises of 2008 and increase of excise tax in year 2013.

Second wave of challenges in alcohol market started in 2013-2014 with the highest excise tax was adopted. Following, Russian government approved new alcohol sales and advertising regulations:

- ban of alcohol sales through street kiosks;
- ban on alcohol sales in many public places;
- ban on nighttime sales;
- prohibition of alcohol advertising.

These changes in market regulations and taxes caused the growth of illegal alcohol production. For example, illegal vodka sales increased its share for 50% in 2014 (Business news 2013). Similarly, the assortment of alcoholic drinks on the market was significantly decreased. The high excise tax was identified as the influential factor of the increased illegal sales and limited alcohol variety.

In addition to all listed factors, inflation of Russian ruble in 2014 motivated people to spend less money for alcohol and shift to the counterfeit products. Changes in consumers' behavior and popularization of "grey market" (product is bought and sold through outside of channels defined by legislations) forced legal alcohol producers and retailers to improve their offerings by reducing prices, redesigning packages, and providing discounts or special offers.

There are two main alcohol consumption regulations in Russia approved in 1995. For example, official time when consumer can purchase strong alcohol products (>5%) in shops, kiosks and internet-shops is from 8 a.m. until 23:00 p.m. by local time. This time can vary depending on the regional legislation differences (Law N

171-FZ /1995). In 2014 beer, sider and lights alcohol cocktails were added to the list of time restricted alcoholic drinks.

Another regulation in alcohol consumption is based on customers' age. People under 18 years old are not eligible to buy alcohol from any alcohol distribution channels. Currently, Russian government considers to increase age limitation to consume alcohol to the age of 21 (Vozdvigenskay 2015).

In case of braking of any of alcohol related legislations, shops or any other distribution channels will receive fine or lose license to sell alcohol.

## **2.2 Alcohol consumption**

As it was discussed previously, alcohol consumption was significantly influenced by two regulations: purchase time restriction and age limitation for alcohol consumption. The example of gradual change in alcohol consumption can be seen through the following statistical data. 13,5 liters of alcohol consumed per person in 2014 and only 11,5 liters per person in 2015. In addition, alcohol preferences of Russian consumers started to change. For instance, there is a growing tendency where consumers started to purchase more wine than vodka (Rusk 2016).

## **2.3 Foreign wine in Russia**

Russian ruble inflation forced foreign wines importers to cut shipments of wine by 44% in December 2014. Inflation also lead to increase of foreign wine prices by 30-50% which resulted the significant drop in demand. Moreover, the forecast predicts that only most popular wines will keep its position on the market during the crises period (Smirnova 2015).

The Picture 1 illustrates the geographical origin of foreign wines in Russian alcohol market.





Picture 1. The origin of foreign wines in Russia (Source: <https://cdn.rbth.com> 2015)

The market leaders are most known wines from France, Spain and Italy. The prices for French wines in this shop varies from 500 rubles (6.8 euro) to 3032650 rubles (41183 euro). For example, the price for French wine Kressmann, "Grande Reserve" Bordeaux AOC Demi-sec (2011) is 500 rubles which is 6.8 euros with the exchange rate of 1 ruble = 0,014 euro for 31.05.2016 (Source: the product information was retrieved the middle price Internet alcohol shop [www.top-wine.ru](http://www.top-wine.ru) operating in Moscow). The average price per liter of French wine in Russia is 550 rubles (7 euro), at the same time the average price per liter of local wine is 280 rubles (3.8 euro).

The laggards of the market consist of wines from Greece, Macedonia, Australia and Portugal. They are considered the first candidates to disappear from Russian market during the crises period due to the lack of promotion. Statistic demonstrates 15-20% of Russian consumers purchase expensive wines unlike other prefer inexpensive or middle price wines.

Russian local wine producers serve consumer demand of middle and low price wines for 60% (Smirnova 2015). The current market situation creates new opportunities for local wine producers. Yet, the price for local wines does not varies from the foreign wines. The reason is the import of ingredients to produce wine and required equipment for wine production. In comparison with good reputation (production and quality) of foreign wines, Russian wine production is still lagging behind. Therefore, customer preferences will still incline towards well-known foreign brands.

## **2.4 Distribution channels**

Apart from alcohol consumption regulations of sales time and age of customers, alcohol sales are also restricted to the limited distribution channels. Alcohol cannot be sold in the following venues:

- Institutions (schools, playgrounds, development centers);
- Cultural institutions (does not include the sale of alcoholic beverages in the catering field);
- Public transport and places it stop;
- Petrol stations;
- Train stations, airports;
- Markets;
- Service and military installations;
- Mobile trade stalls.

Moreover, alcohol sale is prohibited in the surrounded areas of the above mentioned locations, namely the alcohol distribution channel/source cannot be located closer than 200 meters.

The official and legal distribution alcohol channels in Russia that operate from 8 a.m. to 11:00 p.m. are the following:

- Grocery shops;
- Specialized alcohol shops/markets;
- Super and Hypermarkets;
- Café/bar/pub/restaurants;

- Duty Free shops;
- Internet-shops/delivery services.

The following channels provide alcohol after 11:00 p.m. in Russia (some of the channels eligible to sell due to law imperfection):

- Café/bar/pub/restaurants and Duty Free shops;
- Internet-shops: Renting alcoholic drinks;
- Internet-shops: Deliver alcoholic drinks as a gift for other purchase. This is the illegal approach that leads to a fine;
- Shops sell alcohol by providing recites as if purchase occurred in the past or early time. This is the illegal approach that leads to a fine. A customer will not receive a fine;
- Alcohol purchase from taxi drivers. Drivers buy alcohol in advance from a regular store during working hours, or conduct an on-demand purchase from 24-hours open café, bar, or restaurant. This is partially legal (Nalivay 2015).

## **2.5 The current trends on the Russian alcohol market**

The alcohol production is growing during last two years (Kalinin 2015). However, a legal alcohol drinks consumption is limited due to high prices. That is why a large part of the alcohol market share remains in counterfeit products. For example, counterfeit products cover 45% of the alcohol market in 2015 (Kalinin 2015). Alcohol market experts describe the growth of alcohol production during the financial crises by increased social stress and concern. In other words, alcohol considered as the most popular and accessible antidepressant for Russian people.

The structure of alcohol market in Russia was significantly changed due to financial crises, devaluation of the local currency, and growth of euro and dollar. In 2015, foreign alcohol brands reduced its appearance in Russian shops by 30-40% in comparison to previous year. In addition, price growth for foreign alcohol was detected as 25-40%. However, the price of local alcohol experienced increase by 10-20% (Kalinin 2015).

At the same time in 2015, people have suddenly changed their alcohol preferences: they drank much less spirits, preferring wine products (RBC 2015).

In the first 11 months in 2015 alcohol consumption was decreased for 0,9%; vodka consumption decreased for 7,4%; light alcohol cocktails lost 0,2%; champagnes and sparkling wines lost 0,1%. Nevertheless, in comparison with overall market share, wine consumption increased and achieved 6,2% of its share in the market. For several years, the best sales were remained for beer. However, it also experienced a decrease in sales for 3,28% in comparison to the year 2014 (RBC 2015).

