AN INTERNATIONAL STUDY BY

East-West Digital News

E-COMMERCE IN RUSSIA

PART 1: MARKET TRENDS & PLAYERS' STRATEGIES

WITH SUPPORT FROM

lamoda
OZON
Yandex Market

UPDATED DECEMBER 2019

MAIN RESEARCH PARTNERS

DATA insight
BORENIUS
crunchbase
Yandex Money
DSIGHT
E-COMMERCE RUSSIA АССОЦИАЦИЯ

ABOUT THIS STUDY

The result of a six-month research effort involving more than 50 market experts and players, this report highlights the main facts, numbers and trends of Russian e-commerce in an international perspective. It can be downloaded at no charge via https://www.ewdn.com/ecomreport

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KEY FINDINGS / THE DOMESTIC SCENE

- Russian e-commerce is entering an accelerated development cycle. A range of major online retailers see their sales volumes grow annually between 50% and 150%. Online sales of physical goods could reach some $22 billion in 2019 and jump to $50 billion or more by 2023. These numbers should be at least doubled if counting online sales of digital goods and services.

- There is no predominant player on this fragmented market. While existing leaders such as Wildberries, Citilink, Ozon and Lamoda are in the running for leadership, the emergence of giant e-commerce joint ventures could change the game. These are the Yandex Market Group of companies, backed by Sberbank, and the Alibaba-Mail.ru Group alliance. The future market leader could be valued at some $10 billion.

- These moves reflect renewed investor interest. In 2018, VC/PE/JV investment in Russian e-commerce exceeded $755 million – the highest level ever reached in this industry. However, this accounts for less than 1% of the global e-commerce investment market.

KEY FINDINGS / CROSS-BORDER

- Even though Chinese sellers still dominate the market, the cross-border scene is becoming more diverse. Western online retailers see their sales to Russia resume – after their setback in 2014-2016 – while new players from Turkey and other countries are entering the market.

- With $4 billion to $7 billion expected in 2019 (physical goods only), the market is still tiny. While optimists envision continued growth, some experts believe the market is now vitually stagnating.

- Electronic appliances, apparel and footwear are the most important categories in sales volume. However, international players can find their niche in a variety of other segments.

- The majority of cross-border purchases are tax-free. There is no major obstacle for international players to succeed – be it in logistics, payments, customs or marketing. Market entry is made easier by new marketplaces and a variety of strong local service providers.

- Foreign e-commerce and e-payment companies should pay particular attention to Russia’s personal data laws, which are distinct from the EU’s GDPR and may require substantial adjustments in data collection, processing and storage.

CHIEF EDITOR'S NOTE

ADRIEN HENNI,
EAST-WEST DIGITAL NEWS

While Russian e-commerce is entering a promising development cycle, information about this market is hardly available internationally – and sometimes presented confusingly to domestic audiences.

This lack of information and the spreading of inaccurate data may create or entertain wrong perceptions about the market, its size, characteristics and potential, as well as its players.

Addressing these issues, we are glad to present this research, which is based on contributions from more than 50 market players and experts from Russia and abroad.

Among our Russian research partners are Data Insight, Russia's leading data provider in this field, the E-Commerce Russia Association (NAMO), and Dsight. International partners have been the Netherlands-based Ecommerce Foundation and such industry resources as InternetRetailer.com (Digitial360), ThePaypers and CrunchBase.

Our special gratitude, finally, goes to the sponsors and advertisers behind this study – in particular Lamoda, Ozon and Yandex Market. They provided us with the means necessary for this in-depth investigation and offered fascinating insights about their activity and market prospects.

We hope you enjoy this groundbreaking collaborative effort and wish you every success in your e-commerce projects

PARTICIPATING COMPANIES

STUDY PARTNERS

This study was conducted with the financial support and multisided contributions from Lamoda, Ozon and the Yandex Market Group of Companies, three leading players on the Russian e-commerce scene. Research methodologies and editorial content remained independent from sponsorships.

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STUDY CONTENT / PART 1: MARKET ANALYSIS & PLAYERS' STRATEGIES

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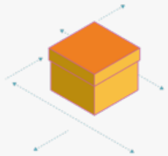
HOW TO SUCCEED IN RUSSIAN E-COMMERCE

A practical guide for international brands, manufacturers and e-retailers

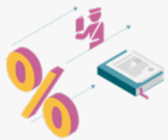


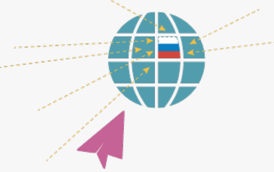
Logistics

Payments

Taxes, customs, legal

Localization





http://ewdn.com/files/russian_ecom_part2.pdf

SECTION 1:
THE RUSSIAN E-COMMERCE MARKET

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E-COMMERCE RUSSIA АССОЦИАЦИЯ

Yandex Money

1.1. The domestic scene

1.1.1. Market numbers

In 2018, online sales of material goods amounted to 1.15 trillion rubles (about $18.3 billion), up 19% from 2017, according to Data Insight. This estimate includes neither cross-border sales (see Section 1.2) nor the sales of services or digital goods (1.1.4). Some 290 million orders, up 18% from 2017, were made, with an AOV of 3,970 rubles ($63), down 2%.

Russia's physical e-commerce (excluding cross-border) accounted for around 5% of total retail sales at the country level.[1] In the largest cities, however, e-commerce penetration could reach 18%, according to the authorities (1.4).

Fast growth continued in H1 2019, with domestic sales reaching 725 billion rubles (slightly more than $11 billion), up 26% from H1 2018. During this period, 191 million orders were processed by Russian sites, up 44% year-on-year. This is the strongest growth rate ever recorded by Data Insight.

Grey and C2C transactions account for a considerable additional volume – perhaps several times as much as the official e-commerce market for physical goods (see interview with market expert Anna Kuzmina). This is illustrated by the almost universal traction of Avito.ru, the Russian classifieds platform recently acquired by Naspers.[2] Much of these informal e-commerce transactions are settled by individual card-to-card transfers, a widespread practice in Russia.

