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NATIONAL REPORT ON E-COMMERCE DEVELOPMENT IN RUSSIA

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**National report on e-commerce development in
Russia**

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Acknowledgement

This report is the outcome of the project “Promote the development and cooperation of SMEs between China and other BRICS countries through e-commerce development (Pilot phase)”. It was written by Ms. Marina Sadyki, leading counsellor at the Ministry of Industry and Trade, Department of Domestic Trade, Light Industry and Consumer Market of the Russian Federation.

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Acronyms

AKIT	Association of Online Retail Companies
B2C	Business to Consumer
DaaS	Desktop as a Service
IaaS	Infrastructure as a Service
IDI	Institute of Development of the Internet
Minkomsvyaz	Ministry of Communications and Mass Media of the Russian Federation
Minpromtorg	Ministry of Industry and Trade of the Russian Federation
PaaS	Platform as a Service
REC	Russian Export Center
Rosstat	Russian Statistics
SaaS	Software as a Service
SICUs	Stock Keeping Units
SMEs	Small and Medium-sized Enterprises

1. Background information

1.1. Brief information about E-commerce & SMEs in Russia

The current global political and economic climate and the fall in oil prices had a devastating effect on the Russian economy, causing a recession from which the country has yet to recover.

Sanctions have led to an outflow of foreign capital from Russia. All cruciality of it contributed to the weakening of the ruble against foreign currencies, stoking inflation and squeezing household incomes. Global companies operating in Russia have suffered losses due to a reduction in consumer demand. Further, faced with loss of foreign capital, Russian companies suffered as well. According to the Uniform Federal Register, company bankruptcy increased by 22% in the first half of 2015. On the other hand, high rents and staff costs, combined with the decline of consumer demand, have encouraged a number of traditional retail chains to move into the E-commerce market.

In 2017 the expected volume of the Russian E-commerce market is estimated at between US\$ 21 and 24.5 billion. The volume of the E-commerce market has been growing very fast, in the last three years it has grown by 21.4% and it is predicted to be 33% in 2018. The market (domestic and cross-border) is growing in real terms. More and more brick-and-mortar retail companies are developing online-stores (H&M, Vans, L'Oreal, Furla). Investors are interested in E-commerce related business (investments in giant fulfillment centers). According to J'son & Partners Consulting, the annual volume of venture investments in E-commerce is about US\$ 2.6 billion. The market is entering a period of optimization and consolidation.

In 2016, domestic sale of physical goods, not including cross-border sales, food deliveries, C2C, tickets, and coupons, was worth US\$ 9.8 billion. Cross-border sales in 2016 were about US\$ 2.8 billion.

E-commerce still only represents 3-4% of the total Russian retail market (4% if including cross-border online sales). The limited size of the market is clear from the small sales volumes of Russian online retailers in comparison with major foreign players. In certain sectors there are no major players due to a lack of investment. Meanwhile, local E-commerce companies offer poor service.

There are 1.17 million commercial sites with payment functions, out of three million sites in total. But only 43,000 sites can be considered as E-commerce sites and only 50 sites have generated sales of more than 4 billion rubles (approx. US\$ 68 million).

Thirty million online shoppers (21% of total population) generated 195 million orders (a 20% increase from 2015). The average order value is approximately US\$ 65 (approx. 3770 rubles). More than 40% of orders were made via mobile devices (mobile Internet access more than doubled during in 2015 – 37.5% of users went online through their phones and 19.5% using tablets).

59% Internet users are primarily in Moscow and big cities while as almost three-quarters live in the European part of Russia).

Main features of the Russian E-commerce market:

- Fragmented E-commerce market
- Weak position of international players inside Russia, but high share of cross border trade
- Disproportionally high share of orders from large cities
- Concentration of retailers in Moscow
- Fragmented logistical infrastructure
- Large share of in-store pick-up and from parcel shops
- High levels of buyer expectation of delivery speed
- Specific (local) set of marketing channels
- Dominant share of cash payments

E-commerce payment

Russian consumers distrust the safety of online E-commerce transactions. Cash on delivery is the main payment method (80%). The use of electronic payments is increasing slowly. Bank cards are rarely used (card on delivery 4%). The most popular local electronic currencies are Yandex Money, Webmoney, and QIWI Wallet (5%).

Logistics

The Russian Post is reforming itself to improve service. Most large and mid-sized cities are served by shipment companies in satisfactory condition.

The biggest players

Ulmart.ru (selling an assortment of electronics to home and garden items) - US\$ 556.5 million, Wildberries (US\$ 483 million), Citilink (EUR 375.3million), Mvideo (US\$ 326 millions), Exist (US\$ 277 million). One of the most established Russian online retailers Ozon expects 30% growth in 2017.

E-commerce structure

Nearly 40% of E-commerce is for clothes and shoes, and computers and notebooks (in 2016 were less in demand than in 2014-2015). The fastest-growing areas are sporting goods, leisure items, children's goods, and groceries.

Perspectives

Due to the current economic downturn, some E-commerce companies have seen their sales volume stagnate or even decrease.

The full potential of the Russian E-commerce market has yet to be fully exploited. Annual growth of 35% has been predicted reaching 10-15% of total retail sales. Key factors are:

- 1) The growing penetration of E-commerce in Russia's regions
- 2) The growing popularity of e-signatures and online payments
- 3) Fulfillment infrastructure reaching maturity

1.2. Cross-border E-commerce challenges for Russia

Foreign retailers' online sales of physical goods to Russia have grown considerably over the past few years. The market reached around US\$ 4.3 billion in 2016 up from US\$ 3.4 billion in 2015 and US\$ 2.2 billion in 2014. Cross-border E-commerce from outside is increasing dramatically due to cheaper products than on the domestic market. In times of economic difficulties, the price differences explain much of the attractiveness of international online retailers.

2. Introduction

2.1. Brief description of Small and Medium-sized Enterprises (SMEs) and E-commerce and their impact in Russia

The adoption of E-commerce technology is extremely important to the development of Small and Medium Sized Enterprises (SMEs). A significant number of retail exporters are small companies or home-based businesses, consisting of only a few people. This applies to both the production of goods and the services, where these businesses are motivated to sell their products or services via the Internet (not necessarily overseas).

Producers of goods and services for export in Russia often sell unique products, such as unique clothing, home furnishings and accessories. Foreign sales markets are very important for them, as the local market for such unique products is very small. The volatility of the ruble led to an imbalance between supplies within the country and abroad and consequently increased further the attractiveness of sales abroad.

According to interviews with SMEs, the main channels of promotion abroad are social networks, particularly Facebook and Instagram. They attract the largest number of customers, and is regarded by the majority of respondents as the primary way of viewing products. The second most important way of selling is through personal recommendations. This is particularly important for premium products. Businesses rarely use “standard” promotion channels, and almost never use contextual or search advertising due to high costs.