Wine consumption was influenced by many factors and was gradually decreasing until 2014. The main influencing factors are advertising ban, financial crises, price growth and limitations in distribution channels. Because of the decrease in incomes per capita, the average price of purchased wine decreased. Consumers that used to purchase foreign wines changed their preferences to the local wine productions with more affordable pricing. However, luxury wine consumers remained loyal to those products. Moreover, it was identified that Moscow and Saint-Petersburg can be considered the most attractive markets for foreign high quality and price wine products (Euromonitor International 2014).

## **2.6 Regional consumption behavior**

Russia is the ninth biggest country in the world with the population of 146 544 710 (Source from the beginning of 2016). It contains 1099 cities where 12 of them with the population over million inhabitants. For example, 12 197 596 people live in Moscow and 5 222 347 in Sankt-Petersburg.

Each region in Russia has its own alcohol consumption behavior and culture. For example, in Moscow people consume foreign brands of alcoholic drinks more in comparison with other regions. This fact can be proved by the biggest number of founded shops of "luxury" alcoholic drinks located in Moscow region.

The geographical segmentation was considered for the market analysis. Geographical segments were identified by the number of cities. Each city was

analyzed based on the alcohol consumption volume and annual money spend on alcohol drinks per person. The main source for statistical data gathering was the official database: Russtat. The latest available data for the research from the Russtat source was dated the year 2013.

There are two types of cities considered for the analysis: the largest (by population) and the fast growing cities. Thus, following cities were selected: Moscow, Saint Petersburg, Novosibirsk, Yekaterinburg, Nizhny Novgorod, Samara, Omsk, Kazan, Chelyabinsk, Rostov-on-Don, Ufa, Volgograd, Krasnoyarsk, Perm, Voronezh as the biggest cities in Russia and Krasnodar as a fast growing city with high alcohol consumption and spending values.

Table 1. Alcohol consumption and money spending per person in the selected Russian cities. (Source: <http://fedpress.ru>)

City	Volume of sales per person (l/person)	Rank	Spending per person per year		Rank	Price of the liter of alcohol		Rank
			(₽/person)	(€/person)		(₽/person)	(€/person)	
Krasnodar	20,63	1	20 266	284	1	982	14	4
Ufa	19,9	2	11 961	168	7	601	8	14
Nizhny Novgorod	15,76	3	12 418	174	5	787	11	9
Kazan	15,73	4	12 860	180	3	817	12	8
Krasnoyarsk	14,86	5	9 312	130	12	626	9	13
Perm	14,76	6	11 317	158	8	766	11	10
Rostov-on-Don	13,64	7	12 054	169	6	883	12	6
Yekaterinburg	13,48	8	14 578	204	2	1 081	15	2
Omsk	12,52	9	8 184	115	14	653	9	12
Chelyabinsk	12,30	10	6 976	98	15	567	8	15
Voronezh	12,29	12	8 871	124	13	721	10	11
Samara	12,29	11	12 424	174	4	1 010	14	3
Novosibirsk	11,62	13	10 938	153	9	941	13	5
Volgograd	11,40	14	9 384	131	11	823	12	7
St-Petersburg	8,38	15	4 434	62	16	529	7	16
Moscow	7,55	16	9 660	135	10	1 279	18	1

Table 1 demonstrates data from the 16 biggest cities (based on population) in Russia. It includes statistics regarding peoples' consumption of wine and spirits, excluding beer (Federal Press 2015).

First column in Table 1 contains information about the name of the city sorted by the decrease in alcohol consumption indicator per person. The third column shows the rank of the city according to its alcohol consumption volume per person in one year. The fourth column represents annual money spend to alcohol per person. The numbers in the sixth column were calculated according to the values of alcohol consumption per person and money spend per person to purchase alcohol in the period of one year. The column sixth shows average price of alcohol per liter. The currency used in calculation is Russian ruble, further the amounts were also changed into euro.

Leader of alcohol consumption among 16 selected cities is Krasnodar; yearly citizens of this city consume 20.63 liters of alcohol. Moscow with its large population ranked as 16<sup>th</sup> city by its alcohol consumption per person per year. However, if to consider calculated price per liter of alcohol in Krasnodar, this indicator is 982 rubles (about 14 euro) which is fourth largest value from the table. At the same time in Moscow with its lowest consumption of alcohol per year among 16 cities, price per liter is 1279 rubles (about 18 euro). This fact means that in Moscow people consume more expensive alcoholic drinks.

The biggest finding of the research on this stage was the fact that the lowest price per liter of alcohol was detected in Saint Petersburg. Previously many researches announced both Moscow and Saint Petersburg are the most potential segments of the market for high price foreign alcohol (International Markets Bureau 2012). However, the Table 1 shows that the price per liter of alcohol in Saint Petersburg is 529 rubles (about 8 euro), which is the lowest among 16 cities.

### **3 ALCOHOL ECOMMERCE IN RUSSIA**

This chapter includes information about the research on ecommerce alcohol market in Russian. The current chapter starts from the review of methodology used for data collection. Further, it leads to the general information of ecommerce market, its main players and presentation of the research results.

#### **3.1 Methodology of data collection and analysis**

Russian legislative authorities limits alcohol e-commerce market and forces it to develop in illegal direction. It leads to the lack of control and official statistics from the operations on the market. However, the market experiences high competition and generates large profits, which are not calculated and are tax-free.

Due to the lack of reliable statistics, it was decided to make own practical research on the market. It includes collection of three/four examples of internet shops/ or any other ecommerce services offering alcohol in Russia. Data collection is adjusted by geographical segments selected for the research. The goal was to collect information according to the following terms: name, link, on which geographical segments it operates, delivery options, payment methods, price level and type.

Obtained data was filled into the Excel document, which divides all examples by price levels: low, middle, high and wide. Group of “wide price offer” includes shops which offer products of all price levels equally. It means that if prices varies from 200 rubles (2.8 euro) until 1,500,000 rubles (21,000 euro) it serves all price levels. Moreover, internet shops offers similar numbers of products on each price level. In order to define the price level of internet shop the wine catalog was considered. The price level of the shop was calculated according the prices of the largest part of the products in the shop. Usually alcohol internet shops offer wide range of products, thus it is important to define on which price segment the

shop is specialist. The current research shows two cases of the shops with the wide price range offer.

The main sources of finding samples was Internet browser Yandex.ru. Because it is the most used Russian Internet browser. The language of search was Russian. The key words were “Order wine to home”, “Buy wine in Internet-shop” and “Wine with delivery”. Each key word for search request includes the name of the city where the search was conducted.

Most meaningful search results were given on the first page of the web browser. However, the results, which includes words “alcohol in the night” and “alcohol 24 hours” were not taken to the database because of the illegal issue. These kind of web sites are disappearing from the Internet each week and appearing then again on different domain names. The grey e-commerce alcohol market works this way.

Almost for each city, the number of search results was the same except Moscow, St. Petersburg and Kazan. Two first cities have had very long list of results and Kazan have the lowest number compare to all 16 cities.

Now the database includes 50 lines. It is approximately three/four lines for each of 16 cities. This amount of data was enough to find the main trend on the market, most popular ways to hide remote selling aspect in this business, delivery options, and payment methods.