1.1.2 Trend analysis

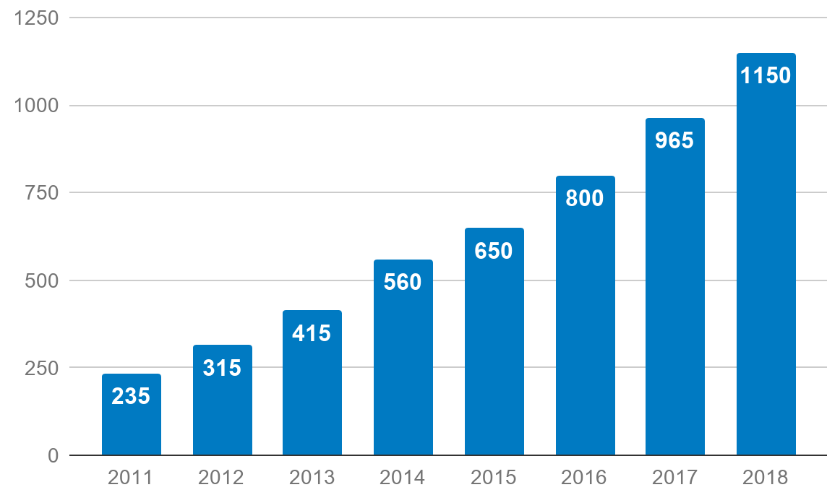
If judging by the relatively small fraction of Russian consumers buying online (around one third in 2018) and the modest share of e-commerce in total retail (around 5%), the market obviously has a considerable growth potential.

The Russian e-commerce market is still at its early stage; with a recent CAGR of around 20%, which might accelerate, one can expect market size to double or even triple in the next five years.

(1) Estimates diverge on this point: 3.9% according to Data Insight; 5% according to Ozon (https://bit.ly/315h1O2), 5.7% excluding groceries according to the ECommerce Russia Association (https://bit.ly/2CBGuEh), 7.2% according to the Russian Ministry of Industry and Trade (https://bit.ly/2Kq1wKF).

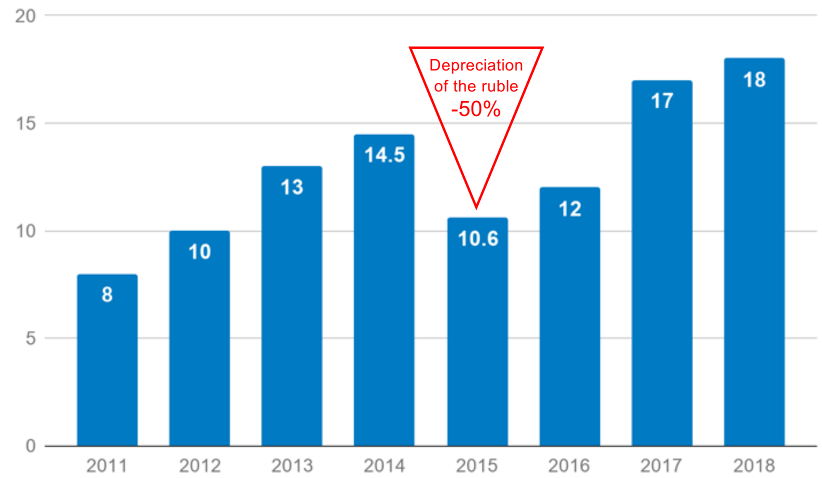
(2) Naspers took full control of the company at a $3.85 billion valuation in early 2019 (https://bit.ly/2WIqDz2)

DOMESTIC ONLINE SALES, PHYSICAL GOODS IN BILLION RUBLES (2011-2018)



SOURCE: DATA INSIGHT (HTTPS://BIT.LY/31KL9KD)

DOMESTIC ONLINE SALES, PHYSICAL GOODS IN BILLION USD (2011-2018)



SOURCE: DATA INSIGHT (HTTPS://BIT.LY/31KL9KD)

1.1.2.1. Growth drivers and obstacles

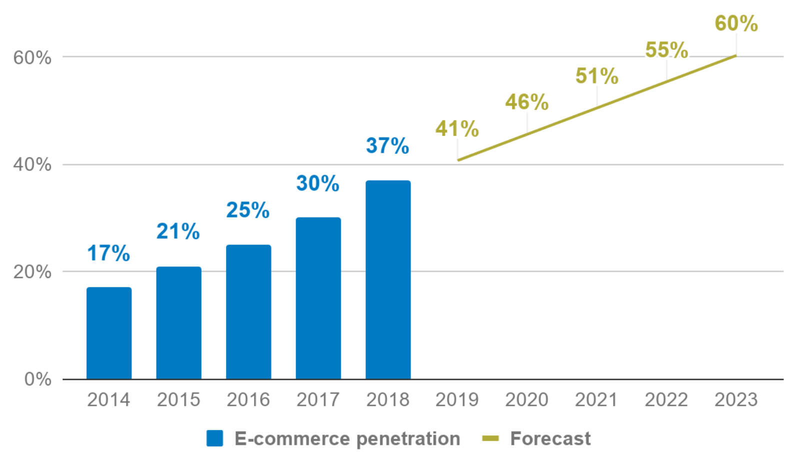
Statistics point obvious growth drivers; but market expansion could be limited by certain factors.

- On the demand side

A growing number of consumers – The primary driver is the increasing number of online consumers, which has remained relatively low so far in Russia — now standing at some 50 million at most among Russia's 145 million inhabitants. According to 2018 surveys, just 35% of Russians are e-shoppers,[3] compared with 60% on average in the EU – almost twice as much – and more than 80% in the world's most advanced countries.

In such circumstances, it is no surprise that Russia still boasts only modest volumes in terms of online sales while being number one in the European continent by number of Internet users (around 90 million https://bit.ly/31jYPAp).

E-COMMERCE PENETRATION AMONG RUSSIANS AGED 16-55



2014-2018 DATA BY YANDEX MARKET / GFK (HTTPS://BIT.LY/2WX0QWA); 2019-2023 FORECAST BY EWDN
QUESTION ASKED: "HAVE YOU SHOPPED ONLINE IN THE PAST SIX MONTHS?"

(3) Percentage of Russians aged 16-55 who declared to have purchased online in the past six months, according to Yandex-GfK (https://bit.ly/2Wx0qwA)

Should Russia simply reach the current European average, its e-commerce market would nearly double, based just on this criteria. Theoretically, this scenario could become true by 2023-2024, as suggested by the graph above.

The expected growth of the number of e-shoppers will be fuelled essentially by Internet users from mid-sized, small cities and rural areas. E-commerce penetration there is still low, but is catching up relatively fast (as shown in Section 1.4).

More active consumers – Over the past years (2016-18), according to Data Insight, the number of orders per e-shopper grew by at least 20% annually. The more experienced are Russian e-shoppers, the more often they make purchases in a wider range of product categories. Thus, the Russian ECommerce Association noted that the average number of e-commerce orders per inhabitant grew from 2.25 in 2015 to 2.7 in 2016, 3.3 in 2017 and 4.02 in 2018 (https://bit.ly/2CBGuEh).