Research is based on an online questionnaire answered by 270 companies (most of them are individual entrepreneurs, as well as SMEs) exporting from Russia, as well as expert interviews and data from PayPal. The research generated insights on Russian online export activity, as well as on the challenges companies face and opportunities they see in foreign markets.

Russian cross-border online sales of goods and services (including digital goods, content, games and social network services) exceeded US\$ 2 billion 2016, which resulted in a 32% overall increase in volume (US\$) compared with 2015. The domestic market of the same goods and services in Russia was around US\$ 20bn in 2016. However, the export market is growing almost twice as fast as the domestic market.

Buyers come from all over the globe, with North America being the leading region (42.1% of volume in 2016). Second place is taken by Western Europe (30.8%) and third place is the APAC region (12.2%). Orders from former USSR countries are on an average almost half from other regions and there is thus a relatively low amount of sales from these countries. The largest

number of online buyers is from the USA, Germany and the UK. The Chinese market does not so far have a large share of buyers.

Half of companies with online exports are three years old and younger. These companies are mostly young - the majority of businesses were created either in 2017 or 2016 (36% in total). The poll results also helped to paint a portrait of the typical Russian company selling online to other countries:

- The most noticeable changes in the online export market took place three years ago and the number of new companies has been constantly growing since then.
- Both large and small companies are equally successful in selling to foreign markets.

Those surveyed have cited that most popular categories being sold abroad as:

- Digital goods, including games (35%)
- Travel: tickets and hotels (26%)
- Physical goods including fashion, crafts and unique items, auto parts and electronics (23%).

One of the fastest growing categories is hand-made goods and unique items. They are sold abroad by the very small to the very large companies.

The research also showed that the value of the average order depends on the type of goods or services exported. For games, music, and books it is usually up to several hundred rubles, while for physical goods it is around 5000 rubles (approx. US\$ 86.17). Services, which include translations, coding and design, average around 10,000 rubles (approx. US\$ 172.35).

The road to foreign markets is paved with many difficulties. Most merchants surveyed agreed that logistics – delivering goods to a client in an effective and safe way – is the main challenge they face (31%). Next is the language barrier (27%) - many (especially in the regions) felt they do not speak foreign languages adequately enough to communicate with prospective buyers. The lack of trust and the need to overcome any doubts a buyer might have is another barrier for cross-border sales (25%). Accepting payments from abroad is mentioned by 19% of Russian sellers.

Despite these challenges, 93% of companies surveyed see the potential in working with foreign markets. However, the companies mentioned that they would welcome help from partners in other countries (47%), more information about foreign markets (36%) and simplified customs and payments legislation (27% and 24% respectively).

2.2. Comparison of the last five years Gross Domestic Product (GDP) in relation with SMEs and E-commerce

According to Rosstat (Russian Statistics), Gross Domestic Product in billion rubles grew by 44% in the past five years (2011 - 2016).

Figure 1: GDP, billion rubles, 2011-2016¹

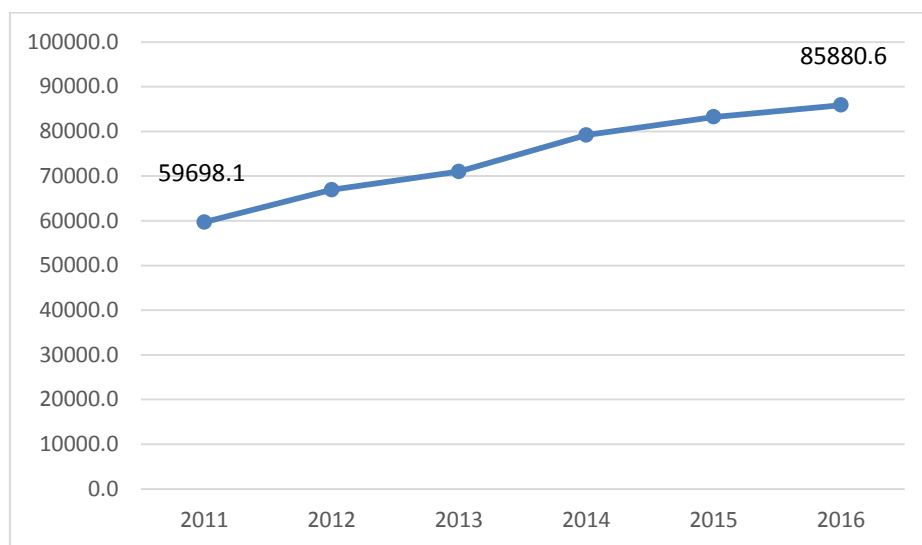
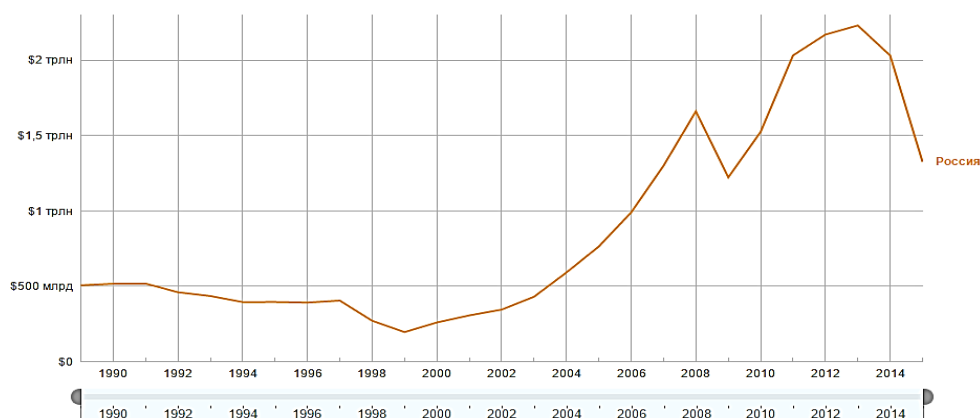


Figure 2: Production has been growing in the last five years although there was a fall in 2014 of 3% GDP growth in dollars over the same period was negative



¹ http://www.gks.ru/free_doc/new_site/vvp/vvp-god/tab1.htm

Figure 3: Number of small enterprises increased by 27%, microenterprises – by 32%; number of medium enterprises fell by 45% in 2010-2014

