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## **E-COMMERCE DEVELOPMENT IN RUSSIA: TRENDS AND PROSPECTS**

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## **Abstract**

Russian commercial enterprises operate in conditions of increased competition and global effects of the world economic crisis. Limited financial resources, instability of the economic environment, escalating demands of consumers for the quality of services make it necessary to search for additional sales channels. With the popularization of the Internet and integrated automation of economic sectors, the role of e-commerce is becoming increasingly important. In 2015, the B2C e-commerce turnover in Russia increased by 6.6% compared to the previous year and amounted to 21.621 million euros. Russia is ranked first in Europe in terms of the number of e-shoppers (30 million people in 2015), and this number keeps on growing steadily. The main purpose of this paper is to analyze the obstacles to and the opportunities for the development of the Russian e-commerce market. High practical importance and lack of theoretical basis underlie the relevance of the article's subject.

**Keywords: Russian E-Commerce Market, E-Commerce Development, E-Commerce Opportunities, E-Commerce Barriers**

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## **INTRODUCTION**

The development of e-commerce exerts a positive influence on economy, especially in developing countries. A number of researchers give an overview of the development trends in today's Russian internet market [1-3], examine the barriers to and drivers of the expansion of e-commerce in Russia [4-6], and undertake surveys of companies on challenges to be tackled while adapting business to the conditions in the Russian e-commerce market [7].

Using the power of the Internet, companies are able to gain access to foreign markets and expand distribution channels creating an effective system of association between suppliers

and buyers. Companies have an opportunity to reduce costs in the supply networks they constructed; provide customers with services of higher quality than before; enter new markets that were earlier inaccessible due to the geographical reasons; create new labor and capital markets; generate new revenue streams, and, finally, reconsider the nature of their activities [8-11]. It becomes evident that countries and companies that ignore the vast potential of e-commerce can significantly weaken their positions in the domestic and international markets because of their inability to operate under modern conditions of toughening competition.

Experience in the use of e-commerce is becoming increasingly important for Russia, especially in connection with the expansion of the country's role in globalization processes. The penetration of Russia in the global e-commerce market will improve the efficiency of foreign trade operations, strengthen its position in the field of commodity trade, enhance business ties in the area of regional and international cooperation and, in addition, create new jobs within the country. But, unfortunately, the factors influencing the effectiveness of e-commerce in specific sectors of economy are not fully identified.

The main objectives of this article are to identify the factors that influence the development of e-commerce in Russia and examine the factors behind online buyers' behavior.

## **OVERVIEW OF THE RUSSIAN E-COMMERCE MARKET AND CURRENT SITUATION**

According to some researchers, Russian commerce is very challenging, unpredictable and characterized by many problems; Russian customers are very demanding [7]. There are several definitions of e-commerce offered by various scientists [12]. So, Kim [13] defines e-commerce as "the delivery of information, products and services, or payments via telephone lines, computer network or any other electronic means". According to Chaffey [14], it is "all electronically mediated information exchanges between an organization and its external stakeholders". Salo [7] examines e-commerce from several different positions (Table 1).

**Table 1:** Definitions of e-commerce from various perspectives.

Perspective	Definition of e-commerce
Communication perspective	E-commerce is a flow of information, payments, products and services over different electronic channels
Business perspective	E-commerce uses technology in order to automate business transactions
Service perspective	E-commerce is a tool for customers and managers of the company which is used to reduce costs, improve quality and cut the delivery time
Online perspective	E-commerce is an atmosphere of products, services and information available online
Source: [7]	

Moreover, the e-commerce market falls into several categories: B2B, where companies order products from suppliers and put them into storage; B2C, where customers purchase products from e-stores; and C2C, where customers sell products via forums to other customers. Nowadays most e-commerce businesses employ online shopping, B2B buying and selling, use social media and marketing to inform prospective and established clients (e.g. newsletters) or are engaged in pre-tale for launching new products and services. In the article the authors focus on B2C category.