Retailers confirm the emergence of more active consumer groups, which generate a substantial part of their online business. "At Ozon we consider two major categories of customers: the 'spontaneous' and the 'experienced.' While the first ones are only getting used to buying online, the second ones are ready to buy online virtually anything, from electronics and apparel to fresh food, stimulated by individual recommendations as well as fast delivery. These experienced buyers generate up to three times as many orders with four times as many items per order as other customers," says Maria Zaikina of Ozon.

Simultaneously, a large number of these 'spontaneous' customers are becoming 'experienced' category as Ozon sees the number of repeated orders grow by more than 100% this year.

Also noteworthy is the readiness of a growing number of young people to pay for comfort and service: 'Let me pay an additional 300 rubles to make things quicker and simpler.' Such a psychology is very new in Russia," Zaikina notes.

Such trends should be confirmed in the years ahead due to continuous improvements in logistics and CRM.

Revenue stagnation as an obstacle to market growth – The main limitation to market growth lies in the relatively low standards of living of the Russian population (see Section 2).

"The country is poor, so the 90 million Internet users are not all bound to become frequent online shoppers. People just don't have money, as witnessed by their reaction to an even small price difference in product price or delivery fee," notes industry expert Anna Kuzmina (see interview).

These circumstances are not creating an obstacle to larger e-commerce penetration in the country. On the contrary, e-commerce tends to provide cheaper purchase opportunities to low-income population groups. What is more, in many areas, online retailers tend to take advantage of the crisis, which has led offline retailers to shut down many outlets, noted Data Insight expert Boris Ovchinnikov.

But the population's low income poses a clear limit to online consumers' purchasing capacities. This is the factor that keeps average order value is so low in Russia (3,970 rub., or $63, in 2018, down 2% from the previous year). In the cross-border segment, AOV was even lower (1,160 rub., or $18.5, down 4%), according to Data Insight.

Average order value fell further by 13% y-o-y in H1 2019. This evolution may also caused by such positive factors more frequent and less sizeable orders, believes Data Insight.

Revenue limitations have other notable consequences on market development. Discounts have become a major factor in consumers' purchasing decisions, be it online or offline.

Meanwhile, online discount and price comparison systems tend to gain popularity, while pricing -- including automated price adjustment methods -- is becoming a key parameter in e-commerce sites' work.

- On the supply side

Increased funding – Even though e-commerce in the large sense of the term was, over the past decade, the main destination of venture funding in the country (see Section 3.5), the sector has received significantly less investments than in other comparable countries.

"We believe the Russian e-commerce market has stalled due to a lack of capital," wrote the Morgan Stanley analysts in a 2018 report (https://bit.ly/2LC8mPu), noting that the challenges facing the Russian market are similar to those faced by other emerging markets – which recorded superior growth during the same period of time.

"The reason Russia is still lagging behind is simply the lack of funding that has gone into private companies to develop quality e-commerce companies. Private Russian e-commerce companies have only received [around] $800 million of funding in the last 10 years. This only represents less than 1% of the total retail market and is well behind the $13.4 billion of funding that has gone into India in the last 4 years," Morgan Stanley noted.

Contrasting with the previous period, spectacular investment deals were made over the past two years. Sberbank injected $500 million in its e-commerce JV with Yandex while Alibaba and Mail.ru Group launched their own JV which Morgan Stanley says was valued at $2 billion. In early 2018, Ozon agreed an up to $92 million capital injection with its existing shareholders, then – a bit more than one year after – secured a $150 million convertible loan with two of them, Baring Vostok and Sistema.

"More funding should allow for more scale, helping retailers to drive down key pain points (such as fulfilment costs), and to improve delivery times leading to a better overall customer proposition. This in turn should stimulate further demand. Given the level of investment that has gone into China and India, significant funding is still required in Russia; however, we believe this will still cause a step change in the growth of the market," wrote the Morgan Stanley analysts.

The end of logistic bottlenecks? – It is undeniable that e-commerce growth in Russia has been hampered so far by insufficient logistics and delivery infrastructure. Just a few years ago, e-commerce deliveries to remote areas of this immense country could take weeks, or even months in the case of cross-border orders, with a non-negligible proportion shipments being damaged or simply lost during the shipping process.[4]

Since that time, logistics infrastructure and delivery options have noticeably improved. While the Russian Post reformed itself, several new providers emerged with higher quality service and shorter delivery time to large and mid-sized cities across the country. Meanwhile, several market players have deployed their own warehousing and delivery processing facilities or adapted existing ones to serve their growing e-commerce activities.

Nevertheless, the current logistic capacities remain insufficient: according to Ozon, at least an additional 1 million sq. m. would be required in Russia in the upcoming one or two years to fully address market needs.

(4) Thus, in spring 2013, up to 500 tons of parcels – essentially e-commerce shipments from abroad – massed up at Moscow's airports and customs checkpoints. The incident took such proportions that the government ordered that the Russian Post be reformed and that new instruments of financing be found to modernize the organization (https://bit.ly/2XztVll)

Market experts are confident, however, that the bottlenecks can be reduced or disappear as a result of new investments at an unseen scale. In particular, Yandex Market (funded by Sberbank) and the Alibaba-Mail.ru Group JV (funded by Alibaba and the sovereign fund RDIF) plan to invest hundreds of millions, if not billions of US dollars to develop their e-commerce activities, a substantial part of these amounts being dedicated to logistics.[6]

"We don't regard logistics as an obstacle, but as a driver of future growth," says Zaikina. Her company Ozon plans to at least double its own fulfillment capacities in 2019 (from 100,000 sq. m. in late 2018), and to extend its last-mile logistics infrastructure by 145% in the course of the year.

1.1.2.2. Market forecasts

Many experts believe Russian e-commerce could take off to reach a more mature stage and larger scale than what it has been so far.

Among the most notable signs of this acceleration are the recent commercial results of many market players. In 2018, no fewer than 13 sites from Russia's Top 100 reported sales growth exceeding 80%, as research agency Data Insight. Among the most impressive results were those of Ikea and Leroy Merlin (+366% and +161% y-o-y, respectively).

The latter's online sales in Russia currently account for just 2% of total sales, but its Marketing Leader Phillippe Mougeot told us he sees them reach 7-8% in three years: "This would match Home Depot's current level in the US," he notes (see interview).