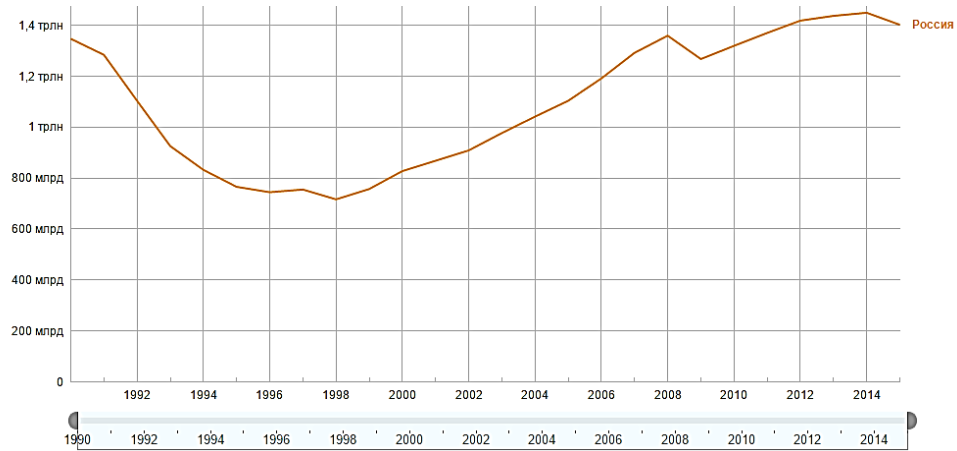
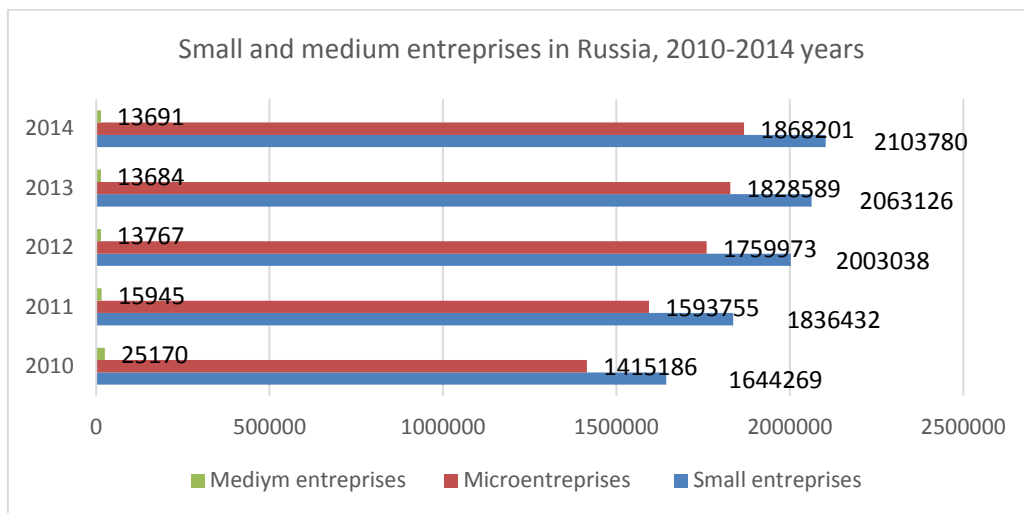
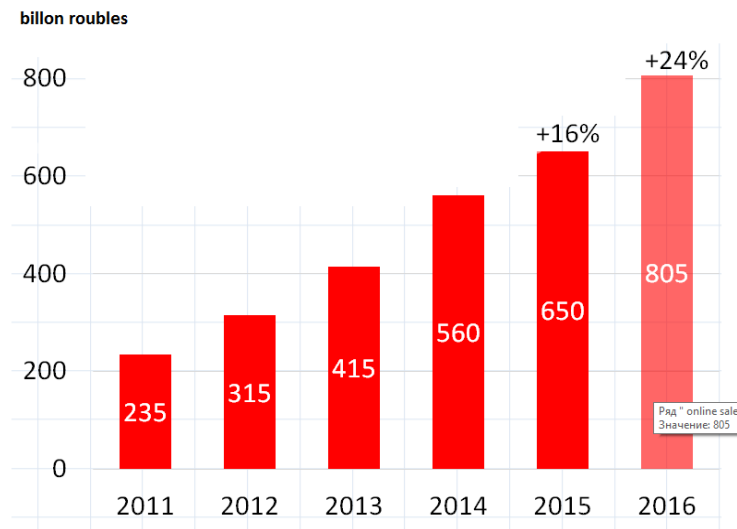


Figure 4: Small and medium enterprises in Russia, 2010-2014²



² According to Russian Statistics, http://www.gks.ru/free_doc/doc_2015/mal-pred15.pdf

Figure 5: Growth of E-commerce domestic market in Russia, 2011-2016, Data Insight



2.3. Brief description of key government and private organizations and industry sectors involved in E-commerce and SMEs

Different government and private organizations regulate E-commerce activities in the Russian Federation. The primary ministry that regulates E-commerce activities is the **Ministry of Industry and Trade of the Russian Federation (Minpromtorg)**. Minpromtorg is a federal executive body responsible for drafting and implementing government policy and legal regulations in the development of foreign and domestic trade, public catering and consumer services, and folk handicrafts.³

The **Ministry of Economic Development of the Russian Federation** is a federal executive body responsible for drafting and implementing government policy and legal regulations in the field of socioeconomic analysis and forecasting, business development, including SMEs, protection of the rights of legal entities and self-employed entrepreneurs, licensing, accreditation of certification agencies and test laboratories (centers).

The **Ministry of Communications and Mass Media of the Russian Federation (Minkomsvyaz)** is a federal executive body responsible for drafting and implementing government policy and legal regulation in the field of information technology (including the use of information technology for creating state information resources and ensuring access to them), telecommunications (including the use and conversion of radio frequency spectrums) and postal services, mass communications and mass media, including electronic media (development of the Internet, television [including digital] and radio broadcasting and new technologies in these

³ <http://government.ru/en/ministries/>

fields). The Ministry of Communications and Mass Media also carries out postal administration and international relations in the field of communications.

The **Russian Export Center (REC)** was created by the Russian Government as a specialized organization to provide single window support for exporters, including financial and non-financial aid. The REC works in tight contact with federal ministries and organizations.

The Federal Taxation Service is a federal executive body responsible for taxes and dues, proper calculation of taxes and their full and timely payment.

Federal Customs Service is a federal body responsible for customs clearance. The service acts as a currency control agent and has special functions in fighting illegal traffic, other related crimes, and administrative offences.

3. Current status of SMEs and E-commerce development in Russia

3.1. Current status of SMEs and E-commerce

E-commerce is the most dynamic market in Russia, especially for SMEs. There is no single definition or statistics to characterize the E-commerce market in the Russian Federation. Russian official statistics do not consider cross-border E-commerce. Different associations and E-commerce companies use their own figures and data. The Ministry of Industry and Trade relies instead on market consultancy estimates.

Table 1: E-commerce market in Russian Federation

	National Association of Distance Trade	Association of e-commerce companies	Expert agency "Data Insight"	Expert agency "InSales"	Russian Association of Electronic communications
2010			176	176	
2011			235	257	
2012			315	350	261
2013		544	415	470	368
2014	654	713	560	612	475
2015	781	760	650	780	589
2016	1 103	900	800	1 000	705

In 2015, the volume of sales goods and services via the Internet was US\$ 3.9million dollars or 0.9% of the total volume.

The main challenge is the lack of E-commerce data. Official Russian Statistics give information about 28% of E-commerce sales operated by SMEs involved in E-commerce. Most SME activity in C2C or social webs is hard to measure.

