Current Trends in the Development of Russia’s E-Commerce Sector

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Abstract:

This paper examines some of the latest trends in the market for electronic commerce that have been unfolding recently in a climate of rapidly evolving information and communications technology. In Russia, this segment of the economy is currently developing at a considerable pace, attracting a great many clients, with online sales posting steady gains, which is having an increasingly greater impact on the nation’s economy.

The need, eventually, arises to explore in detail the current state and prospects for the development of the domestic e-commerce market. The volume of sales generated online in Russia is expected to only increase going forward, with Internet commerce set to be one of the most promising areas for business development. This has been facilitated by recent boosts in the population’s purchasing power and the increasingly overwhelming popularity of Internet commerce.

Having said that, there are also several impeding factors hindering the market from growing at full capacity. These include existing restrictions on the distance sale of pharmaceuticals and alcohol, certain legal issues inherent in the sale of jewelry, and the high costs of merchant acquiring services online stores are facing. Cross-border trade continues to outdo the Russian local market in growth. If this imbalance in conditions for the conduct of business persists, there is sufficient likelihood that foreign companies will one day own all of the Russian Internet market.

Keywords: Internet commerce, sales, online services, purchase of goods, electronic commerce.

JEL Classification: O10, L80, L86.

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1. Introduction

Today, Internet commerce is a sort of mandatory component in the economy of any nation. Everything that makes things more convenient for the consumer will be in demand these days. The Internet now plays a crucial role in commerce. Indeed, just 10 years ago most commercial retailers did not use the Internet for business purposes, with some even treating it with suspicion, while nowadays even the largest retail companies tend to set great store by doing business via online outlets (Bochkova and Pishchulina, 2014; Vlasov, 2017; Vovchenko et al., 2017). What is more, it has become obvious over the last 3–4 years that electronic commerce is the right path into the future, while ignoring it is the one to failure and downfall. And this makes perfect sense, if only because most retailers own an online store (Vasil’ev, 2001). Internet commerce has come to the Russian Federation, if a bit tardily.

Russia leads Europe in Internet users, with a total of 84 million people using the Web each month. Having said that, Russia is significantly behind advanced nations in Internet penetration – 70.4%. The nation posted no gains in Internet penetration in 2016. However, the share of consumers using the mobile Web via a smartphone was up 4.9 percentage points, totaling 42.1% of the nation’s population. 19% use the Internet through a tablet PC. Most Internet users fall into the 16–29 age group – 97%. Right now, the mobile economy contributes 3.7% to Russia’s GDP. Its contribution to the nation’s economic growth is forecasted to total 7.5% and 4.7% to GDP by the year 2021.

2. Methods

The key data source employed in this study is state statistical materials on the development of Russia’s Internet economy. This information helped assess the current economic situation and conduct a retrospective analysis of said segment’s development. The study’s methodological basis is grounded in the systemic and processual approaches. To formalize and summarize the study’s findings, the following methods were employed: general logical methods, formalization, and deduction. A review of the literature helped identify some of the better-studied areas related to and expose some of the key issues in the way the nation’s Internet economy is being shaped by domestic entrepreneurs. These issues require further investigation in the search for effective mechanisms for successful partnerships within the innovation sector (Ovseiko, 2009; Krupnik, 2002). A large part of the authors’ focus is on issues that have been the object of extensive scholarly discussion, some well-researched and others less so.

3. Results

3.1 Analysis of Russia’s market for Internet commerce: Its distinctions and characteristics
Internet commerce is one of the world’s most dynamically developing high-tech markets. Globally, based on data from Remarkety, China became the largest market for electronic commerce in 2015. One of the key factors in this growth is the nation’s large population (Sanders and Temkin, 2000). Among the top 3 nations are the US and Great Britain. Russia is currently among the top 10 nations in Internet commerce market development.

Over the coming years, one can expect a positive correlation between indicators of Internet penetration and growth in the market for electronic commerce in Russia, which are expected to grow considerably amid a positive trend toward growth in the volumes of the market for commerce. The global annual turnover of the Internet economy is over $1 trillion and continues to grow at a steady pace (Baltovskij et al., 2015). Worldwide, nationwide, and local crises have not tangibly affected the growth of the Internet economy around the world, the average growth rate for the total world market for electronic commerce totaling 17% (2015–2016). However, given the sanctions and some other negative phenomena, the rate of growth of Russia’s Internet economy will total just 14.8% as opposed to the expected 22.3%. Based on data from e-Marker, after a major upturn in Russia in 2012 (+35% on 2011), the rate totaled just 9% in the period 2015–2016, set to dwindle gradually.