The recently created marketplace Goods.ru reported a 256% growth while a couple of little-known sites from the beauty and health segment recorded results in the same order of magnitude. Even such mature sites as DNS-Shop, Ozon and Wildberries grew by nearly 75%, while Tmall, the domestic marketplace of AliExpress Russia, says its sales doubled in 2018.

Growth is spectacular in certain market segments: around 30% for fashion, around 50% for e-groceries in 2018.[6]

"Online grocery means a lot in terms of consumer behavior: the recent traction of this segment signals users' readiness to go online for a very frequent, almost intimate type of purchases," notes Lamoda CEO Jansen Florian.

As a matter of fact, e-commerce penetration is deeper every year: this indicator doubled in between 2014 and 2018, and grew by around 10 percentage points in just one year, from 2017 to 2018.

32 DOMESTIC E-COMMERCE SITES GREW BY MORE THAN 40% IN 2018

Site	Segment	Sales 2018		Growth 2018
		(in million rubles)	(in million USD)	(from 2017)
6030000.ru	Beauty and health	2 230	36	**394%**
Ikea.com	Furniture and items for the home (DIY)	9 080	145	**366%**
Goods.ru	Multicategory online marketplace	2 340	37	**256%**
Монастырёв.рф	beauty and health	2 520	40	**199%**
Leroymerlin.ru	Furniture and items for the home (DIY)	4 420	71	**161%**
Minicen.ru	Beauty and health	3 020	48	**124%**
Kotofoto.ru	Multicategory online retailer	2 550	41	**120%**
Tmall Russia	Multicategory marketplace	≈10 660	≈170	**≈100%**
Rendez-vous.ru	Clothing, footwear and accessories	3 750	60	**98%**
Chipdip.ru	Electronic appliances	2 160	34	**97%**
Apteka-ot-sklada.ru	Beauty and health	2 920	47	**90%**
Detmir.ru	Children's goods	9 680	154	**89%**
Dns-shop.ru	Electronic appliances	38 810	619	**83%**
220-volt.ru	DIY tools and items	4 980	79	**79%**
Leomax.ru	Multicategory online retailer	1 980	32	**77%**
Wildberries.ru	Multicategory, incl. fashion items	111 200	1 774	**74%**
Ozon.ru	Multicategory online retailer	41 770	666	**73%**
Rbt.ru	Multicategory online retailer	3 820	61	**73%**
Chitai-gorod.ru	Books and paper items	2 050	33	**66%**
Apteka.ru	Beauty and health	12 630	201	**59%**
Zhivika.ru	Beauty and health	1 970	31	**55%**
Pm.ru	Home furniture	1 820	29	**54%**
Megabitcomp.ru	Electronic appliances	2 000	32	**53%**
Hoff.ru	Furniture and items for the home (DIY)	5 490	88	**50%**
4tochki.ru	Car parts	2 210	35	**50%**
Tmall.aliexpress.com	Multicategory marketplace	2 920	47	**49%**
My-shop.ru	Books and paper items	3 120	50	**48%**
Mvideo.ru	Electronic appliances	52 800	842	**46%**
Sima-land.ru	Multicategory online retailer	9 540	152	**46%**
Shoppinglive.ru	Multicategory online retailer	1 790	29	**46%**
Oldi.ru	Electronic appliances	4 060	65	**41%**
Euroset.ru	Electronic appliances	5 230	83	**40%**

SOURCE: DATA INSIGHT'S TOP 100 BASED ON COMPANY DATA AND INDEPENDENT RESEARCH. ADJUSTMENTS BY EWDN

(5) Thus, in December 2018 Yandex Market opened in Rostov, Southern Russia, a 5,000 sq.m. fulfilment center, presenting it as the first of a series to support its marketplaces Beru and Bringly

(6) Sources: e-groceries: Russia Top Online Food Retail survey by Infoline Analytics (https://bit.ly/2tSN6ZT); fashion: Lamoda.

In this context, Morgan Stanley's recent forecast – market volume growing from nearly $20 billion in 2018 to $40 billion in 2021 and $50 billion in 2023 – do not look excessively bold.

"The recent performance of many players has been so impressive that forecasts might have to be revised upwards," says Data Insight's Boris Ovchinnikov.

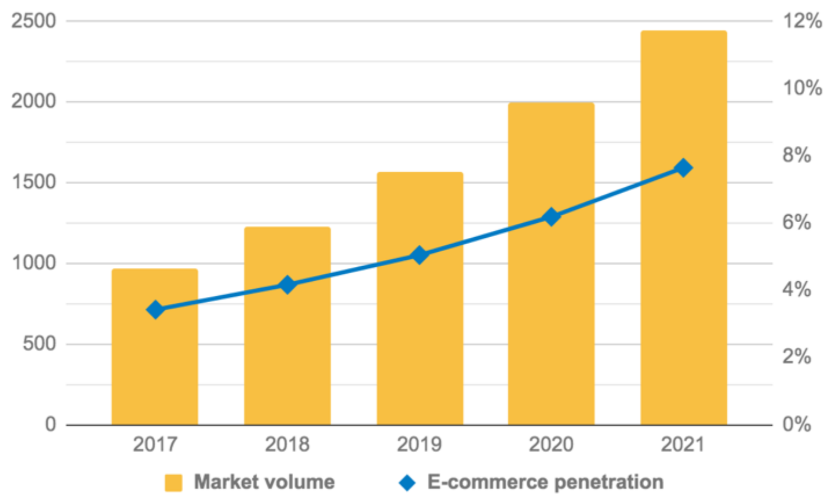
These numbers include only domestic online purchases of physical goods. Neither cross-border sales nor online sales of services or digital goods are taken into account.

Another way of assessing and forecasting the Russian market's growth potential is to consider the share of online retail sales in the country's total retail sales volume. Should Russia simply continue to follow – with a time interval of five years or more, depending on the country of comparison – the path of key Western countries and India, the share of e-commerce in its total retail sales will nearly double between 2017 and 2023.

However, some experts remain cautious about the market and its prospects. "Given the possible overestimation of current market size and the negative trends in purchasing power and order values, I don't believe the Russian e-commerce market can exceed $30 or $35 billion even in four years," says Alexey Petrovsky.