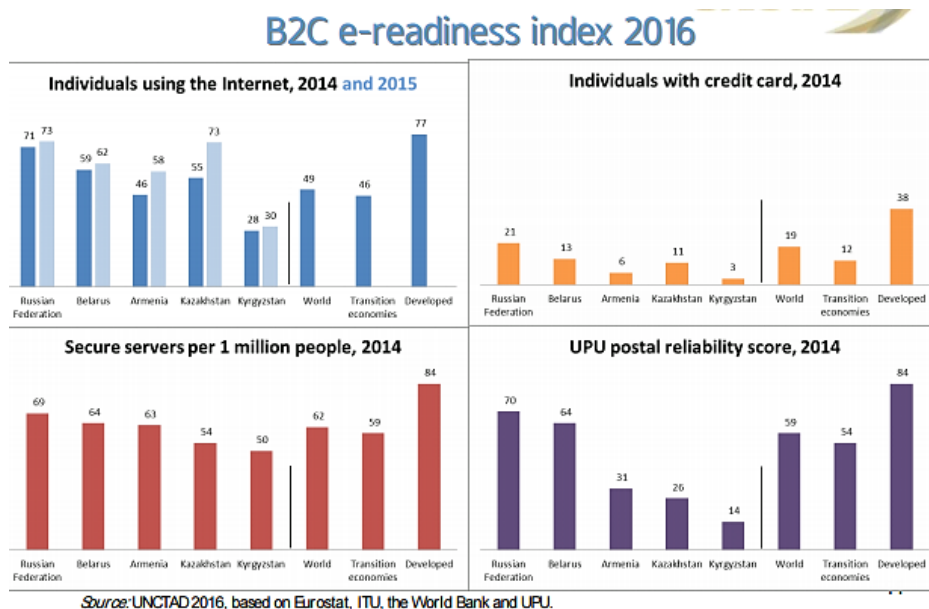
Only a small number of SMEs engage in E-commerce. According to a large survey of SMEs conducted in Russia in 2015 only 1% (10,800) of SMEs is involved in E-commerce.

According to Data Insight, the volume of internal market in 2016 is 190 million orders and 11 million dollars (20-25% growth by orders and 24-30% by profit).

The Russian E-commerce market is very fragmented. There are more than 200 domains, and no one website has a share greater than 5% of volume.

UNCTAD’s B2C E-commerce Index 2016 includes technology indicators (percentage of individuals using the internet and secure internet servers), payment solutions (share of individuals with credit cards), trade logistics (postal reliability score).

Figure 6: B2C readiness index 2016



The value of retail online exports from Russia in 2016 was estimated at US\$ 2 billion, an increase of 32% compared to the previous year. Thus, exports are growing significantly faster than E-commerce in goods and services in Russia.

Table 2: Category-wise share of retail E-commerce

Category	Market Share	Forecast 2016, US\$ million
Games and digital goods (music, movies, books, etc.)	35%	750
Travel (tickets, hotels, guides, etc.)	26%	550
Physical goods (requiring delivery)	23%	500
Software (excluding games)	9%	200
Social networks (Vkontakte, Odnoklassniki) and Online Dating Services (Mamba, LovePlanet, Teamo, etc.)	7%	150

The main reason for the growth of Internet-based retail exports is the increased quality and availability of the Internet in the regions. Observations show that growth in Internet use appears to be a key driver of online business. A second important factor is improved operations of the Russian Post as a tool to send orders within the country and beyond its borders. Although survey respondents sometimes complained about the service, in general the responses were positive.

The development of numerous services to facilitate entrepreneurship, such as platforms, advertising systems, market-places, payment systems (including PayPal and others), have reduced barriers of entry to Internet marketing, and made it affordable for private entrepreneurs. This is especially important for the development of domestic businesses and small companies.

Accessibility to the Internet has created a new business niche for entrepreneurs in the regions; where they can deal with what they like and at the same time earn money. In terms of gamers in E-commerce area especially important role plays the latter clause, which motivates them to work hard in order to get a good result in their initiative as it is the only source of livelihood. The depreciation of the ruble has also made Russian goods more competitive. Following the economic downturn, sellers gave preference to overseas customers who paid in foreign currency.

More than a third of retail exports are digital goods and games (including payments for games, mobile games, and payments for additional in-game services). This sector is growing more slowly than others. However, sales of physical goods are growing faster, particularly since the devaluation of the ruble.

Russia's total retail E-commerce sales reached 920 billion rubles (US\$ 15.7billion) in 2016, up 20% from the previous year, according to a study (in Russian) by the Association of Online Retail Companies (AKIT). Russian consumers, however, increasingly prefer foreign retailers. Last year, growth in the cross-border retail market (37 percent) significantly outpaced that of the local market (6 percent). As a result, foreign retailers accounted for over 300billion rubles (US\$ 5.2 billion) in 2016 – a third of the market. [0]

Top Russian E-commerce for 2016

No. 1 - Wildberries

One of the largest online stores of fashionable clothes, footwear, accessories, cosmetics, Wildberries was established 12 years ago. From year to year the company has continued to develop, expand and improve the quality of service. The Wildberries.ru online store cooperates with leading suppliers and is continually expanding its range of goods and invite new companies selling clothes, footwear, household goods and accessories.[0]

Table 3: Statistics for 2015-2016

Year	Turnover (Online sales), mln. Rub	Orders (Number of orders)	Average ticket, RUB
2015	32 000	17 000	1 900
2016	45 600	29 000	1 570

No. 2 - Ulmart

Ulmart is a private Russian online retailer that led the Russian E-commerce sector in 2013-2015 according to revenue (with about US\$ 1billion per annum). The retailer's distribution network now covers over 400 sales points (fulfillment centers and outposts) in more than 200 Russian cities.

The new format differs from the traditional approach in its focus on the customer, which calls for a different and more integrated approach to logistics. The buyer encourages the development of the logistics system by choosing from a range of delivery methods, from home delivery to pickups at an outpost. The logistical infrastructure becomes the foundation for the sustainable development and growth of the company. Ulmart is a multifunctional trading internet platform offering a wide range of goods and over 120 stock keeping units (SKUs), including electronics, kids and automotive goods, DIY equipment, plane tickets and digital content.

In 2015, Ulmart became the first Russian company to become one of the top 50 global E-commerce players, according to Deloitte. Further, Ulmart became the most valuable brand amongst the Runet companies (after Yandex and the Mail.ru Group), according to Forbes. The year was marked out with the opening of the first fulfillment center in St. Petersburg built by Ulmart itself.[0]

Table 4: Statistics for 2015-2016

Year	Turnover (Online sales), mln. Rub	Orders(Number of orders)	Average order, RUB
2015	36 800	7 360	5 000
2016	38 800	7 820	4 970

No. 3 - Citilink

Electronic discounter Citilink is one of the largest Russian online shops in the Russian market since 2008 offering an assortment of more than 50,000 brands of household appliances, digital electronics and other commodity categories from the leading global manufacturers. Citilink is the trade citilink.ru internet platform of the same name, 27 full-scale shops the area of several thousands of square meters everyone and more than three hundred points of delivery of goods which are submitted in many cities of Russia.