## **3.2 Russian ecommerce markets**

### **3.2.1 Ecommerce usage in Russia**

Total market size of Russian ecommerce domestic market in 2015 is 650 billion rubles. It is 2% of the total retail market in Russia (East-West digital news 2016). The Russian domestic ecommerce market is fragmented and mainly consist of small online traders (Kaplan 2014). For example, there are 39,000 Internet shops officially registered, but less than 20 shops have profit closer to 100,000 \$. The market growth is remain of 20% for last several years. However, while some shops experience increase in profit some other faced bankrupt due to economic crises.



Over 30 million online shoppers generated 148 million orders. It is approximately 23% of the whole population of age 18 or older. The average order is about 4,500 rubles per shopper (East-West digital news 2016).

The main trends on the market relates to the payment methods, geographical segmentation of the market, poor logistic services and lack of experienced labor. The most preferable payment method is cash on delivery. This payment method is less suitable for online trading, but will be remained as the most used one still for long time. The role of the electronic payments is increasing slowly.

Until 2013, it was common to consider that Russian ecommerce market has two main segments “two capitals” and “other regions”. The market volumes were divided equally between these two segments. Then there was the third segment “biggest cities in Russia”. However, from 2015 the situation was significantly changed. If in 2013 online customers from Moscow and St. Petersburg made 60% of total e-purchases in Russia and the rest were left for regions. In 2015, many national ecommerce companies noticed that purchase activity of cities with population between 300,000 and one million inhabitation has recognizable increased. Moreover, in 2015 the growth rate of ecommerce in small cities and villages was determined higher than in Moscow and St. Petersburg. It means that Moscow and St. Petersburg should not be any more considered as the most potential segments for ecommerce companies.

Logistic services are poorly developed, despite the geographical size of the country and nine time zones. Thus, most of the customers of online shops prefer pick up of goods by themselves or use local courier options. While the largest postal company in Russia is characterized by work out of time and losing parcels. Post of Russia is ranked as the most unreliable delivery service in the country.

### **3.2.2 Russian ecommerce alcohol market**

Several most important aspects of Russian legislation can describe the situation on ecommerce alcohol market. In 1995 Russian government accepted the law by which remote selling of alcohol is forbidden. The fast Internet penetration into the alcohol sales forced Russian authorities to accept a new law by which Internet

sales of alcohol were equal to remote sales. Therefore, from 2007 until now the law limits online trading of alcohol in Russia. It significantly reduced the number of shops offering their products in Internet, but it did not stop Internet selling fully.

Russian entrepreneurs found the ways to sell alcohol in Internet by evading the law. Some of the most common ways to evade the law are disclosed in the subsection about the current trend on the market.

Regulative authorities have a right to punish internet sellers with high fines: 100,000 rubles and confiscation of all products if police can find the owner of business (AlcoPro 2014). However, Internet search provides a long list of different options to purchase alcohol remotely.

Thus, because of the restrictions on the alcohol market as a whole and for online sales in particular, the state lost control over alcohol remote sales. This is expressed by the fact that there is no available statistics from online sales of alcohol, which complicates the analysis and evaluation of the market. Although the practice of many countries shows how successful ecommerce based solutions are. After evaluating these statistics Russian government has taken into account the requests of many large companies and organizations for revision of the law prohibiting the sale of alcohol through the Internet.

### **3.3 “Grey market<sup>1</sup>” solutions in Russian alcohol ecommerce**

Despite the prohibition of remote sales of alcohol by law in Russia, the high level of competition determines the market. Brief research on the market shows large variety of market players of different levels and sizes. For example, Internet alcohol shops, online showcases, delivery services, hyper/supermarkets, bars/pubs and restaurants, which sell alcohol/wine via ecommerce platform and provide delivery.

The list of players was built at the result of the research and analysis of data from the market. Because of the lack of control and minimized government’s penetration into the alcohol market in general, there is no an appropriate

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<sup>1</sup> Grey market - legal solutions to overcome the law limiting remote sales of alcohol.

information about the market share, main players, revenues and other indicators. This fact makes the entry into the market and operating there complicated and uncertain.

The practical research on the market includes data collection according to the following indicators: name, link, district, methods of delivery, and methods of payment, type of the distribution channel, price level and type of the channel. One more aspect to consider is if distribution ecommerce channel is based on the physical shop or not.

At the result of the research 50 profiles of the market players were collected. Among 50 distribution channels 16 were online showcases, 12 internet shops, three bars with alcohol delivery, five delivery services and one wholesaler.

The category "online showcase" includes physical shops with web pages where clients can get all information about the assortment, but cannot order delivery. In "online showcase" client can even fill the order, but he/she needs to pick up products from the physical shop. In several cases, online showcases did not show the price of the product. However, in another cases even the web page were called online showcase it allows people to pay for alcohol and leave the information about their address most probably for further delivery. These kind of cases are illegal and were not taken to the database. The research shows that in most cases online showcases were based on luxury alcohol physical shops.

The category "internet shop" includes websites, which sells alcohol and made based on ecommerce platforms. Alcohol Internet shop can be based on the physical shop or a storage. Usually, clients get two options for product delivery, pick up from the physical shop or storage, or courier delivery. Because of the law regulations, this category of market players needed to invent several adjustments in their work. Usually internet shops have wide variation of products and lower prices compare to physical shops.

The next category is "bar, pub or restaurant" with alcohol delivery. The market players of this category are regular bars, pubs or restaurants with web pages where clients can order alcohol from the bar with delivery. Usually prices are high, assortment of a regular bar, but possible to get alcohol in the nighttime.

The category “delivery service” includes different shipping companies, which offer delivery of alcohol as one part of their services or can be specialist only on alcohol.

The category “wholesaler” includes only one example found. This is the company, which offers large volumes of alcohol products with delivery, which clients can order in Internet.

### **3.4 Internet-shops selling wine and spirits**

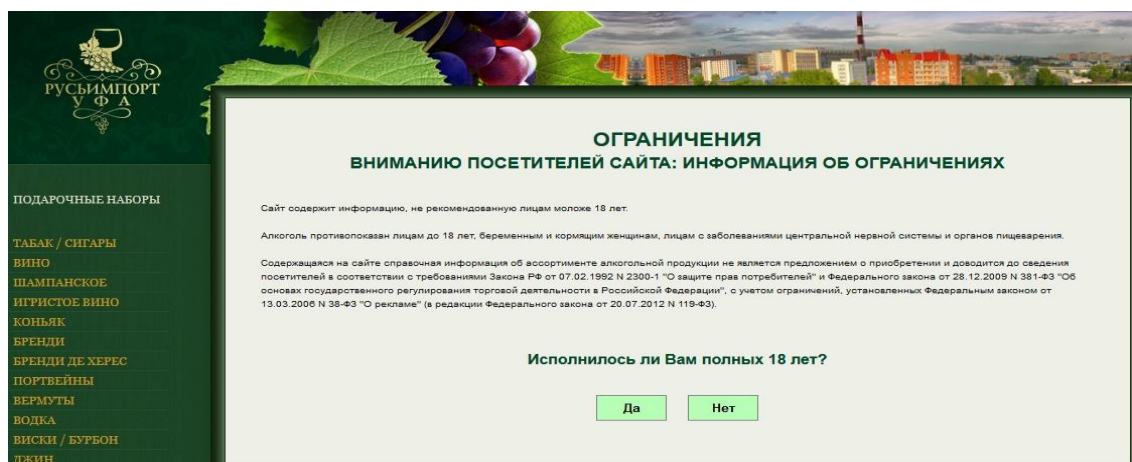
The previous section provided general information about the main categories and brief information about the main players of the market. The current section includes more detailed observation of Internet-shops selling wine and spirits. Because online showcases are remote sales channels, thus they were not taken into further consideration. Thus, further 12 Internet shops, three bars, five delivery services and one wholesaler were disclosed in details.