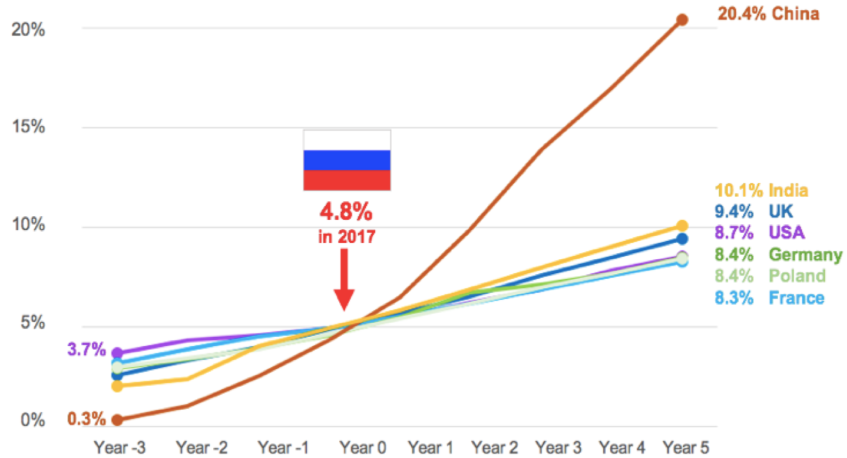
DOMESTIC RUSSIAN E-COMMERCE MARKET GROWTH FORECAST

MARKET VOLUME IN MILLIONS OF RUBLES; PENETRATION IN % OF TOTAL DOMESTIC RETAIL



SOURCE: MORGAN STANLEY RESEARCH, OCT. 2018

CURRENT AND EXPECTED SHARE OF E-COMMERCE IN TOTAL RETAIL: RUSSIA COMPARED WITH OTHER COUNTRIES



EUROMONITOR DATA + RUSSIA ANALYSIS BY OZON

1.2. Cross-border e-commerce

Over the past five years, foreign online stores have become hugely popular in Russia. As of September 2018, according to a GfK-Yandex survey (https://bit.ly/2Wx0qwA), 76% of Russian e-shoppers declared to have made online purchases from abroad (up 11% from 2017) – almost as many as those who said they made purchases from Russian websites (88%, up 2% from 2017).

1.2.1. Key market numbers

In 2018, the Russian cross-border sales market (foreign sites selling physical goods to Russian online consumers) was estimated at 348 billion rubles (about $5.55 billion) by Data Insight. The E-Commerce Russia Association puts the estimate at $3.24 billion.

The number of orders reached 300 million, up 34% from 2017, says Data Insight.

Russian Post alone processed 345 million e-commerce shipments to Russia, up 22% from 2017 (https://bit.ly/2I42eMc).

In 2018, cross-border purchases accounted for some 23% of the total value of online orders from Russian consumers but as much as 51% of the total number of orders, according to Data Insight. The difference is due, in particular, to the large fraction of low-value cross-border purchases made from Chinese sites.

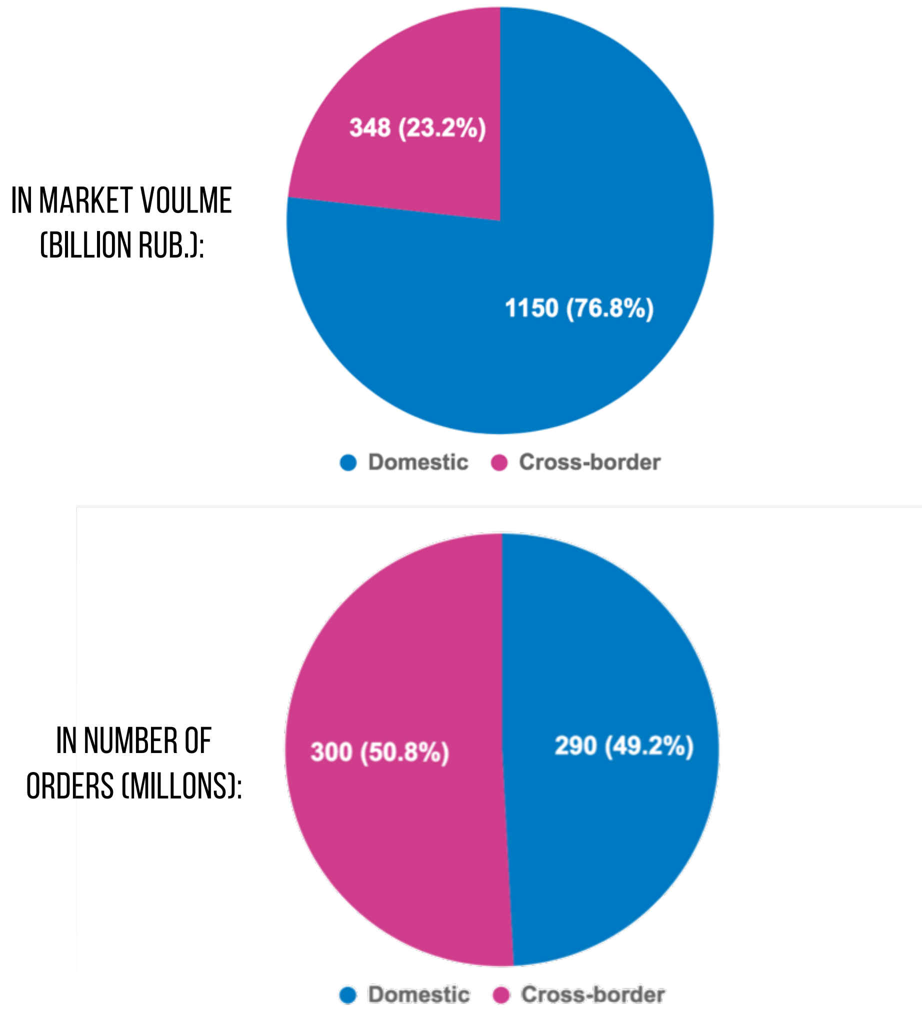
In Western Europe, by comparison, the proportion of cross-border in total e-commerce is similar in value (22.8% of Western Europe's €95 billion market in 2018, according to CBCommerce.eu (https://bit.ly/2OfW9xF), but without such a big difference when measured in number of purchases (around 19% of cross-border purchases, on average, according to a DPD survey (https://bit.ly/2I5hdFy).

By international comparison, however, Russia's cross-border market looks very modest. Its current $5 billion account for just 0.5% of the global market, which is around $1 trillion, involving 1 billion e-shoppers, notes Alexander Ivanov, President of the Russian Ecommerce Association.

"This market is not significant yet, which might explain why global giants haven't done much to enter it," he believes.

(7) Market size is subject to various estimates. Data Insight's number is close to the average of all estimates.