All Centers of electronic trading are equipped with terminals for independent execution of orders, cash desks of payment and windows of delivery of goods. In 2014, the citilink.ru website received more than 350,000 visits a day.[0]

Table 5: Statistics for 2015-2016

Year	Turnover (Online sales), mln. Rub.	Orders(Number of orders)	Average ticket, RUB
2015	24,800	2840	8700
2016	31,600	3230	9790

No. 4 - M.video

Launched in 1993, M.video is the largest Russian consumer electronic retail chain by revenue. In addition to providing an efficient retail store format and customer-friendly store concept, M.video distinguishes itself by offering a wide assortment of quality and innovative products and a 24-hour customer care centre.[0]

In November 2007, M.video became the first publicly traded company in the domestic consumer electronics retail sector. The company's shares are traded on the Moscow Stock Exchange. In 2010 M.video became the number one CE retailer in Russia by business volumes and revenue. M.video runs 382 brand name stores in 162 Russian cities as of June 2016. The selling space of M.video stores accounts to 649,000 sq. m while the total space accounts to 872,000 sq. m. [0]

Table 6: Statistics for 2015-2016

Year	Turnover (Online sales), mln. Rub.	Orders(Number of orders)	Average ticket, RUB
2015	20 400	1 570	13 000
2016	25 900	1 900	13 620

No. 5 - Eldorado

Eldorado is a Russian retail network of household appliances, electronics and household goods. The company covers more than 200 cities and has more than 600 shops in different regions of the Russian Federation. Eldorado actively develops transnational franchising in Kyrgyzstan, Moldova, Armenia and Kazakhstan.[0] Key indicators for 2016[0]:

- Sales increased by 11%, to 130 billion rubles (including VAT)
- Comparable sales (like-for-like) increased by 13.9%
- Online sales have grown by 37.7%, having reached 23 billion rubles (including VAT);
- Comparable online sales have grown by 40.9%.
- The revenue of retail shops per square meter of floor space increased by 1.2%;
- Openly 33 shops, the floor space I have increased by 19 106,5 sq.m

AliExpress

Popular global consumer marketplace

Launched in April 2010, AliExpress is a global retail marketplace targeted at consumers worldwide, many of them located in Russia, the United States, Spain, Brazil, France and the United Kingdom. The platform enables consumers from around the world to buy directly from manufacturers and distributors in China and have access to a wide variety of products at competitive prices.[0] About 85% of the Russian buyers of AliExpress are from the regions. In many cases, a purchase made on AliExpress is for them the first experience of online shopping. According to Data Insight in 2015, Russians order 130.5 million parcels (45% of the total amount) on foreign platforms. According to AKIT, 90% of cross-border trade of purchases is from China. The lion's share from this indicator belongs to AliExpress marketplace. [0] From July 2014 until August 2015, the number of unique visitors grew by 286%, from 94,216 to 363,627 a month.[0]

Figure 7: AliExpress Statistics

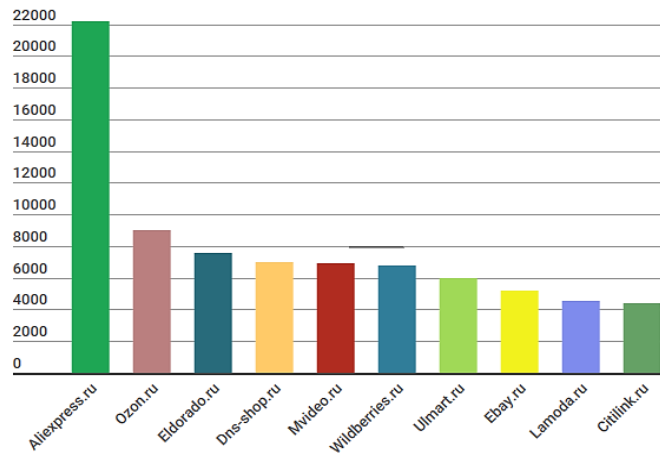


Quicker than all AliExpress of grow at the beginning of 2015, having increased total of inquiries with 3,362,627 in December, 2014 by 33%, having reached in January, 2015 a point in 4,467,682 inquiries a month. It is possible to allocate also peak in August, 2015: the monthly gain of traffic has made 23% of Russia, the number of inquiries has reached a peak point in 7,297,068.[0]

In 2016, AliExpress became the most popular online store in Russia, with over 22 million unique visitors a month. Russia's second most popular E-commerce retailer, Ozon.ru, is far

behind with nine million visitors a month. Third place is Eldorado.ru, an online retailer of consumer electronics, with 7.5 million unique visitors a month.[0]

Figure 8: Top 10 most visited E-commerce websites in Russia



3.1.1. Current status of E-commerce in Russia

In terms of SME numbers and turnover, the SME sector in Russia has been gradually growing in recent years. In 2016, domestic sales of physical goods, not including cross-border sales, food deliveries, C2C, tickets and coupons was US\$ 12billion, representing an increase of 23% from 2015 in rubles and 14% in US dollars. Cross-border sales in 2016 are about US\$ 4.3 billion. According to research, Russian cross-border online sales of goods and services (including digital goods, content, games and social network services) exceeded US\$ 2.8 billion in 2016, which resulted in a 32% overall increase in volume (US\$) compared with 2015. While the domestic market of the same goods and services in Russia was around US\$ 22 billion in 2016, the export market is growing almost twice as fast as the domestic market.

Table 7: E-commerce market volume (2015-2017)

Countries	E-commerce Market Volume (in US\$ billions)		
	2015	2016	2017*
Russia	12.5	15.7	16,061

*(Projected)

3.1.2. Business models

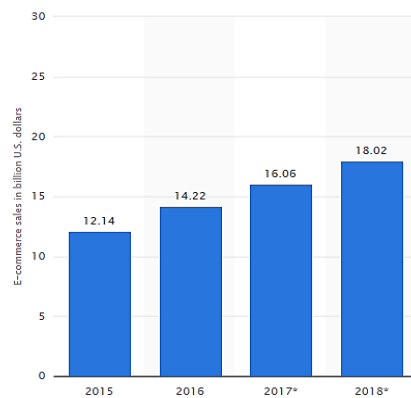
Table 8: Leading E-commerce companies under different business models:

E-commerce models	Leading companies
B2C E-commerce marketplace	Wildberries, Ulmart, M.video, Ozon.ru
C2C E-commerce	Avito, Ebay
B2B E-commerce	AliExpress, Citilink, Eldorado
B2G E-commerce	

Business to Consumer (B2C)

Figure 9: B2C e-commerce sales in Russia

B2C e-commerce sales in Russia



3.1.3. E-commerce platforms

At present, Ulmart is a multifunctional trading internet platform on a national scale with diversified electronics storefronts. Those storefronts offer a wide range of goods and over 120 Store Keeping Units: such as electronics, kids and automotive goods, DIY, air tickets, digital content, and much more.