Internet shops are the type of internet resources where client can find information of the product, select it to its online basket, order delivery or select pickup and pay via internet system or select cash payment. In the course of the research, 12 websites of 50 declared themselves as alcohol internet shops.

The following alcohol internet shops were observed further: Grand Cru, Vinoterria, ProVino, Xaski, Alcolike, Alcomarket55, Advokat wine, Drinks from Duty Free, Rusimport, Voronezh, Rusimport Ufa, Alcomamba and Alko61. These shops provide their services on the following geographical segments: Chelaybinks, Samara, Volgograd, st.Petersburg/region, Omsk, Perm, Voronezh, Ufa, Novosibirsk and Rostov on Don. All shops listed above sell wine, champagne and spirits as the main offer; in addition, some of the shops offer accessories, tobacco and chocolate. One alcohol Internet shop as the main product sells lighter and alcohol offered as a present for the purchase.

### 3.5 Case study: Internet shop “Rusimport - Ufa”

In order to describe the work of the alcohol internet shops one web site was taken as an example. The Picture 2 shows a window, which web visitors face when they first time enter the page. It informs visitor in Russian language about the age regulation of alcohol sales and request to confirm if visitor reached 18 years old age or not. If visitor press button “yes” he/she will get to the front page of Internet shop and will be able to continue shopping. If a visitor presses “no”, he/she will be redirected to the page with the information about law restrictions on age of alcohol buyer.



Picture 2. First time enter the page of [www.rusimport-ufa.ru](http://www.rusimport-ufa.ru) alcohol internet shop. (Source: [www.rusimport-ufa.ru](http://www.rusimport-ufa.ru)).

In case of the research, both answers were tried. However, the next picture shows the case of a visitor of 18 years or older. The front page of the alcohol internet shop is presented on Picture 3.



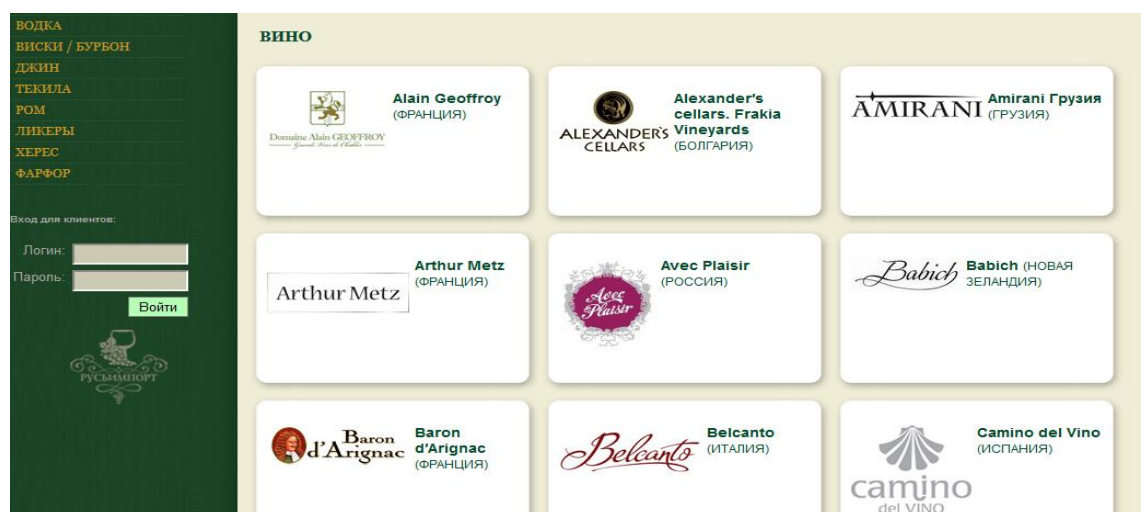
Picture 3. The front page of alcohol Internet shop [www.rusimport-ufa.ru](http://www.rusimport-ufa.ru). (Source: [www.rusimport-ufa.ru](http://www.rusimport-ufa.ru)).

Usually the front page includes information about the company, assortment, news and bestsellers. If the company does not have branded name, new on the market, service of a low quality, without license than the front page can be different. For example, in some cases the front page directly includes catalog with prices, where a visitor can make order. However, these type of internet shops have a low trust among visitors and a low return rate of customers.



Picture 4. Product catalog with “search” option. (Source: [www.rusimport-ufa.ru](http://www.rusimport-ufa.ru)).

The product catalog can be in two different options with selection options or as a list of products with pictures and button “buy”. The Picture 4 shows the first option of the product catalog where a client can select own characteristics for search. The picture shows example of wine selection.



Picture 5. The second version of catalog presentation. (Source: [www.rusimport-ufa.ru](http://www.rusimport-ufa.ru)).

Both options of product presentation in the alcohol internet shop were made according to the Law of RF from 07.02.1992 N 2300-1 "On Protection of Consumer Rights" and the Federal Law of 28.12.2009 N 381-FZ "On the basis state regulation of commercial activities in the Russian Federation", taking into account the restrictions imposed by the Federal Law dated 13.03.2006 N 38-FZ "On Advertising" (in edition of the Federal law dated 20.07.2012 N 119-FZ).



ВИНО / БАГ

**Chablis Grand Cru. Les Clos**  
Шабли Гран Крю. Ле Кло

Артикул:	11904
Страна:	ФРАНЦИЯ
Вид продукции:	<u>ВИНО</u>
Торговая марка:	<u>БАГ</u>
Производитель:	<u>Alain Geoffroy</u> <u>Алэн Жофруа</u>
Область:	Шабли
Категория:	Вино с защищенным наименованием места происхождения
Качества:	сухое белое 0.75л.

5046 р. 20 коп.

 **В резерв**

Наведите на фото для увеличения

Очень красивый бледно-золотистый цвет одежды с зелеными отблесками. Тонкий насыщенный аромат с тонами цитрусовых, перечной мяты, ванили, грибов, дуба и листьев папоротника.

Chablis Grand Cru. Les Clos

Picture 6. Product selected. (Source: [www.rusimport-ufa.ru](http://www.rusimport-ufa.ru)).

The Picture 6 shows the profile of the product with all necessary information, picture and button to add the product to the basket. When customer press the green button, the product will be automatically added to the basket and customer can fill order form or continue shopping.