DOMESTIC VS CROSS-BORDER E-COMMERCE IN RUSSIA (2018)



SOURCE: DATA INSIGHT (HTTPS://BIT.LY/31KL9KD)

- Order values

The vast majority of shipments are cheap small home appliances, gadgets, clothing and footwear items, mostly from China, first and foremost through the AliExpress marketplace. Western online stores sell less items, but at a higher price range – from fashion items, to leather goods, to cosmetics and perfume, to personal care products.

Average cross-border order value has noticeably declined over the past few years. Historically, until 2013-2014, Western online retailers recorded upper order values; but when Chinese players began dominating the market in 2014-15 with their cheap goods, as discussed below, AOV declined correspondingly.

Another reason for this decline is related to domestic factors: the population's purchasing power tends to stagnate, or even decrease, which has had an immediate impact on AOV on both the domestic and the cross-border segments.

1.2.2. Where do Russian e-shoppers buy from?

Among foreign stores, Chinese are clear leaders. According to polls, in 2018, more than two thirds of Russian e-shoppers declared they made purchases on Chinese sites, according to the Yandex-Gfk survey, while Russian Post noted that, that same year, more than 90% of shipments containing purchases came from China (https://bit.ly/2I42eMc).

Chinese sites were not always been predominant on the market. Before 2014, Western online stores were even more popular, providing the Russian upper and middle classes with large assortments of fashion, cosmetic, electronic and other items. But the ruble's sharp depreciation and the economic crisis which stroke Russia in 2014-16 drove consumers to look for cheaper goods from Chinese sites. This is when Aliexpress asserted itself as the absolute leader on the cross-border market, posing a challenge to even domestic online and offline retailers for certain product categories.

Since 2017, Western stores have regained some influence on the market, with such sites as ASOS, iHerb and Yoox selling considerable volumes to Russia. Meanwhile, newcomers from the West, as well as such countries as Turkey and South Korea, made their first steps on the market. These moves have been made easier by such local e-commerce platforms as Wildberries, Lamoda and Bringly, which have been actively seeking cross-border partnerships with foreign online retailers and brands.

VALUE OF CROSS-BORDER E-COMMERCE SHIPMENTS (2018)

BASED ON A TOTAL OF 306 MILLION TRANSACTIONS INVOLVING FOREIGN ONLINE STORES

Shipment value	Share in total number of cross-border transactions
Up to €22	64.3%
€22–50	20.3%
€50–150	10.7%
€150–500	2.7%
€500–1000	0.99%
More than €1000	0.41%

SOURCE: AITC/AKIT AND J'SON & PARTNERS (HTTPS://BIT.LY/2ZCWBKL)

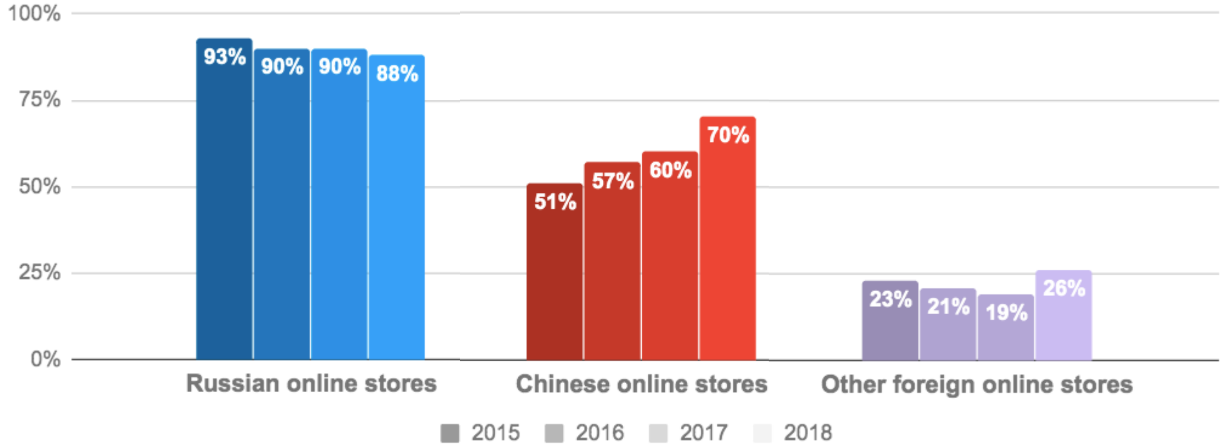
AVERAGE CROSS-BORDER VALUES BY SITE CATEGORIES (2018)

BASED ON PAYMENTS PROCESSED BY PSP YANDEX.CHECKOUT

Category of online store	AOV RUB	AOV USD
Electronics	31 533	503
Tourism agencies	21 213	338
Air tickets	15 317	244
Household appliances	14 465	231
Education	9 751	156
Sport and tourism	9 169	146
Equipment and instruments	7 476	119
Hotel booking	7 378	118
Personal services	5 799	93
Food	5 695	91
Cosmetics and health products	4 492	72
Health & sport food, biologically active supplements	3 905	62
Goods for animals	3 693	59
Souvenirs, arts and crafts materials	3 003	48
Flowers and plants	2 320	37
Babies' and children's goods	1 961	31
Items for the home and garden	1 275	20
Digital content and subscriptions	1 003	16
Apparel and footwear	770	12
Gaming	583	9
Event tickets	503	8
Car parts and accessories	243	4
Books, video, CDs	193	3
Average all catergories included	**749**	**11.9**

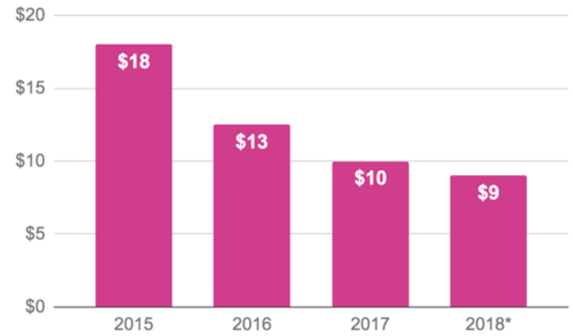
SOURCE: YANDEX.MONEY SPECIAL TO EWDN

WHERE RUSSIAN ONLINE CONSUMERS BUY FROM



SOURCE: YANDEX-GFK (HTTPS://BIT.LY/2WXOGWA)