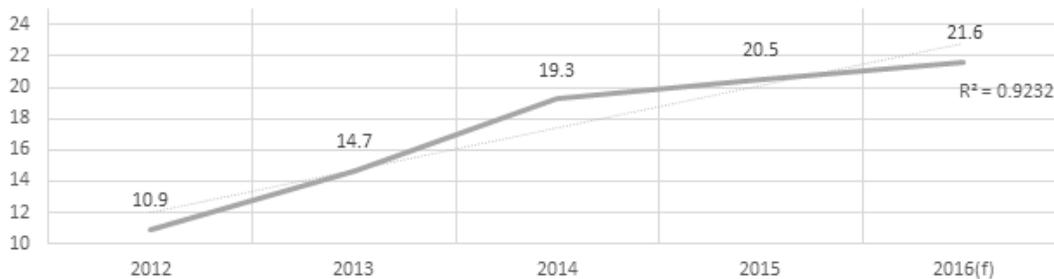
The development of e-commerce dates back to 1971 when ARPANET (the technical foundation of the Internet) was used by students of MIT and Stanford to buy/sell weed. This is unofficial information, but it is considered to be the first technically recorded use of the Internet as a means of purchase and sale. Officially, the first online shopping system was demonstrated in 1979 by Michael Aldrich [15]. Currently five biggest online retailers are Amazon, Dell, Staples, Office Depot and Hewlett Packard. It is little wonder that Amazon and EBay were among first companies that introduced electronic transactions [16].

In terms of food and e-commerce relationship, commonly known as e-grocery, the broad use of the Internet for food shopping is a “late starter” trend, meaning online sales for food kicked off later than they did for other categories of consumer goods [17,18].

To evaluate electronic commerce in Russia, it is important to understand the Internet penetration in Russia as it lags far behind most other European countries [19-22]. In 2010, the Internet penetration rate was 37%, by late 2015 it exceeded 70% (85.8 million Russians declare they use the Internet [3]).

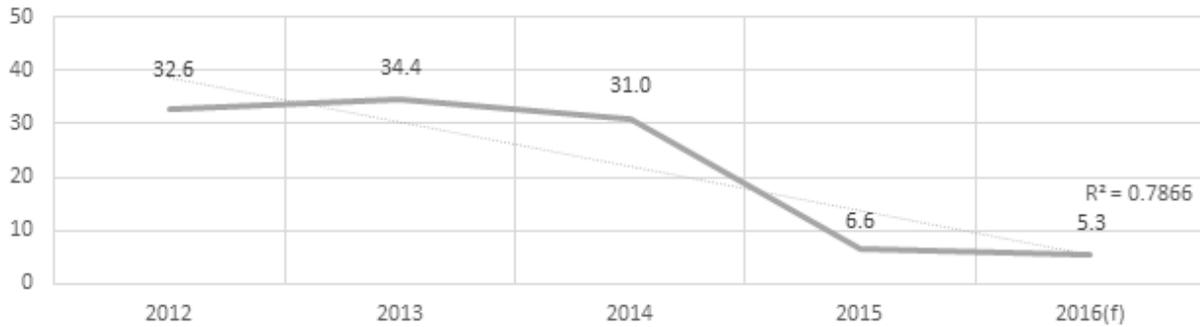
In 2015, e-commerce embraced more than 30 million Internet users in Russia and several dozens of millions of online shoppers are expected to join by the end of the decade. However, it is worth mentioning that due to the current economic downturn, some e-commerce companies have seen their sales volume stagnating or even decreasing since mid-2014 (Figures 1 and 2).

**Figure 1:** B2C e-commerce revenue (millions of euros). Source: [3].



It is worth mentioning that the e-commerce market was constantly boosting until 2013 [2,23-25]. During the economic crisis 2008-2009 the market growth rate slowed down, but after the crisis the growing trend continued [6]. According to some experts [3], the most significant factors affecting the e-commerce market are GDP per capita, GNI per capita, inflation, unemployment, population growth, particularly the active population in the age category 15–64. GDP per capita in Russia has been constantly decreasing since 2013 (The World Bank). GNI per capita growth has been demonstrating a significant decline since 2010 (Figure 3).