Considering the changes in the exchange rate for the ruble against foreign currencies, in 2015 the volume of Russia’s internal market for Internet commerce totaled 650 billion rubles ($9.7 billion). The market grew 16% in ruble equivalent on 2014 and dwindled 28% in dollar equivalent. In 2016, the volume of Russia’s market for Internet commerce totaled 920 billion rubles and grew 21% on 2015. There are good grounds to believe that the market for Internet commerce is stabilizing now. Consumers have, by and large, adapted to the current exchange rate for the ruble, with many tending to buy via the Internet specifically for the purposes of saving some money, as online stores are, indeed, a good place for a bargain. Russia ranked 9th globally in 2016 in Internet market volumes. Most consumers are mainly interested in purchasing household appliances and electronics, clothing and footwear, computers and related accessories, as well as car parts.

However, there are certain issues impeding the process, resolving which – to ensure robust development with minimal losses and risks – warrants state support. The primary objective for the government is to create a stable situation in the market for electronic commerce and ensure that the share of the volume of the Russian market grows in relation to that of the global one. Figure 1 illustrates the dynamics of the volume of sales generated by the domestic Internet economy, based on data from the Association of Internet Trade Companies.
Figure 1. Volume of sales generated within the Russian Internet economy.

The commodity composition of the market for Internet commerce comprises multiple cross-sectional categories – from car parts and large-format household appliances to perfumery and objects of art (just about anything featured in traditional retail). The greatest growth in the period 2014–2015, according to InSales, was exhibited by the following 5 key categories: Household Goods, Car Parts, Construction Materials, Accessories, and Gifts. The least growth was recorded with the categories Flowers, Cosmetics and Perfumery, as well as Printed Books. That being said, the average spends across Russian Internet stores, according to Data Insight, totaled 4,050 rubles – and €52 across foreign ones, based on data from the Association of Internet Trade Companies. Many stores do not limit their supply to just 1 product category, while there are also stores with narrow specialization. At the end of the 1st quarter of 2016, the volume of the domestic market for household appliances and electronics totaled 61.1 billion rubles, which is an increase of 20.7% on the same period in the year before. Commerce via the Internet can encompass a huge audience both in number of consumers and in geographic coverage. Figure 2 illustrates the commodity composition of Russia’s Internet economy.

Internet commerce is a young segment within the world economy, with the world’s 1st ever online store having appeared just 20 years ago (Russia’s a couple of years after), but the segment has been making rapid headway and seeing much growth. Russia has what it takes to lead the way in the market for electronic commerce and has been making confident strides in that direction, with demand continually rising (Gnezdova et al., 2016). Table 1 lists Russia’s top 10 Internet stores with the largest sales volumes in 2016. Each of these has distinctive characteristics of its own that appeal to consumers and draw them in.
Figure 2. The goods structure of the Russian Internet economy.

Table 1. Internet Stores with the Largest Sales Volumes at Year End 2016.

<table>
<thead>
<tr>
<th>No.</th>
<th>Store</th>
<th>Type of store</th>
<th>Turnover, million rubles per annum</th>
<th>Number of orders per annum</th>
<th>Average spend, rubles</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>ulmart.ru</td>
<td>emporium</td>
<td>36,800</td>
<td>7,360,000</td>
<td>5,000</td>
</tr>
<tr>
<td>2.</td>
<td>wildberries.ru</td>
<td>clothing, footwear, and accessories</td>
<td>32,800</td>
<td>17,000,000</td>
<td>1,900</td>
</tr>
<tr>
<td>3.</td>
<td>citilink.ru</td>
<td>emporium</td>
<td>20,400</td>
<td>1,570,000</td>
<td>13,000</td>
</tr>
<tr>
<td>4.</td>
<td>mvideo.ru</td>
<td>household appliances and electronics</td>
<td>36,800</td>
<td>7,360,000</td>
<td>5,000</td>
</tr>
<tr>
<td>5.</td>
<td>exist.ru</td>
<td>car parts</td>
<td>17,300</td>
<td>6,650,000</td>
<td>2,600</td>
</tr>
<tr>
<td>6.</td>
<td>eldorado.ru</td>
<td>household appliances and electronics</td>
<td>16,900</td>
<td>2,090,000</td>
<td>8,100</td>
</tr>
<tr>
<td>7.</td>
<td>svyaznoy.ru</td>
<td>household appliances and electronics</td>
<td>16,700</td>
<td>1,720,000</td>
<td>9,400</td>
</tr>
<tr>
<td>8.</td>
<td>kupivip.ru</td>
<td>clothing, footwear, and accessories</td>
<td>16,600</td>
<td>1,770,000</td>
<td>9,400</td>
</tr>
<tr>
<td>9.</td>
<td>ozon.ru</td>
<td>emporium</td>
<td>15,200</td>
<td>5,180,000</td>
<td>2,900</td>
</tr>
<tr>
<td>10.</td>
<td>komus.ru</td>
<td>office goods and supplies</td>
<td>12,900</td>
<td>1,250,000</td>
<td>10,300</td>
</tr>
</tbody>
</table>