The screenshot shows the website's shopping basket. At the top left is the logo for 'РУСИМПОРТ УФА'. Below it is a navigation menu with categories like 'ПОДАРОЧНЫЕ НАБОРЫ', 'ТАБАК / СИГАРЫ', 'ВИНО', 'ШАМПАНСКОЕ', etc. The main content area features a banner with a cityscape and a bunch of grapes. Below the banner is a search bar and a navigation menu with links like 'ИНФОРМАЦИЯ О КОМПАНИИ', 'НОВОСТИ', 'ПРАЙС-ЛИСТ', 'АКЦИИ', 'ВАКАНСИИ', and 'КОНТАКТЫ'. The 'Ваш резерв:' section contains a table with two items:

#	Артикул	Наименование	Цена за 1 шт (руб.)	Кол-во (шт.)	Цена (руб.)
1	36545	Rouge Moeiloux Avec Plaisir	131.10	1	131.1
2	11904	Chablis Grand Cru Les Clos	5046.20	1	5046.2

Below the table, it says 'Итого: 2 шт. на 5177.3 руб.' and 'Оформить резерв'. There are also buttons for 'Добавить наименование из каталога' and 'Добавить наименование по артикулу'. On the right, there is a search bar and a promotional message: 'А ЗНАЕТЕ ЛИ ВЫ... Особенно полезно вино людям, работающим на атомных электростанциях, так как ежедневное'.

Picture 7. Basket. (Source: [www.rusimport-ufa.ru](http://www.rusimport-ufa.ru)).

The Picture 7 shows the products in the basket, where customer can see the price, volume, name and code. The customer is still able to delete some products or proceed with the order.

The screenshot shows a form titled 'Уточните, пожалуйста, параметры Вашего резерва:'. It contains several input fields for personal information: 'Фамилия, Имя: \*', 'Контактный телефон: \*' (with a '+7 (800) xxxxxxx' prefix), 'Контактный E-mail: \*', 'Номер VIP-карты "Русьимпорт": \*' (with an 'xxxxxxx (8 цифр)' prefix), and 'Адрес доставки: \*' (with a note '(Является дополнительной услугой после приобретения) г.Уфа, ул.Ленина, д.1000, кв.1234'). Below these fields is a 'Выбор менеджера:' section with a note 'Вы можете выбрать персонального менеджера для обработки Вашего резерва.' and two radio buttons: 'Не имеет значения' (selected) and 'Выбрать менеджера самостоятельно'. There is also a 'Выберете удобный для Вас вариант:' section with a note 'Я подтверждаю правильность введенных мной данных и самостоятельно приеду за резервом.' and an 'или' separator, followed by another note 'Я подтверждаю правильность введенных мной данных и хочу воспользоваться услугой ваших представителей по организации доставки.' On the left side, there is a vertical navigation menu with categories like 'ВОДКА', 'ВИСКИ / БУРБОН', 'ДЕЖИН', 'ТЕКИЛА', 'РОМ', 'ЛИКЕРЫ', 'ХЕРЕС', and 'ФАРФОР'. Below the menu is a login section with 'Вход для клиентов:', 'Логин:', 'Пароль:', and a 'Войти' button.

Picture 8. Personal information, selection of manager and delivery method.

(Source: [www.rusimport-ufa.ru](http://www.rusimport-ufa.ru)).

The Picture 8 shows the form, which customer needs to fill in order to place order. There he/she can select the manager, who is going to work with the client and delivery method. The same page below includes necessary definitions and conditions of offer, which customer need to accept or refuse. When the order form submitted to the system and a client accept the conditions, he/she will see the message on the page that the order was submitted and the manager will get



contact in nearest time. The next step of the purchase is to confirm order during a phone call with manager or e-mail and select the payment method.

Bars, delivery services and wholesaler found in the course of the research offer the same services as Internet-shops. The service process goes in similar way with small changes. The only one difference that they do not position themselves as an Internet-shop.

### **3.6 The current trends on Russian alcohol ecommerce market**

The main market trend is in growing number of Internet shops selling alcohol with 24 hours delivery. State influence on the processes occurring in the market is minimized. The market is remained without authority control, there is a lack of statistics, forecast is impossible. Market entry barriers are low, thus the real number of market players is unknown, but high. That is why power of consumers is high.

Private companies own most of the ecommerce alcohol shops on the market. Regulatory authorities are able to track work of only few alcohol Internet services. The highest punishment for online alcohol traders is closed domain name. Usually in several days, the same Internet shop appears on another domain name.

According to the research results and observation of 50 concrete examples, the main ways to avoid the law were defined. The observation does not include online showcases, because the shop does not cross the law by remote selling and delivering alcohol. Online showcases only provide information of their products in Internet without possibility to order it.

The remote aspect of alcohol Internet sales need to be veiled. In order to achieve it several shops offer for their customer to sign the letter of authority for the courier. The purchase would be done not by the client remotely, but by the courier act on the behalf of a client. Thus, a client need to sign letter of authority to courier name before delivery.

The second way to sell alcohol in Internet and do not get punishment is to sell some other product and give alcohol as a present for each purchase. The main idea of this strategy is to sell very small products like liter with the price of alcohol and give option for buyers to select their present by themselves.

The third option is to give alcohol for rent. Courier will bring alcohol to a client, but if after 24 hours the same product, as in rental contract written, would not be returned, a client will pay the cost of the product.

These were the main ways to “deceive” Russian legislation on ecommerce alcohol market. At the same time the number of different tricks to do not be founded by regulation authorities is always increasing, there is an unstoppable process of “market adaptation”.

Many requests to legalize the ecommerce alcohol market and rapid growth of grey ecommerce alcohol market showed to the Russian government that there is a need for changes in legislation system. Several media channels recently reported that the Russian government considering a bill to legalize online alcohol sales in nearest time. However, it will still include several restrictions. Only a limited number of Internet domain names will be approved for alcohol shops. Internet advertisement would be possible for local Russian wines. Age and time of selling would be remained the same as now.

### **3.7 Market entry requirements**

#### **3.6.1 Market Entry barriers**

Because the law prohibits Russian ecommerce alcohol market, it was impossible to find information about the market barriers. Therefore, it was decided to build the market entry barriers picture by combining information from ecommerce market and alcohol market separately. (Further, all aspects were analyzed and combined into one table). Table 2 represents evaluation of alcohol ecommerce market entry barriers in Russia.

Table 2. Market entry and operation barriers on alcohol ecommerce market in Russia.

Category	Details	Importance
Economic barrier	Difficult economic situations	29%
	Strong competition	
Customers barrier	Customers are not going to pay before they get products	12%
	Low purchasing capacity	
Suppliers and partners	It's difficult to find reliable partners	12%
	The language barriers when communicating with local partners	
Logistics	Limited number of options in shipping	10%
	Loss on shipping	
Trust barrier	Trust to the company	9%
	Trust to the Internet	
Promotion	Ban on alcohol advertising	8%
	Limited options for promotion	
Legislative barrier	Law restrictions on remote selling	3,5%
	Bureaucracy	
Secularity barriers	Buyers are afraid to share their confidential information	3%
	Security protection of payment methods	
Financial barrier	Initial capital	3%
	Corruption	
Technical barrier	Limited number of ecommerce platforms	3%

The form of the Table 2 was taken from the research “Investigating Barriers and Drivers of the Ecommerce Market in Russia” made by Anna O. Daviy and Vera Rebiazina (Daviy & Rebiazina 2015). The content was adjusted to the context of alcohol market and supplemented with own findings during the research.

The first column includes barrier categories: economic, customers, suppliers and partners, logistics, trust, promotion, legislative, secularity, financial and technical. These categories were defined in the course of research. Researchers conducted in-depth interviews with 25 online traders in Russia.