**Figure 2:** B2C e-commerce growth rate (%). Source: [3].



**Figure 3:** GNI per capita growth (annual %). Source: The World Bank.

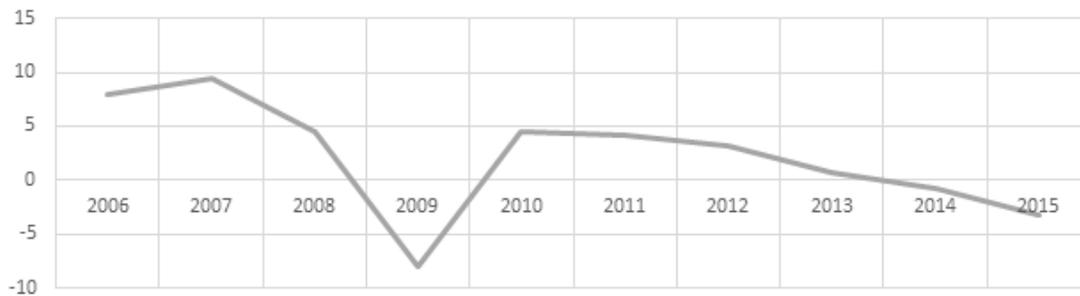
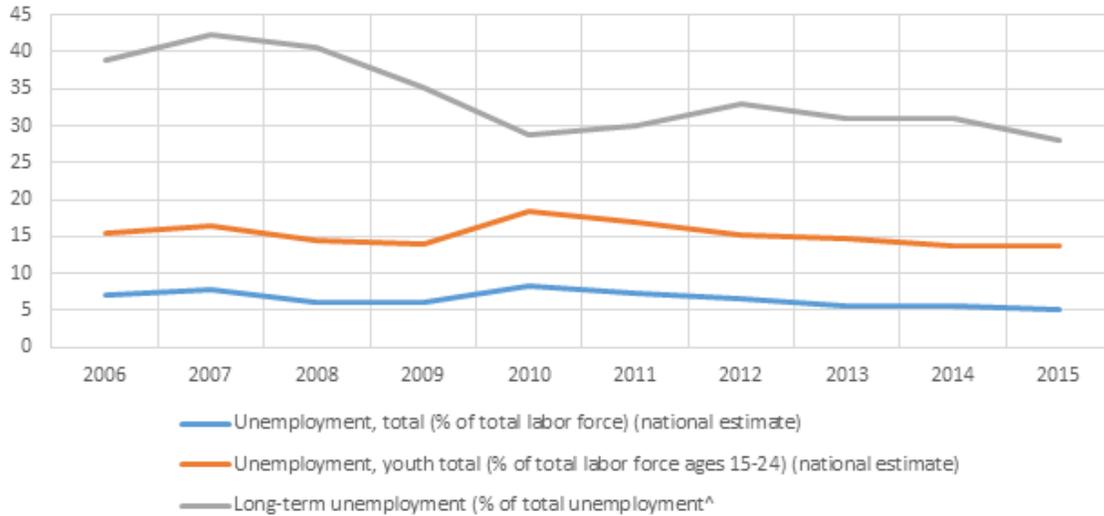


Figure 4 illustrates that total unemployment and youth unemployment in Russia remain at the same level – 5.19% and 13.69% respectively.

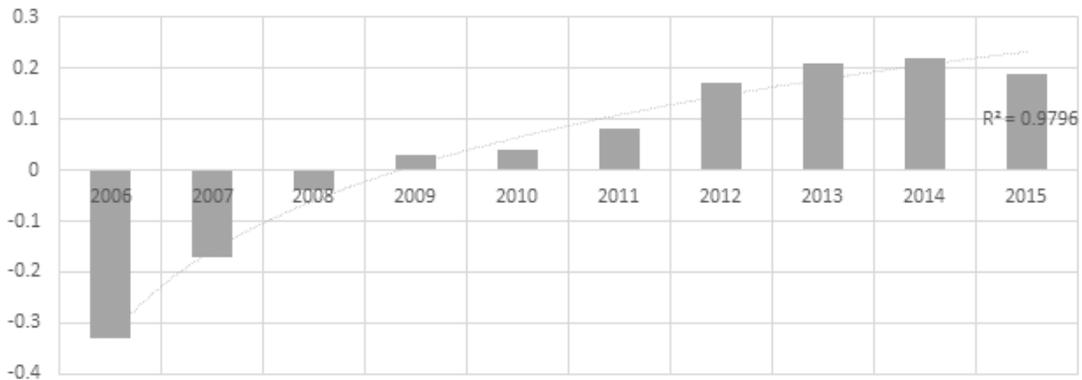
In 2015, a marked fall in population growth from 0.2176 to 0.1925 (by 0.25%) was observed (Figure 5). There was also a decrease in the age category 15–64 from 71.41% in 2014 to 69.18% in 2015.