3.1.4. Best Practice

Wildberries, since 2004, is one of the largest online stores of clothes, footwear, accessories, and cosmetics. Every year company develops and expands geography of presence to improve quality of service to please clients. The Wildberries.ru cooperates with the leading suppliers and tries to expand the range of goods and the directions and invite new companies of clothes, footwear, accessories and cosmetics. ^[5]

Table 9: Statistics for 2015-2016

Year	Turnover (Online sales), mln. Rub.	Orders (Number of orders)	Average ticket, RUB.
2015	32 000	17 000	1 900
2016	45 600	29 000	1 570

Ulmart is a private Russian online retailer that led the Russian E-commerce sector in 2013-2015 in terms of revenue (with about US\$1 billion per annum). The retailer's distribution network now covers over 400 sales points in more than 200 Russian cities. The new format differs from the traditional approach. Mainly its focus on customer as a major decision maker, which in its turn, calls for an entirely different and more integrated approach to logistics. It is the buyer who encourages the development of the logistics system by choosing from a range of delivery methods, for example, home delivery or independent pickups at an outpost. The logistical infrastructure then becomes the foundation for the sustainable development and growth of the company.

Table 10: Statistics for 2015-2016

Year	Turnover (Online sales), mln. Rub.	Orders(Number of orders)	Average ticket, RUB.
2015	36 800	7 360	5 000
2016	38 800	7 820	4 970

Other key players include Citilink, M.video, and Eldorado

3.1.5 Challenge and business environment

The main challenge is the lack of E-commerce data. Official Russian Statistics gives information about 28% E-commerce sales operated by SME involved to E-commerce. The most part of SME in C2C or social webs that is hard to measure. According to massive survey of SME conducted in Russia in 2015 only 1% (10.8 thousands) SME is involved in E-commerce.

3.1.6 Public and private initiatives

RAEC found that of the legislative initiatives passed in 2015, 38% were assessed neutrally or positively. The similar proportion for 2013-2014 was 23%, indicating that the quality of legislation has grown. It is also worth noting what among negatively estimated initiatives is observed rather big (approximately the fifth part) the number of obviously "chanceless" offers

which were made by certain deputies for increase in own quoting in media and creations of a public response. In general, the total (positive, negative and neutrally estimated) legislative initiatives in 2015 and 2016 remained stable.

The character of regulatory initiatives has changed: if in 2013-2014 bills directly concerned the majority of the Internet markets, then the trend on regulation of separate segments was outlined in 2015-2016. For example, rather search engines, online-movie theaters and so forth. Most likely, increase in percent neutral or ambiguous estimates of legislative initiatives is connected with this fact.

Important stage in development regulatory environments became counteraction of the concept of the so-called "Global license", and to "A tax on the Internet" where for the first time with a uniform position both representatives of the Internet industry, and the telecommunication companies, and a considerable part of owners and producers of content have acted became an important stage in development of the regulatory environment. Such experience has allowed turning to the collected questions of reforming of system of collective management of the rights, libraries of public property and orphan works long ago. As for facilities and preferences for branch, here experts read several offers which have resulted from dialogue of branch and the state:

- A priority to the Russian software and the equipment at implementation of purchases;
- Providing equal a condition conducting activity by the Internet companies in the Russian Federation;
- Extension of action of the lowered tariffs of insurance premiums;
- Tax benefits

About a half of respondents consider necessary to leave branch alone and to impose the moratorium on change of the legislation and regulation.

Proceeding from an expert assessment, among the legislative initiatives offered 2015 neutrally or 38%, for comparison during 2013-2014 are assessed positively, the share of such bills was only 23%, thus that the quantity of initiatives in a year has slightly grown.

At the same time the share of the bills which are negatively estimated in 2014 made 77%. Thus, there is a certain tendency to withdrawal from guarding and prohibitive regulation. It is also worth noting what among negatively estimated initiatives in 2015 was observed rather big (approximately the fifth part) the number of obviously "chanceless" offers which were made by certain deputies for increase in own quoting in media and creations of a public response. That is

a large number of initiatives after initial discussion in media remain in the frozen state – considerable number of the bills introduced in the last two years don't go further the first reading or discussions in special-purpose committees, and further aren't discussed in general, or move to archive without explanation of and in defiance of regulations of work of parliament. Partially this process can be explained thanks to fast reaction to such initiatives from branch experts that allows to draw public attention to them and to cut at a discussion stage.

Significant progress was outlined also areas of an assessment of the regulating influence where all initiatives of the last two years have been given an assessment of expert community, and a number of projects and road maps have been created within the expert working groups. An important role in this process is played by the advisory council at the Government of the Russian Federation, and institutes of branch self-regulation and lobbying of interests of segments of branches (RAEC⁴, MKS⁵, ROTsIT⁶, IIDF⁷), and also the Institute of Development of the Internet (IDI) created in 2015.

On the other hand, the end of work of the State Duma of this convocation has been noted by unprecedentedly drastic measures on regulation of the Internet which even government experts couldn't affect. Experts hope that new convocation of the State Duma will continue development of a positive trend in cooperation with branch experts, outlined in 2015, including on the basis of Advisory council at the State Duma Committee on Informational Policy, Information Technology and Communication.

3.1.7. Legal framework relating to E-commerce

Commercial activity in Russia is developing on the basis of the latest information technologies and the Internet. This process puts formation of standard legal support of system of electronic commerce in a row of priority tasks.

By the end of 2006, the legal, technological and financial infrastructure for E-commerce was in place. Russian organizations engaged in E-commerce legal and organizational support were developed and laws and precepts of law adopted allowing E-commerce to function normally.

Today, legal support of E-commerce can be divided into four groups.

⁴ Russian Association Electrotechnical Companies

⁵ Media and Communication Union

⁶ Regional public center of Internet technologies

⁷ Internet Initiatives Development Fund

It is necessary to carry the laws and precepts of law regulating conducting -commerce, electronic document flow and application of the digital signature to the first group. Among them:

- “Recommendations about the organization of activity of persons in the sphere of Internet commerce in the Russian Federation” which contain general provisions on conducting E-commerce;
- The 2006 federal law No. 149-FZ "About information, information technologies and information security" where concepts of electronic messages, documentary information and digital signature are defined.

The second group draws up the laws and regulations regulating safety of E-commerce, business activity, licensing, financing and investments.

1) The legal basis of safety of E-commerce is formed by the following laws and legal acts:

- The act of the Russian Federation “About consumer protection” No. 2300-1;
- Law “About Legal Protection of Programs for Electronic Computers and Databases” No. 3532-1;
- Federal Law “About a Trade Secret” No. 19-FZ;

2) The sphere of business activity is regulated by the laws and regulations of the general property including a regulation of forms of the electronic transaction, a way of placement of the public offer, definition of the contract of purchase and sale, the term of the contract about sale and also the regulations connected with registration and liquidation of trade enterprise including certification of goods or services.