The second column shows more concretely the barriers in each category. These examples were defined in the process of interviews. The third column provides the percentage of barrier importance. They were measured by the number each barrier was mentioned in respondents' answers. However, it should be mentioned that the indicator of importance of each barrier relates to the alcohol market in general.

As table shows the most important barrier to enter and operate on Russian alcohol ecommerce market is difficult economic situation in Russia: inflation, devaluation of Russian ruble, economic sanctions, decrease in incomes, high unemployment rate and at the same time high competition on the market. These all factors can be combined into the macro economic factors. This category of factors influences on competitiveness of European company and products on Russian market. In a way that devaluated Russian ruble makes imported products from Europe uncompetitive on the market, because of high prices. In addition, because of the lower incomes customers, who used to buy high price products, change their purchasing behavior by moving into the segment of middle-low price products.

The second and third largest barriers relate to the microenvironment of Russian ecommerce alcohol field. They contain challenges related to customers, suppliers and partners. All together, these barriers obtained 24% of importance.

Customers barrier shows that Russian customers are not willing to pay before they get product to their hands. This detail makes the work of online shops more difficult. The second aspect is low purchasing capacities, based on many factors: lower incomes, decrease in consumer basket, high variety of the products. However, small purchasing volumes increase costs for the shop owner and complicate work of delivery services. In order to build a good supply chain

company needs suppliers and partners. Russian business culture requires time to find good trustful relations with partners and suppliers. Without experience and reliable name, companies have bigger risk of getting themselves unreliable partners, and thereby losses in their business.

All other barriers presented in the table were mostly considered as tasks to do than obstacles. However, legislative barrier in Russian ecommerce alcohol market is playing an important regulative role. It changes Russian market processes significantly compared to European ecommerce alcohol markets, where alcohol sales via internet are legalized.

### **3.6.2 Competitive advantages of European company**

The current situation on Russian ecommerce alcohol market shows that most of the market players, which announced its origin, are local Russian companies selling foreign wine. In case of European company enters the market it can get its strong competitive advantage based on peoples' trust to European service and product quality. In general, European companies have stronger trust in all stages of business processes including payment methods compare to Russian or Chinese online shops, with exception of big brands.

Technological factor may also play a good role on market competition for European company. Russian people are acquainted with Internet data security in Europe. European online traders are more attentive to the issue of personal data protection and erasure. Secularity barrier was mentioned in Table 2 as one of important market obstacles.

### **3.6.3 Legislation and other requirements.**

Ecommerce based shop is a type of trading point from the law point of view. Thus, for the legal functioning of the Internet shop similar list of juristic documents and proceedings need to be prepared and made.

In order to be ready to open own alcohol Internet shop the following six steps need to be followed (WinShop 2016):

- 1) Register your company. Select the name and address. Inform customers of the name, type, address and time tables of your company. Leave information about registration, entrepreneur rights and registration organization accessible/available for customers.
- 2) Obtain license to sell alcohol. In this case clients need to be informed about the form of the seller, license ID or certificate of state accreditation, the time periods for what license and (or) certificate is valid and authority which gave license.
- 3) Register company in tax office.
- 4) Define payment methods. In case of cash accepted methods cash machine need to be registered and set in the shop or stock. In case of cashless payments, the bank account need to be registered and information shared with clients. If to accept web money payments, licensed account need to be opened in one or several web money services: Яндекс.Деньги, Webmoney, ASSIST or Kiwi. Internet shop need to provide openly information about all possible payment methods on its pages.
- 5) Buy domain name, Software and space on host for the shop. In addition, make a contract with hosting company to serve the internet shop operation.
- 6) Select strategy and make a contract about shop promotion in Internet.

In order to get license to be able to sell alcohol the following steps need to be followed (ZnayDelo 2016):

- 1) Select and apply the necessary type of license to operate in alcohol market in Russia. According to the research context, it would be necessary to get license to import alcohol products and sell in Russia.
- 2) In order to get license, company needs to have initial capital. According to the Russian law initial capital is calculated according to the product specification:
  - In order to sell product containing 15% ethanol - 10 thousand rubles;

- Product containing more than 15% ethanol - 300 thousand rubles;
- For the representatives of small businesses selling alcohol, which are absent in the registry contains more than 15% ethanol - 1 million rubles;
- For wholesale - 10 million rubles.

3) Pay the duty. For one year of alcohol Internet shop operation with alcohol stronger than 15% the tax of 65, 000 rubles need to be paid. Thus, five years license will cost 325,000 rubles. The license can be applied each year or for the period up to five years. The license for wholesale cost 800,000 rubles per year. If the state authority rejected the request for license, the tax payment is not returnable. Moreover, if company owner will apply license second time he/she will need to pay the tax again.

Due to the foreign aspect in case of European company enters Russian ecommerce alcohol market; all products need to go through Russian customs.

#### **3.6.4 “Krisha” of 90<sup>th</sup> in modern time**

According to the history of Russian society and business life in 90<sup>th</sup> Russian mafia influenced strongly on businesses. Every businessperson knew that in order to operate successfully on the market they should have agreement with own “krisha” (Bublikov 2003).

“Krisha” is a group of people or organization, which provides “security” for a business, solves issues with different legal and illegal authorities. However, the “security” had a high price, a big percentage of the profits monthly or yearly were calculated for that. Moreover, the presence of "krisha" does not exempt owner of a company from all other organizational and operational costs.

Brief investigation of Russian business culture showed that the situation with illegal issues was significantly changed in modern time. The term “krisha” was substituted by “good connections to government authorities”. As larger business as stronger and meaningful connections need to be. Family relationship with members of the government, the Interior Ministry, FSB and other special services gives greater potential for business development.

In order to have business in Russia a businessperson need to be able to build good connections with regulative authorities, police, partners and even competitors. Good negotiation skill is significantly important advantage for successful businessperson on Russian business field.

### 3.6.5 Technological aspect

Internet and ecommerce platforms are influencing global retail business. It brings new solutions and breaks a regular way of trading. Usage of mobile devices and social networks pushes online markets to a rapid growth.

The same processes were detected on Russian markets. High percentage of Internet penetration – 70.4% in 2015, increased number of Internet users – 84 million, popularization of smartphones and tablets and Wi-Fi availability in public places caused a fast growth of online trading market in Russia.