In 2014, the population aged 25–34 formed the most popular Internet users group with 2.3 million consumers belonging to this category [26]. “The unstable economic and political environment in Russia has led to reduced purchasing activity and a record-breaking drop in demand and sales in 2015. This is why negative dynamics seem like a possible scenario of e-commerce market development. On the other hand, some experts state that the market of e-commerce might continue to grow due to online hypermarkets providing a mixed range of products” [6].

**Figure 4:** Unemployment rate in Russia (%). Source: The World Bank.



**Figure 5:** Population growth (annual%). Source: The World Bank.



Not all segments, however, were affected equally: technology and electronics experienced a strong negative effect, while children’s goods seem not to suffer that much from the crisis. With food and beverages group, the trend actually reversed with the economic crisis. It is estimated that since mid-2014 the number of clicks within the food and beverages category has increased by 110.4%. In many articles, authors make predictions about a continued growth of e-commerce after the current crisis [26].

Various population groups display different preferences in regards to online purchases. For example, men tend to spend more money online than women: they are most likely to purchase auto parts and electronics, while women are more interested in such categories as clothing, cosmetics and children's goods. If generalized, the young age group who graduated from universities and on higher incomes tends to consume more online than those from the opposite groups [27]. It is also important to mention that online payment preferences in Russia also differ from the rest of the world. Thus, in the UK, about 75% of customers use credit cards to pay for their online shopping, whereas most Russian consumers question the safety of cyber-banking and, in certain cases, the honesty of online retailers. Cash on delivery is therefore the main payment method (about 80%). In addition, 93% of all domestic purchases made online are cash-on-delivery [28].

According to the RBC research, the main component of the Russian e-commerce market is still the product segment – 92% [3]. It is also estimated that the e-commerce of consumer goods not only attracts large FMCG stores but also encourages other well-established chains to join the e-commerce game. Thus, over the last couple of years supermarket chains, e.g. X5 Retail Group, have launched their online stores where anyone can order groceries for delivery. The trend seems to prevail in the majority of developed countries: for the next five years online retail will remain one of the fastest growing sectors of the market. This trend results from the development of the FMCG online shopping which has witnessed a rapid growth from 2013 to 2016 – from 30 billion dollars to 53 billion respectively [29].

As mentioned above, future perspectives for food retailing are rather positive despite the current economic crisis. With the growing Internet and e-commerce penetration in Russia's regions, a number of users are expected to increase even more, especially in the field of food retailing. Moreover, the reluctance of Russian users to choose other payments options apart from cash will hopefully change in the future with the majority using their credit/debit cards or digital wallets to purchase online. If growth persists, Russian e-commerce will become more widespread and finally catch up with European mature stage of e-commerce with its cheaper product categories, fast delivery services and reduced

delivery costs, and will become available for regions and small remote areas. Overall, Russian retail market keeps considerable growth potential for both domestic and foreign players [2].

Market participants argue that internet shopping is much less common outside the capital and megacities, but the popularity of online payments is gradually increasing. 89% of Russian internet users have ever made an online purchase, the remaining 11% use the Internet to research products and services which they later buy offline [29].

Clothing and home appliances outperformed other categories popular with online shoppers in Russia: 64% and 50% of respondents respectively have purchased pieces from these groups within the last six months. The two leading categories are followed by personal care products (46%), books and magazines (45%), mobile devices (44%), and event tickets (40%) [21]. Packaged food (12%) and alcohol (8%) are the least popular goods among Russian online buyers. The survey has also confirmed the growing influence of cross-border trade: 64% of Russian digital shoppers have bought the merchandise in foreign online retailers within the last six months, and 6% responded that they buy products only from foreign websites [3,30].

According to the findings of the survey, one of the main problems hindering the development of the Russian e-commerce is keeping personal data safe while shopping online. For this reason, 70% of consumers pay cash on delivery for ordered goods, only 47% use a debit card, and 45% make payments through electronic payment systems. In the world of cash courier delivery is not very popular: on average, 36% of customers use this method, 8% – in France, 12% – in Germany, 16% – in the United Kingdom, and 22% – in Spain [31].