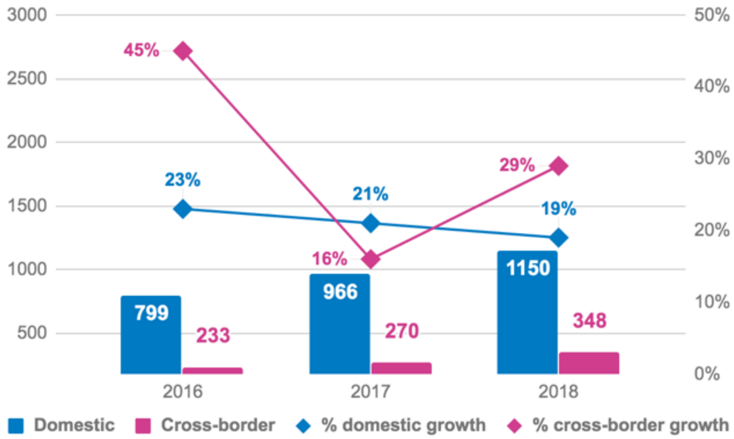
AOV OF CROSS-BORDER PURCHASES FROM RUSSIA INCLUDING FOOD CATEGORY



SOURCE: RUSSIAN E-COMMERCE ASSOCIATON (HTTP://BIT.LY/2OOJRPR)

DOMESTIC & CROSS-BORDER TRENDS: MARKET VOLUME

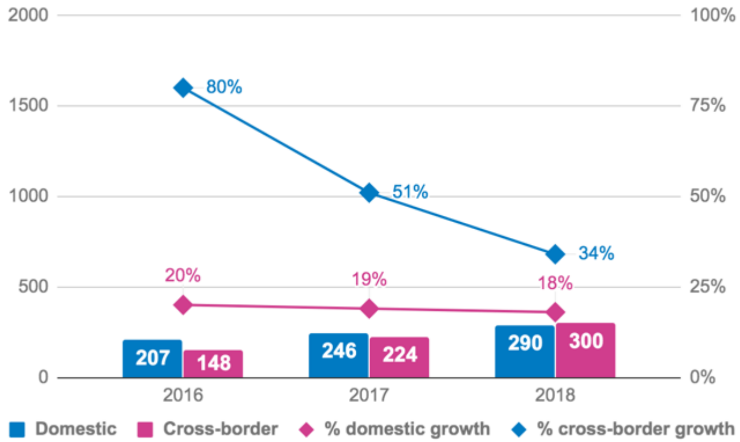
IN BILLION RUBLES



SOURCE: DATAINSIGHT (HTTPS://BIT.LY/31KL9KD)

DOMESTIC & CROSS-BORDER TRENDS: NUMBER OF ORDERS

IN MILLIONS



SOURCE: DATAINSIGHT (HTTPS://BIT.LY/31KL9KD)

1.2.3. Cross-border e-commerce vs. domestic retail?

Reflecting the growing popularity of foreign sites, cross-border purchases account for around half of Russians' e-commerce purchases, nearly a quarter in value, and these proportions tend to grow year after year. For several product categories – from clothing items, bags and belts, to mobile phones and small electronics goods, to toys and games – foreign sites tend to attract as many or even more numerous e-shoppers than domestic sites (Yandex-GfK survey, 2018, see Section 1.3).

A fraction of Russian online consumers (around 15% according to the PayPal-DataInsight survey – even shop exclusively on foreign sites.

Having emerged relatively recently, these trends have raised concerns – justified or not – among both domestic online and offline retailers.

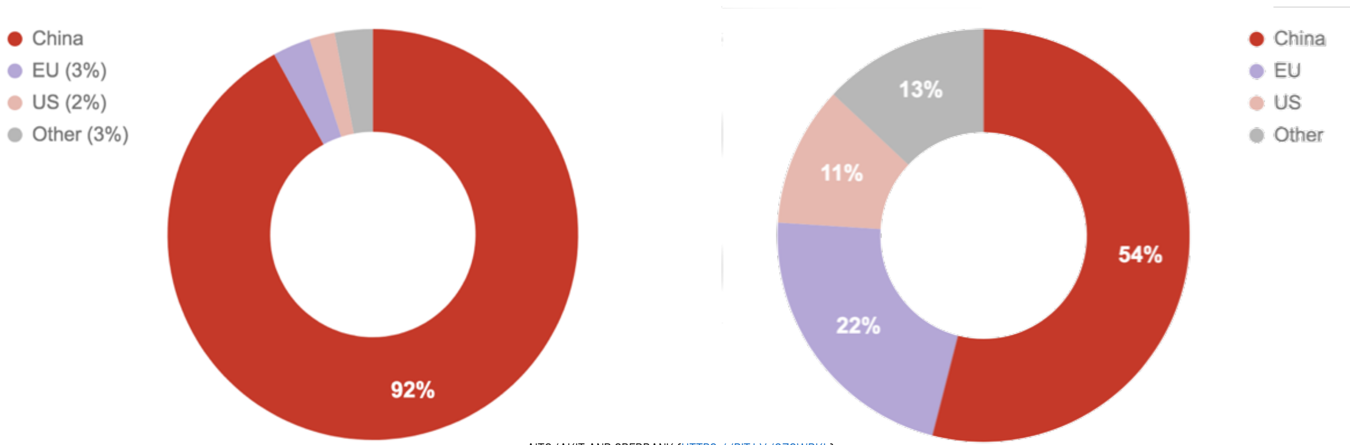
Under their lobbying pressure, and seeking to avoid excessive dependence over foreign supplies, the authorities considered various ways of containing the growth of cross-border e-commerce.

These attempts have produced little effect to date. On Jan. 1, 2019, the threshold for tax-free cross-border online orders was lowered from €1,000 to €500 per person and per month, which had almost no noticeable impact since the vast majority of orders are well under the new threshold. Starting from Jan. 2020, the threshold will be lowered again to €200 – but per order, not per month, while the tax will also be lowered from 30% to just 15%.

Meanwhile, cross-border purchases are not subject to VAT, providing them with a notable competitive advantage. The government is considering introducing VAT on these purchases, but no precise plan has been announced yet (see Part 2).

INBOUND E-COMMERCE SPLIT BY COUNTRY OR REGION OF ORIGIN (2018)

PROPORTION OF SHIPMENTS SPENDING



AITC/AKIT AND SBERBANK (HTTPS://BIT.LY/2ZCWBKL)

1.2.4. Market forecasts

We expect the Russian cross-border e-commerce market to be marked in the foreseeable future by continued growth and diversification.

- Continued growth

The growth of inbound e-commerce flows to Russia is likely to continue in the foreseeable future. Not only will these flows be supported by the general positive trends of the Russian e-commerce market, cross-border sales could also be stimulated by specific factors.