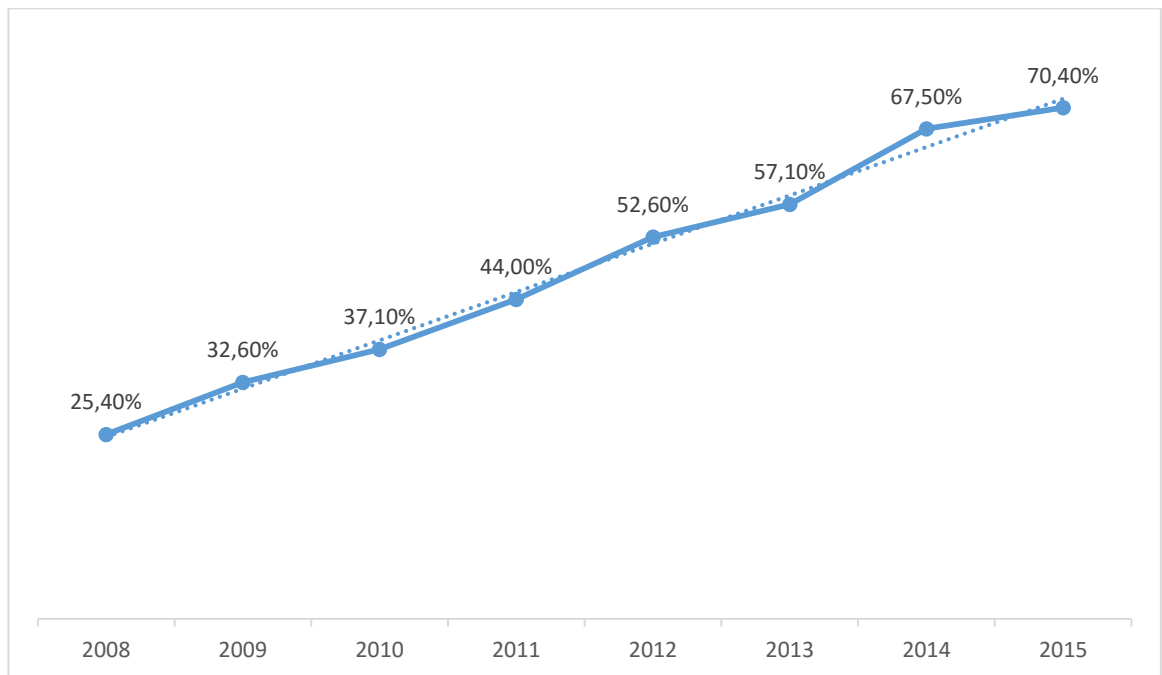


Figure 1. Internet penetration in Russia (source: <http://www.russiansearchtips.com/2016/02/russia-reaches-84-million-internet-users-70-4-internet-penetration-2015/>)



Figure 1 shows stable growth of Internet penetration in Russia. Significant increase in Internet usage in Russia came with the active use of smartphones and tablets. At present, about 50 million people have Internet access in their smartphones. For example, in 2015 37,2% of Russian Internet users accessed Internet via smartphone, and 19,2 % via tablet (Oshkalo 2016). The active usage of Internet via mobile devices in Russia was supported by Wi-Fi availability in most public places and offices.

Figure 2 shows growth rate of Russian ecommerce market for the period of 2014 – 2018.

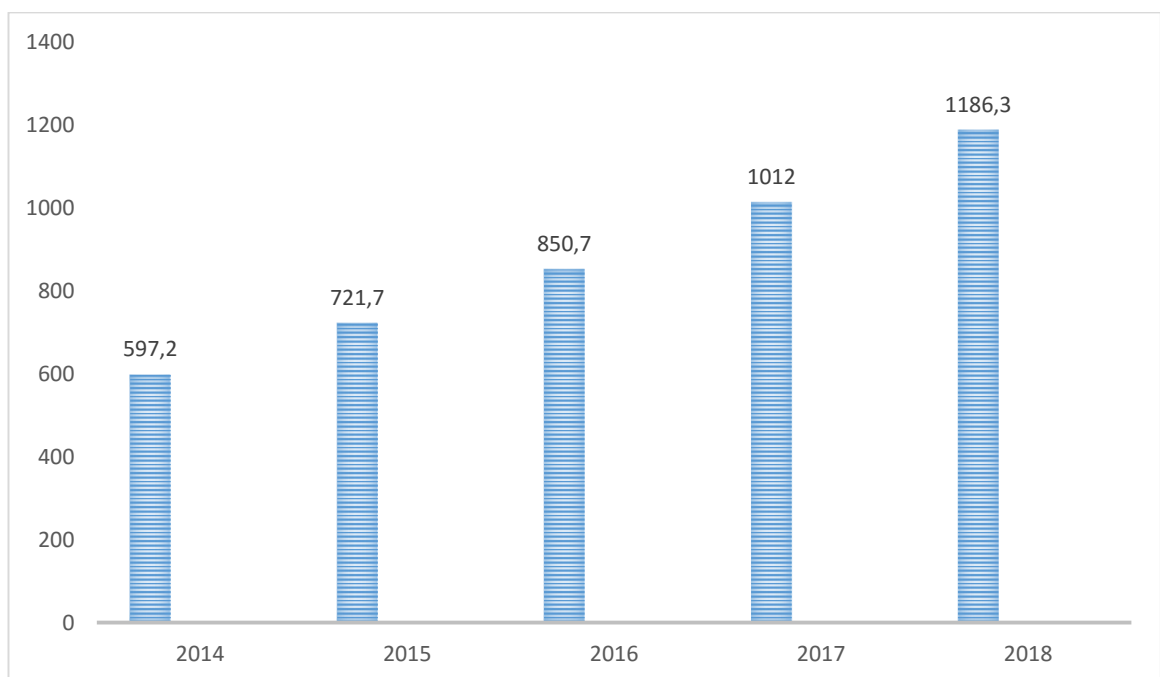


Figure 2. The growth rate of Russian ecommerce market for the period of 2014 – 2018

(Source: <https://www.hse.ru/data/2015/09/09/1088782658/40MAN2015.pdf>)

Russian Internet users make online purchases via different devices: 80% of shoppers prefer PC, 12% use tablets, and 8% approach Internet shops via their smartphones. The percentages for smartphones and tablets are rapidly growing with the increase of Wi-Fi access points and mobile Internet packages offered by mobile service providers.

However, the other purposes of smartphones and tablets are search in Internet for product/service specifications and feedbacks, social networking,

communication and instant messaging. To search for information via mobile devices and PCs, Russian Internet users prefer Russian search engine Yandex.ru. Google, Mail and other search engines have less than 40% of the market share. Thus, Yandex.ru gets 61% of Internet users, Google has 30%, Mail gets 7% and 3% remained for other options.

## **4 MARKET PECULIARITIES ON ECOMMERCE MARKETS**

This chapter includes information defined during the research and related to market peculiarities. Some of the facts were briefly mentioned in previous chapters, but here they will be discussed in details.

### **4.1 Price levels**

In order to define the price levels on the market more than 50 alcohol Internet shops were observed. The research focuses on foreign wines, thus the prices of foreign wines were considered. Prices for spirits and other drinks were not taken into account. Each shop includes approximately 350 products in their catalogue. Therefore, the sample size is over 17,500 products.

There were found three levels:

Low price – from 0 to 1000 rubles;

Middle price – from 1001 to 5000 rubles;

High price – from 5001 rubles.

One more price category was “wide price range”. This category of internet shops includes equal number of products in each price level. Thus, there were found two online showcases, which kept their offer in each price segment.

The last group of price peculiarities is hypermarket price. Usually hypermarkets does not specialize on alcohol and offer wines on the middle level quality and price. The product variation in hypermarkets is limited. Average price of wine in hypermarkets is 200-2000 rubles and the number of products is 150-200.

However, in rare cases hypermarkets can offer limited amount of high price products (approximately 1% of the whole offer).

The Figure 10 shows how 50 samples were divided by the price segments: nine internet alcohol services were on high price segment, ten on middle price segment, 23 on low price segment, two on wide price range segment and six hypermarkets.