Online shopping in Russia is still very much in demand; they receive orders of more than 90% of buyers. Last year more than half of the respondents have used the services of Chinese online stores; it is by 30% more than in 2014, and two times more than in 2013. Along with the growth in popularity of Chinese stores, the number of buyers has increased significantly, and many of them have faced the challenges of the delivery of goods. Over

the past year, 26% of those customers who did online shopping on foreign websites received low-quality goods (21% in 2014), 12% got not what they ordered (9% in 2014), and 7% did not receive the order and failed to return the money (5% in 2014).

## **DISCUSSION**

There are numerous potential barriers to the development of the e-commerce market. Researchers distinguish the following types of barriers typical of developing countries: economic barriers, sociopolitical barriers and cognitive obstacles [32].

Economic barriers include:

- Inadequate ICT infrastructure and its use;
- Unreliable and costly power supply;
- Limited use of credit cards;
- Lack of purchasing power;
- Underdeveloped financial system.
- Sociopolitical barriers encompass:
  - Weak legal and regulatory frameworks (which influence whether people and enterprises trust online transactions);
  - Cultural preferences for face-to-face interaction;
  - Reliance on cash in society.
- Cognitive obstacles incorporate:
  - Low level of ICT literacy;

Awareness and knowledge related to e-commerce among both consumers and enterprises.

As for Russia, the most significant barriers that adversely affect the e-commerce market are associated with the marketing macro environment [33]. According to Daviy and Rebiazina [6], 29% of all the mentioned barriers are economic. The authors note that “the economic situation and the pressure of the market environment are the most striking constraints on the e-commerce market development in Russia”. Infrastructural and

institutional challenges are also regarded as the important barriers [5,34,35].

The deterioration of Russian-Ukrainian relations due to the crisis in recent years (2014–2016) coupled with the “war of sanctions” between the EU, the USA and Russia have resulted in the emergence of a number of business risks, so that several companies have already announced that they abandon their operations in Russia owing to the impact of the crisis. According to Kovalenko [36], “one of the biggest threats for foreign online platforms is the money-transfer sanctions program imposed on Russian banks by the US and the EU”. The impact of political situation on Russian users’ decisions is one of the significant factors.

The attitude towards different online auctions varies depending on the country of origin. The willingness to participate in e-auctions is independent from the level of confidence in Russian e-stores/vendors; however, it is connected with the confidence level in overseas e-stores [36].

Retail e-commerce in Russia is carried out under conditions of declining consumer demand, lack of funding and an underdeveloped system of goods delivery. As a result of limited financial resources, linguistic and cultural differences, none of the Russian Internet marketers is ready to manage online retail business on a global scale. At the same time existing retailers can increase their revenue by attracting new customers to their e-shops [37].

The absence of sustained economic growth, lack of integrated automation of the Russian industry, which is unacceptable to the business tax system, and the unfavorable investment climate are the main causes for Russian companies have not yet entered the phase of active development of e-commerce. More than half of Russian electronic marketers are in the process of formation and are not yet profitable [38].

Experts agree that the e-commerce market in Russia is still underdeveloped. Shops are just beginning to enter the regions where competition is low due to the relatively unoccupied niche markets. This is especially characteristic of big players which merge with

local business [39].

With a rapidly growing share of large retail chains mastering internet sales, the meaning of the term “electronic commerce” is gradually waning. The examples of the holdings X5, “M.Video”, “Eldorado” and “The Messenger” are forced to come to the other major online retailers. At the moment, the websites of “Metro” and “Leroy Merlin” are functioning in a test mode. During the next step “OBI”, “36.6”, “Bosco”, “Rive Gauche” and some other retailers are expected to join the online business.

## CONCLUSION

The main goals of this article were to identify the factors influencing the development of e-commerce in Russia and examine the factors behind online buyers’ behavior. We have identified trends and tendencies in the Russian e-commerce market which is inclined towards stagnation and negative growth. Firstly, this research has extended our knowledge of the Russian e-commerce market. The current study might serve as a base for future investigations in this field. Secondly, the obstacles and drivers of the e-commerce market have been examined under current conditions. Thirdly, the new specific barriers caused by complication of the global geopolitical situation and their negative impact on the e-commerce market have been determined.

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