3) The laws “About Natural Monopolies” No. 147-FZ, “About licensing of separate kinds of activity” No. 128-FZ concern competition, monopoly, investments and licensing.

The fourth group of standard legal support of E-commerce is laws and legal statements connected with construction, operation of wireless communication lines, and also maintaining concrete types of business processes.

Taxation issues are regulated by the Tax Code of the Russian Federation

3.2. Contribution of SMEs and E-commerce to the development of the Russian Federation

The current tax regime allows tax exempt purchases less than 31kg in weight and 1000 euros in value. If the weight or value exceeds these numbers, 30% customs should be paid on the excess, at a minimum of four euros per kilogram. The authorities are planning to lower this taxation threshold and introduce VAT on cross-border purchases in the course of 2017.

Russia's retail online export is growing almost twice as fast as the domestic E-commerce market. It is certainly much smaller (15 times smaller) than Internet sales of the same categories of goods inside Russia, and less than the purchases of goods and services made by Russians in other countries. However, its growth exceeds that of the domestic E-commerce market of goods and services.

Almost half of online cross-border trade is in digital goods, games and software (44%), with tourism and tangible goods each representing 25%. However, the physical goods are the fastest growing category both because of neighboring countries, which are actively buying a broad range of goods in Russia, and because of countries outside the former Soviet Union (or non-CIS countries), are buying unique products made or designed in Russia, as well as goods for the Russian-speaking diaspora.

According to the entrepreneurs surveyed, the key constraints to online export are the insufficient quality of logistics, poor knowledge of foreign markets by local players (and even fear of these new markets), and complex paper work at all stages of dealing with foreign clients.

According to a significant number of respondents, customs clearance of material goods during export operations is often complicated and unstable. There is sometimes no clear understanding of procedures, no clear set of required documents and no procedure of settling disputes. For a small business, customs clearance is an unpredictable risk factor that hinders its development of retail exports operations outside the Customs Union.

The contrast between the procedures of online ordering, payment and receipt of parcels is so great that it discourages some entrepreneurs. When sending goods abroad, people have to wait in queues, fill in plenty of documents, not to mention going to the post office or place where the parcel is accepted and packaged. It's complicated and unappealing for entrepreneurs. But there is no alternative.

The key online export obstacles for the surveyed entrepreneurs are low quality of logistics, poor knowledge of foreign players in the market and a complex processing of documents at all stages

of deals with foreign clients, the confusion of customs clearance of material goods at their retail export abroad and unclear procedure of resolution in case of settlement of disputes with that body. For small businesses, according to respondents, customs clearance can sometimes be a risk factor as well, which hinders its development in retail exports outside the Customs Union.

3.3. Development of information technologies by 2025 in Russia

1) To provide storage and data processing in all territories of Russia for the state, business and citizens.

- Create a consortium of data-processing centers to coordinate development of DPCs (Data Processing Center). (2018)
- Create a distribution system for DPCs services in each federal district. (2018)
- Define simplified access for DPCs operators to power infrastructure. (2018)
- Define for operators of DPCs access to the wholesale of electricity market. (2018)

2) To provide storage and processing of all information created by public authorities and local government, in a uniform centralized state cloud platform.

- Define the requirements for use of the state uniform cloud platform by public authorities and local government and approve standards and the plan of migration of information systems. (2017)
- Realize a plan of the translation of information resources of public authorities and local government in the state uniform cloud platform. (2020)

2.1) To improve technical regulation of the DPC for the purpose of ensuring stability, safety and economic efficiency.

- Establish Requirements for classification of DPCs, ensuring stability and safety of their functioning are established. (2018)
- Create a system of certification of DPCs providing an assessment of quality of services. (2018)
- Define the legal mechanism of functioning of the services processing spatial data on the basis of a cloud computing of IaaS (Infrastructure as a Service)[0], PaaS (Platform as a Service)[0], SaaS (Software as a Service)[0], DaaS (Desktop as a Service)[0]. (2019)

4. Key government initiatives to drive E-commerce and SMEs

Government policy is one of the main parameters that influence the acceptance of E-commerce. The adoption of E-commerce can gain strategic advantages such as new markets, close connections to customers and business counteragents.

The Ministry of Economic Development of the Russian Federation intends to coordinate private initiative to build an E-commerce ecosystem platform. One of Russia's largest banks "Sberbank" announced at the end of 2016 plans to build a national platform. According to the Ministry of Economic Development, the framework of the platform will be created by May of 2017. At the same time, the other big E-commerce companies such as Yandex and Ulmart are also planning to create platforms.

5. The main bottlenecks hindering E-commerce and SMEs in Russia

5.1. Focus on current problems/challenges

The research found that the main factors inhibiting the growth of E-commerce relate to delivery and language barriers. Delivery is very expensive and slow. People in Moscow are especially sensitive to the cost of delivery. In the regions there is further problem – foreign languages.

Comparing Moscow-based and regional companies, the former are most concerned about delivery, while the latter about a lack of knowledge of foreign languages. Both groups were equally concerned about the lack of confidence and trust of foreign buyers in Russian companies.

Table 11: Survey of merchants - Challenges in E-Commerce Business

	Total	Moscow	Regions
Delivery abroad	31%	34%	30%
Language barrier	27%	22%	30%
Convincing others that they can trust you	25%	26%	24%
Difference in time zones	20%	22%	21%
Receiving payments	19%	22%	16%
Purchase returns	10%	13%	8%
Excessive demands of foreign customers	7%	6%	8%
Other	16%	15%	17%

Marketing

Marketing of goods and services abroad is significantly different from Internet marketing in Russia. The key differences occur in social networks and search engines. The use of sites, such as Google instead of Yandex and Mail.ru, Facebook instead of V Kontakte and Odnoklassniki could help businesses reach out to a larger market. In addition, specialized marketplaces and subject areas are better developed abroad. Russian entrepreneurs are less educated about these options, which discourage them from making risky investments. As a result, Russian companies use a very limited list of possible tools to attract customers from abroad.

Rating of tools to attract customers (compiled on the basis of open answers of respondents):

- SMM (including, for example, Instagram);
- Personal recommendations and repeat purchases;
- eBay;
- Sales partners.

Analysis of the interviews shows that entrepreneurs do not use content/search advertising capabilities, specialized networks, adverts on specialized sites, display and video adverts. The main reason is higher (or seeming higher) startup costs and the lack of knowledge and experience.

Payments are the simplest part of cross-border trade. Buyers pay via card or PayPal. The vast majority of orders are pre-paid, which distinguishes them from domestic orders. For the sellers, the main problem when receiving payments is the lack of confidence and trust of buyers in sellers from Russia. In particular, this is why one of the main sources of customers is the recommendation from satisfied customers.