A recent analysis of the online stores market and consumer behavior conducted by Data Insight has produced the following findings:
- 34% of respondents shop over the Internet because that saves them time.
- 28% prefer shopping online because they get a chance to explore product
descriptions and can take their time making a choice that is right for them.
- 22% prioritize online shopping for affordable prices.
- 11% have chosen the Internet because it enables them to find novel and rare goods
that are not available offline.

The market for electronic commerce is developing at an ever increasingly fast pace.
Making purchases via a cellphone is so common nowadays that it is the rule now
rather than the exception. In Russia, 8% of all purchases are made through
smartphones, 12% – through tablet PCs, and 80% – through regular computers. To
compare, in South Korea 50% of all purchases are made via smartphones. On
average globally, the share of mobile purchases is currently 25% (this mainly is the
case with advanced nations, like the US, Russia with its 8% classified among
developing ones in the area), looking to grow further. One of the major trends
inherent in the period 2015–2016 is websites getting adapted to mobile devices
(Scuotto and Ferraris, 2016; Bondarenko et al., 2017; Bashmakov et al., 2015).

Most Russian Internet stores do not have courier services of their own and just use
the various delivery operators with a wide network of outlets across the nation
(Nikishin, 2016; Erastova 2016; Okunev et al., 2016). Russian Post continues to lead
the way as a delivery service. A new type of service that is gaining momentum today
is outsourcing fulfillment, i.e. the outsourcing of logistical processes, including
picking, grading, packaging, marking, and shipping products and processing orders.

3.2 Analysis of the expenditure of Russian consumers at foreign Internet stores

The development of electronic commerce is giving rise to the emergence of novel
forms of commerce. The absence of borders between nations within the World Wide
Web makes it possible to sell and send goods directly to natural persons residing in
the Russian Federation by way of international shipments without having to register
as a legal person on Russian soil and do so for tax purposes. This business model,
which is finding increasingly wide use today, is inherent in Internet commerce only
and is referred to as cross-border trade.

In 2016, the volume of the market for cross-border trade (purchases made at foreign
Internet stores) increased 37% on 2015 and totaled 301.8 billion rubles, which is
33% of Russia’s entire market for Internet commerce, with the share of cross-border
trade posting an increase of 4 percentage points. Russians are still making the largest
portion of their purchases at Chinese Internet stores (JosephNg and Kang, 2016).
The share of shipments from China is 90%, from the European Union – 4%, and
from the US – 2%. By value China accounts for 52%, the European Union – for
23%, and the US – for 12%. At the end of the 1st quarter of 2016, Russian
consumers purchased 70 billion rubles worth of goods while shopping at foreign
Internet stores, with growth registering at 6% versus 2015 (Figure 3) (Cao and Ding, 2016).

**Figure 3. Volume of cross-border trade in Russia (imports).**

The principal supplier of shipments coming into Russia from foreign Internet stores is Russian Post – 95%. In 2016, the total number of parcels and small packages with goods in them was 230 million pieces. The largest portion of the money spent by Russian consumers at foreign Internet stores went to clothing and footwear and minor household appliances and electronics. In value, over 60% of purchases made at foreign Internet stores did not exceed €22, while 95.5% of purchases fit into €150. At the end of the 1st quarter of 2016, the average value of a parcel with an item in it totaled 1,400 rubles, but since then this indicator has dropped 32% (Kuznetsov, et al., 2016) Declines in the size of the average spend are associated with not so much the effects of the economic downturn as boosts in the popularity of cross-border trade and increases in the share of small and cheap products in the total volume of international shipments. Over half of Russia’s consumers who shop at foreign Internet stores reside in Moscow (46%) and Saint Petersburg (11%), the rest of the regions accounting for 43% of all shipments (Figure 4).