Figure 3. Price segmentation of the ecommerce alcohol market. (Source: own research findings)

The largest number of Internet shops operates on the low price segment. It can be influenced by changes on peoples' incomes during the crises years. That is why more shops moved to the first price segment in order to have stable market.

Middle and high price segments are in similar scales occupied by market players. However, wide price range segment have only two market players. At the same time, one of most important business requirements for success in alcohol ecommerce field is wide offer and large variation of prices. However, those two market players from the wide price range segment are online showcases, which are based on the alcohol chains with the number of physical shops in Russia.

## **4.2 Used payment methods**

The research shows that 92% of observed alcohol Internet shops offer both cash and cashless methods of payment. Only one shop accepts purely cash as payment method. Cashless options are credit cards or payments via bank system. The following bankcards are accepted: VISA, MasterCard, American Express, Diners Club International, JCB. The currency of payment is Russian ruble.

## **4.3 Used delivery options**

There are two options for product delivery in Internet shops: courier or pick up - service. Online showcases accept only pick up of products from the physical shop or stock. Usually in this case client pays the bill while picking up products, at the same time manager or seller checks buyer's ID and provides all necessary information about the product.

However, 66% of observed alcohol internet shops offered both options of delivery: pick up or courier. The rest, 34% only courier delivery option. In the latter case, payment can be done before delivery or to courier. At the same time courier should check buyer's ID and provide all necessary information and documents of the products.

## **5 CONCLUSION**

The study was set out to explore the usage of ecommerce as distribution channel for foreign wine in Russia. In addition, the research has identified important facts influencing the ecommerce alcohol business in Russia. At the result of the study potential of ecommerce as a distribution channel for foreign wine in Russia was analyzed.

The main findings of the research were discussed during the thesis. The conclusion will synthesize the empirical findings to reflect on two study aims:

**Describe the use of ecommerce in Russian alcohol market.** Russian ecommerce alcohol market is represented by alcohol internet shops, online showcases, super and hypermarkets, pubs, bars and restaurants, duty free shops and delivery services.

**Analyze potential of ecommerce as a distribution channel for foreign wine in Russia.** The current situation on the Russian ecommerce alcohol market is complicated. The law prohibits remote sales on alcohol via Internet. Despite this fact, high competition was determined on the market in last two years. Online trading of alcohol and food gains popularity based on its conveniences. Ecommerce alcohol shops are able to offer lower prices, delivery and wider range of products compare to physical shops.

Due to the recognizable growth of ecommerce sales of food and alcohol, Russian government is reconsidering the law limiting remote sales of alcohol. Several Russian media channels, reports of local alcohol business specialists and researchers have proved the fact (PPT 2015).

Even though the Russian government did not specify any dates the new law will be published, local and foreign market specialists are expecting the revision and changes in nearest two years. If it happens, the situation on the market will change and potential will grow together with competition. According to this fact, it would be wise to keep on tracking the market and wait for the permission by government to open alcohol Internet shop. Moreover, it would be very important to be able to react on possible changes fast and occupy own niche on the market.

At the same time, macro-economic factors in Russia have remained negative. Local currency is experiencing further fall. European Union most probably continues trading sanctions against Russia. Foreign wine in Russian market can be classified as a luxury product according to its price compare to local products. Thus, it has high income elasticity of demand. In conditions of difficult economic situation in Russia, incomes of local people decrease together with the demand for luxury products.

Illegal aspect of Russian Business culture is one of the important market barriers. Due to the law, prohibiting remote sales of alcohol “grey” ecommerce alcohol market has increased its size. Illegal companies play the role of underwater rocks

for legally registered companies on the market, plus to the high level of corruption in all administrative positions. In order to operate successfully on Russian markets a company should have very good connections to people from the regulative, administrative or legislative authorities.

The research findings cover the technological aspect of Russian ecommerce alcohol business. Russian hackers are very skilled professionals. Thus, the security of private data in Internet has a big influence for ecommerce business in Russia. Moreover, it is a reason why Russian customers are not willing to pay via Internet payment methods. They consider that private data can be stolen together with money. According to those conditions, European company can turn this fact into competitive advantage, in case if web-shop will be built with European technologies and stored on European server.

The last group of research findings related to the market segmentation and finding of the potential regions. Moscow with the largest number of population and highest price per liter of alcohol automatically considered as the most potential region.

However, Saint Petersburg with its lowest price per liter of alcohol, which anyway covers the average price of foreign wine can be considered as the second most potential region for foreign alcohol sellers. This selection can be supported by the following advantages of the city: good location, European culture better known, higher trust to European quality, logistic services easier to find and the language barrier is lower.

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## APPENDIX 1

### Online shops selling alcohol in Russia

Name	Link	Delivery to	Delivery methods	Assortment	Payment methods	Based on the physical shop	Price level (₽)
Grand Cru	<a href="http://grandcru.su">http://grandcru.su</a>	Chelabinks	Courier/Pickup	Wine, champagne, spirits, accessories, snaks, books	Cash	yes	980 - 170000
Vinoterria	<a href="http://vinoterria.ru">http://vinoterria.ru</a>	Samara	Courier/Pickup	Wine, champagne, spirits, accessories, snaks	Cash/cashless	yes	400 - 77321
ProVino	<a href="http://provino.jmaller.com/">http://provino.jmaller.com /</a>	Volgorgad	Courier/Pickup	Wine, champagne, spirits, accessories, snaks	Cash/cashless	yes	11490 - 29000
Xaski	<a href="http://xaski.org">http://xaski.org</a>	st.Petersburg/region	Courier	Wine, champagne, spirits, snaks	Cash/cashless	no	400 - 800
Alcolike	<a href="http://alcolike.com">http://alcolike.com</a>	st.Petersburg/region	Courier	Alcohol and non alcohol drinks, chocolat, delicatessen, hooka	Cash/cashless	no	130 - 2500
Alcomarket55	<a href="http://alkomarket55.com/">http://alkomarket55.com/</a>	Omsk	Courier	Wine, shampain, spirits	Cash/cashless	no	205 - 500

Advokat wine	<a href="http://advokat-wine.ru/">http://advokat-wine.ru/</a>	Perm	Courier/Pickup	Wine, champagne, spirits, snaks	Cash/cashless	yes	500 - 2000
Drinks from Duty Free	<a href="http://www.duty-free36.com">http://www.duty-free36.com</a>	Voronezh	Courier	Wine, champagne, spirits, snaks	Cash/cashless	yes	650
Rusimport Voronezh	<a href="http://www.rusimport-voronezh.ru">http://www.rusimport-voronezh.ru</a>	Voronezh	Courier/Pickup	Wine, champagne, spirits, snaks	Cash/cashless	yes	200 - 2000
Rusimport Ufa	<a href="http://www.rusimport-ufa.ru">http://www.rusimport-ufa.ru</a>	Ufa	Courier/Pickup	Wine, champagne, spirits, snaks	Cash/cashless	yes	200 - 2000
Alcomamba	<a href="http://alcomamba.info">http://alcomamba.info</a>	Novosibirsk	Courier/Pickup	Wine, champagne, spirits, snaks	Cash/cashless	yes	400
Alko61	<a href="http://alko61.com">http://alko61.com</a>	Rostov na Donu	Courier/Pickup	Wine, champagne, spirits, lighter	Cash/cashless	yes	200 - 650