The two main problems with delivery are high costs and delivery times. All respondents use Russian Post / EMS to send parcels abroad. Analysis of responses shows that sending parcels abroad is not a problem for those accustomed with the system, but according to entrepreneurs, the process is inconvenient. It involves a large number of documents, taking a long time at the post office. At the same time, services that charge more money for delivery are not better than the standard service. Therefore, a well-designed site can be undermined by the delivery process.

The second issue is the lack of information about the delivery process (unregistered parcels sent without tracking codes), leading to miscommunication with clients and mutual misunderstanding. The reason for these problems is cost cutting as well as ignorance of the rules of logistics companies.

The biggest problem for SMEs is insufficient transparency and unpredictability of rules, and the lack of a clear and precise explanation of customs procedures. According to the respondents, customs do not provide the required set of documents, terms and procedures for sending and returning goods (if the goods have not passed customs). Customs problems are a concern for small business, but not too big (small businesses are accustomed to difficulties). For an average business customs clearance becomes a risk factor that they are not always willing to bear.

English (and other language) is the second most important issue for all respondents after logistics. Many of the respondents are very small companies that cannot afford to hire an English speaker to work with foreign clients. Although many respondents indicated difficulties with English, difficulties in communication with clients, they still continue to work with foreign buyers. In other words, the lack of English hinders the development of sales, leading to all sorts of difficulties, but does not make the trade with other countries impossible.

5.2. Potential solutions and recommendations (supported by successful case studies)

To resolve these issues, almost half of the respondents see partners abroad, who take on all the tasks for promotion of goods and services, communication with partners and customers. According to the survey, 47% of respondents indicated a shortage of partners, and 35% underlined the lack of knowledge of foreign markets. Just over a quarter of respondents (28%) pointed to complicated customs. A similar number (24%) complained about the payment complexity. Another point is the lack of investment. Access to new markets requires significant investment and entails a certain amount of risk. However, based on the responses, the perceived costs are larger than what is required in reality. The majority of those who are unable to attract investment see government support as the main way to overcome the obstacles.

Besides investment and bureaucratic issues, companies suffer from a shortage of specialized personnel who can handle and understand the difference between internal and external markets. In fact, if we summarize the answers of respondents and experts, SMEs need support from companies that will help them to enter into other markets, train them to work in other countries, and facilitate relations with foreign clients.

Table 12: Responses of the Survey of Merchants in Russia

Problems Faced	Total	Moscow	Regions
Partners abroad	47%	48%	44%
Knowledge of foreign markets and ways of working on it	36%	35%	37%
Simplification of customs legislation	27%	28%	27%
Simplification of legislation related to the reception of payments from abroad	24%	24%	25%
Convenient infrastructure (logistics, payments)	22%	21%	21%
Government support	18%	19%	18%
Other	17%	18%	17%

Afour - it is a Russian shoe manufacturer designing bespoke shoes. The company has an online store and show-room, and uses PayPal to accept payments from Russian and foreign clients.

“Vladimir Grigoryev, the founder of the company says that he was a big fan of skateboards and excitingly designed shoes made by manufacturers from abroad. However, at some point, I realized that I could not find the desired ones in ordinary shoe stores. Thus, the wish to be different inspired me to come up with an idea to open an internet store for a people who love individuality.”

The first designs are sewn in a factory by acquaintance, new customers come through social networks and sales were growing. During the 2008 crisis, the growth stopped, but Vladimir has decided to continue. Taking advantage of the respite, he has mastered the entire cycle of the production process and learned to sew and cut. Within two years he had carried out all the orders himself in a shoemaker's workshop rented from a friend. Now the company employs 11 people, and the business shows a steady annual increase. Vladimir continues to embody the idea in life and calls himself a "steamer-man", dealing with all management, design, finance and recruitment processes. *Afour* owns two trading platforms: the site, which shows collection of designs, as well as the production shop, where one can try on different models.

The main audience of the brand is people aged 25-35, but, according to Vladimir, often young people comes back and leads parents with. The number of buyers from abroad grows as well, and if earlier the majority of buyers from abroad were Russians, but now orders from abroad come mainly from foreigners. The most active buyers are people from English speaking

countries, especially from US, Canada and Australia. The total share of orders from US makes up about the 50% of all sales out of the 65% sales to abroad. This ambitious expansion beyond the geographical borders displays the priority of the company and currently sales take place almost from all over the world, excluding South America and Africa.

6. Policy recommendations

6.1. For the Government of the Russian Federation

1. Domestic market

Create a National Strategy of Development of E-commerce in the Russian Federation for 2017-2025.

The strategy should make an obvious distinction between:

- B2B, B2C, C2C, G2B
- domestic and international/cross border trade
- enterprise size (attention to small and medium enterprises)
- economic activity
- goods and services

The strategy should concern logistics and payment development, data protection, copyright, mobile communications, and consumer protection.

Nevertheless, these regulations and laws governing the E-commerce should not impede the growth of the market. Unfair regulation rules can hamper demand in some markets and products.

The best international practices of policy E-commerce regulations should analysed and applied where appropriate.

Deregulation of the E-commerce market in alcohol, medicine and jewelry.

E-commerce conditions should protect merchants. For SMEs, websites are the easiest way to do business than manage a brick-and-mortar store. Nevertheless, E-commerce needs rules and regulations to protect fair merchants and customers.

2. External market

Creation and management of national project “Export E-commerce”

- Creating a single database (“Export Atlas”) of Russian manufacturers;
- Establishment of conditions for export via E-commerce and mass withdrawal of Russian companies on the global platform;
- Ensuring large scale involvement of exporters and potential exporters in the project through information and educational activities dedicated to the opportunities for exports via E-commerce;
- Conduct online media campaigns aimed at foreign consumers about Russian products and brands;
- Formation of regulatory framework to facilitate export operations via E-commerce.

6.2. International organizations

UNCTAD offers initiatives to measure E-commerce and cross-border E-commerce:

- UNCTAD’s programme on information economy statistics and Partnership on Measuring provides technical assistance to boost the capacity of national statistical systems to produce internationally comparable indicators. UNCTAD collects data annually and sends to national statistics offices.
- UNCTAD B2C E-commerce index
- initiatives on cross-border E-commerce statistics

The OECD’s definition of E-commerce: “sale/purchase of goods and services, conducted over computer networks” – excluding typed emails.

6.3. Recommendations for the private sector

E-commerce transactions should be legally straightforward. Buyers expect a high quality of services, shipping, refunds, and payments:

- **A clear delivery and payment policy** encourages buyers to be more active consumers (shipping discounts, co-branding programmes with Russian Post, private logistics companies, etc.).
- **A returns policy.** Maintain proactive and efficient communication with customers (email/SMS updates) especially when delivery issues occur. Making information on the websites clear and detailed (better photos, accuracy descriptions) can help prevent problems from disgruntled customers. Russian customers are used to high quality

services provided by foreign E-commerce merchants. Unfortunately refunds policy is weak and customers do not trust E-commerce. Refunds should be a normal part of business.

- **Protect safety policy from fraud**, such as fraudsters taking products and demanding a refund).

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