### 3.3 Analysis of Internet commerce across Russia’s regions

Today, purchasing goods over the Internet is the only way for many consumers from Russia’s remote regions to get a product they like. Rural residents account for 18% of the nation’s Internet-based consumers. Smaller cities and the countryside are home to 54% of potential clients prepared to make use of online services. The most remarkable difference between Russian retail and its European and American
counterparts is the disproportionate number of sellers and consumers across the regions. The most substantial regions in share of Internet commerce are the federal cities Saint Petersburg and Moscow. In 2016, the way in Internet commerce among the constituent entities of the Russian Federation was led by Rostov Oblast, Krasnoyarsk Krai, Tyumen Oblast, Sverdlovsk Oblast, and Samara Oblast.

**Figure 4. Purchases at foreign Internet stores.**

![Pie chart showing purchases at foreign Internet stores]

However, in terms of growth in Internet sales of electronics and household appliances the way at the end of the 1st quarter of 2016 was led by the Southern Federal District and the North Caucasian Federal District. The only region that demonstrated negative dynamics in online sales of household appliances and electronics at the end of the 1st quarter of 2016, versus the year before, was the Far Eastern Federal District. Table 2 lists Russia’s regions with the greatest growth in cross-border trade in 2016.

**Table 2. Russia’s Regions with the Greatest Growth in Cross-Border Trade in 2016 (versus 2015).**

<table>
<thead>
<tr>
<th>RF constituent entities</th>
<th>Growth in rubles, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of North Ossetia-Alania</td>
<td>67.3</td>
</tr>
<tr>
<td>Kabardino-Balkar Republic</td>
<td>60.4</td>
</tr>
<tr>
<td>Karachay-Cherkess Republic</td>
<td>59.9</td>
</tr>
<tr>
<td>Republic of Khakassia</td>
<td>59.2</td>
</tr>
<tr>
<td>Krasnodar Krai</td>
<td>58.7</td>
</tr>
<tr>
<td>Jewish Autonomous Oblast</td>
<td>58.6</td>
</tr>
<tr>
<td>Vladimir Oblast</td>
<td>58.5</td>
</tr>
<tr>
<td>Ivanovo Oblast</td>
<td>65.4</td>
</tr>
<tr>
<td>Republic of Dagestan</td>
<td>64.2</td>
</tr>
<tr>
<td>Smolensk Oblast</td>
<td>60.8</td>
</tr>
<tr>
<td>Republic of Mordovia</td>
<td>65.4</td>
</tr>
<tr>
<td>Tuva Republic</td>
<td>64.2</td>
</tr>
</tbody>
</table>
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<table>
<thead>
<tr>
<th>Region</th>
<th>Volume (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Adygea</td>
<td>62.0</td>
</tr>
<tr>
<td>Sakha (Yakutia) Republic</td>
<td>62.9</td>
</tr>
<tr>
<td>Orenburg Oblast</td>
<td>60.5</td>
</tr>
<tr>
<td>Voronezh Oblast</td>
<td>57.8</td>
</tr>
<tr>
<td>Kamchatka Oblast</td>
<td>56.7</td>
</tr>
<tr>
<td>Penza Oblast</td>
<td>53.7</td>
</tr>
<tr>
<td>Republic of Kalmykia</td>
<td>57.6</td>
</tr>
<tr>
<td>Ryazan Oblast</td>
<td>52.3</td>
</tr>
<tr>
<td>Mari El Republic</td>
<td>57.9</td>
</tr>
<tr>
<td>Tver Oblast</td>
<td>55.1</td>
</tr>
<tr>
<td>Moscow</td>
<td>36.0</td>
</tr>
<tr>
<td>Saint Petersburg</td>
<td>37.7</td>
</tr>
</tbody>
</table>

In 2016, certain regions of Russia demonstrated considerable growth (equaling or even outdoing the Central Federal District). Overall, the Central Federal District still leads the way in volume of Internet commerce, with the volume of regional Internet commerce totaling 290.8 billion rubles and posting an increase of 6.3% in 2016. The volume of the market for cross-border trade within the Central Federal District totaled 153.3 billion rubles, up 37.1% on 2015.

In the Northwestern Federal District, the market for Internet commerce totaled 135 billion rubles and posted an increase of 25.4%, which surpassed the growth of Russia’s entire market. Thus, the Northwestern Federal District increased its share in the total volume of Russia’s Internet commerce from 14.2% to 14.7%. The share of cross-border trade in the Northwestern Federal District totaled 34.7%, which is greater than the national average. The volume of Internet commerce in Saint Petersburg totaled 86 billion rubles (64% of the market for Internet commerce within the Northwestern Federal District). The market for Internet commerce within the Siberian Federal District totaled 62.5 billion rubles with an increase of 26.2%, beating national growth by a little. Thus, the Siberian Federal District provided an increase in the overall volume of the Russian market for Internet commerce from 6.5% to 6.8%. The share of cross-border trade within the Siberian Federal District totaled 35.9%, which is greater than the national average.

In the Southern Federal District, the market for Internet commerce totaled 59.2 billion rubles, posting a growth of 38.1%, which surpassed national growth by a wide margin. Thus, the Southern Federal District provided a 0.8% increase in the total volume of Russia’s market for Internet commerce Russia. The share of cross-border trade in the Southern Federal District was smaller than the national average, registering at 22.1%. This phenomenon is associated with the active growth of such cities as Sochi and Krasnodar and the emergence of local players in the market. In the Volga Federal District, the market for Internet commerce totaled 114 billion rubles with the growth of 37.2%, which provided an increase in the total volume of Russia’s market for Internet commerce from 10.9% to 12.4%. The share of cross-border trade within the Volga Federal District totaled 26.1%, which is below the national average. The region has been growing due to such regions as Nizhny
Novgorod Oblast, Samara Oblast, the Republic of Bashkortostan, and the Republic of Tatarstan.

The Internet may become an efficient anti-recession tool for regional players. Regional players stand every chance of occupying their niche, as they always have an edge due to being closer to their audience (Nasakin, 2007). Regional sellers can pick a narrow niche and represent an exclusive product oriented toward a smaller audience of consumers. A regional store will even have an edge over its capital counterpart, if it is able to arrange an instant delivery service in the area (Saibel’ and Saibel’, 2016). The prospects for a regional online store depend on what kind of niche you have picked for it and the way you will organize your promotion activity, as well as product quality and logistics.

4. Discussion

In present-day conditions, the Internet economy is a major means of pursuing globalization and a backbone component of the world economy (Veselovsky et al., 2017). The Internet both provides an impetus for economic growth in advanced nations and enables less advanced ones to develop and integrate into the global economy. The Internet economy should not be set in opposition to the “old” economy, which services society’s material needs. Today, the Internet economy is a new, independent, type of economy that is set to challenge some of the fundamental economic postulates known to man (Stratulat and Ciobanu, 2016). Technology is shaping a new, Internet-based, economy that is predicated on knowledge, as opposed to the ever-increasing consumption of non-reproducible resources. About Russia, at this stage of the dynamic development of domestic Internet commerce the state may need to, above all, implement a set of relevant measures aimed at the support of Russian participants in the market. Most domestic players are currently unable to withstand competition from foreign retail online stores in price and quality (Sekerin et al., 2014). Therefore, Russian consumers are ending up stimulating the economies of other nations (mainly China, the US, and Western Europe) by making mass-scale online cross-border purchases (Jain, 2014). The government is expected to come up with solid state policy aimed at regulating the activity of regular participants in the Russian market for Internet commerce, as well as players from adjacent areas that may be present within the sector’s ecosystem (e.g., logistics and postal operators, intermediary companies, etc.). State support should also make it possible for the online market to come out of the shadows and help boost federal revenue from taxes because of boosts in the market share of local participants.

5. Conclusion

What remains the major factor in the development of the Internet commerce sector in Russia, just like anywhere around the world, is greater Internet (mainly mobile) penetration (especially, in regions). Consequently, one should expect boosts in the number of online consumers (Alekseev, 2000). The authors have found that there is
strong interrelationship between these indicators (correlation coefficient – 0.998). The volume of online sales is largely dependent on the size of the Internet audience, i.e. any new user may potentially contribute to boosts in the volume of sales over the Internet (overall, regardless of product categories). The actual price factor appears to recede into the background (Kosov et al., 2016). The pressure on the Russian market for Internet commerce will only increase if no relevant changes are made in legislation. Foreign online stores will be able to increase their share of the Russian market due to their ability to offer cheaper and/or higher-quality goods as a result of savings in taxes (Slozko and Pelo, 2015). In that case, cross-border trade will continue to grow faster than the market for Internet commerce (upwards of 25% annually). It is worth noting that foreign players are perfectly aware of Russia’s potential, for which reason many are implementing Russified user interface functionality, as the language barrier is a key obstacle to shopping at foreign online stores.

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