The current drivers of cross-border e-shopping in Russia – essentially lower prices and a bigger assortment compared with domestic offerings – are here to stay, and could even become stronger in the future. This trend will be supported by the development of existing cross-border platforms and the emergence of new ones:

- **AliExpress Russia,** building on its current leadership, will develop even further with the support from its new shareholders, including Mail.ru Group. The latter is bringing a considerable audience, including that of Russia's leading social networks. The platform intends to develop partnerships with merchants from a larger range of countries than just China, "including Europe and Turkey" (see interview with Mail.ru Group VP Dmitry Sergeev).
- **Other Russian marketplaces** are in the running. So far, neither Ozon, KupiVIP, Lamoda or Wildberries has succeeded in developing a significant cross-border business, but some of them, or new contenders, are likely to emerge on the Russian cross-border scene.
- While a wave of important **Turkish players** (including Hepsiburada, N11.com and Ziylan Group have made attempts to enter the Russian market, some industry observers expect the next wave to come from such countries as **Japan, South Korea and Vietnam.** Thus, in December 2019, Russian Post launched Kupijapan.com, a marketplace dedicated to Japanese items (https://bit.ly/2sGvX8o)

Meanwhile **Bringly,** the cross-border marketplace of Yandex Market, launched in late 2018 with ambitious goals – but stopped activities one year later (https://bit.ly/2M3SanK). The platform was designed as "a truly global platform, including both cheap goods from China and alternative supplies, notably from Turkey and Western countries," Bringly also aimed to experiment new models, such as marketplace-to-marketplace and manufacturer-to-consumer.

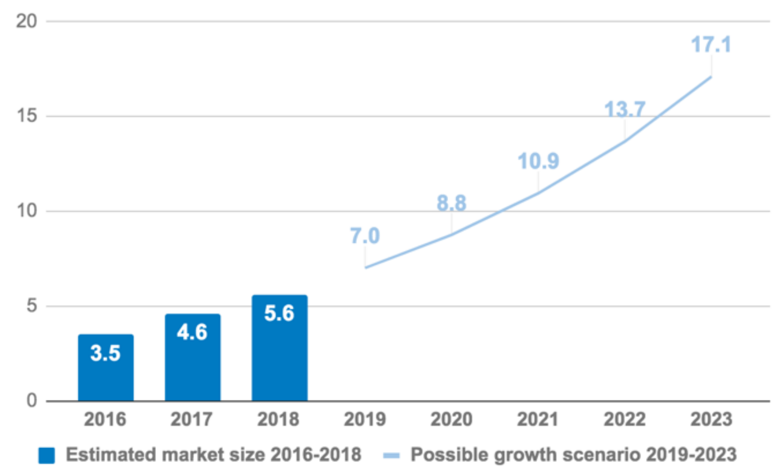
Not only could the development or emergence of these sales channels tend to enrich the offer and maintain low prices for the popular categories of goods; growing competition may also prevent high-end brands and online retailers to practice excessive margins when dealing with Russian consumers, as it is still sometimes the case. Such price moderation could offset the stagnation (or even potential further decline) of the Russian population's purchasing power. Optimists also expect further improvements in logistics and massive marketing investments to stimulate the cross-border market. Should the market grow further at the same pace as it grew over the past two years (+25% per annum – which is in line with the world average), it would reach some $17 billion in 2023, up from $5.6 million in 2018.

This growth scenario seems possible and even logical – but is far from certain. Citing preliminary data from Russian Post and the customs, Alexander Ivanov of Russian Ecommerce Association notes that the growth of cross-border e-commerce flows stalled in Q1 2019. Meanwhile, some leading platforms – mostly Chinese ones – saw their traffic decrease significantly between August 2018 and June 2019, according to industry analyst Alexey Petrovsky.

RUSSIAN INBOUND B2C E-COMMERCE: OPTIMISTIC GROWTH SCENARIO

BASED ON THE CONTINUATION OF THE AVERAGE 25% ANNUAL GROWTH RATE OBSERVED IN 2017-2018

MARKET SIZE FOR ORDERS OF PHYSICAL GOODS, IN BILLION USD



SOURCES: DATA INSIGHT (2016-2018 ESTIMATES); EWDN (2019-2023 FORECAST)

A potential obstacle to growth could come from the government. So far, the authorities have imposed only a mild tax regime on cross-border purchases. The domestic retail lobby has failed to persuade them that foreign e-merchants were the chief culprit for their difficulties; rather, the authorities tend to see in the cheap online offerings from abroad a relief for millions of low-income Russians affected by the crisis.

Even though the authorities have plans to lower further the threshold for tax-free cross-border purchases, these measures will not affect the bulk of the commercial activity. These exchanges have developed so far at an even lower value level, and are not always easy to control (see Part 2). The undergoing custom tax reform is likely to affect the demand for expensive products, – from consumer electronics to pricey fashion items – but these account for a relatively small fraction of total cross-border flows.[8]

It cannot be ruled out that additional measures could affect the cross-border market in a more significant manner – for example, the introduction of VAT on all cross-border purchases – but the authorities have shown little signs of such intention.

On the contrary, while the domestic retail lobby's essential demands were rejected, state-controlled organizations have involved themselves in Russia's two main e-commerce ventures with a large focus on developing cross-border trade. If the government really intended to contain cross-border flows, it is hard to figure out how the national financial giant Sberbank was allowed to inject half a billion dollars in the Yandex Market joint venture, which developed the Bringly cross-border platform; and why Russia's sovereign fund RDIF most recently committed itself to invest up to $294 million in the Alibaba-Mail.ru joint venture.

- Diversification

Since 2015-2016, AliExpress has established its absolute domination on the market, expelling eBay from the inbound cross-border scene and annihilating JD.com's attempt to develop in Russia. Industry analysts do not bet on the end of AliExpress's leadership in the near future as the Chinese platform, with its satellites Tmall and Pandao, should take advantage of its alliance with Mail.ru Group. Nevertheless, serious competitors are emerging.

As Bringly failed to assert itself on the cross-border market, (https://bit.ly/2M3SanK), at least three other players historically focused on domestic e-commerce intend to develop a cross-border business. These are Wildberries, the e-commerce leader on the domestic market; Ozon, the leader among multicategory sites; and Lamoda, the leader among fashion-only platforms.

"We aim to become the partner of choice of foreign fashion players who would like to sell to Russian consumers but don't understand the market and need an entry point in the country: we can help them as a third-party service provider (including notably logistics) and as a marketplace," says Lamoda's co-founder and CEO Florian Jansen.

As noted above, new waves of foreign players from such countries as Turkey, China, South Korea, Japan and Vietnam are entering the market or could do so in the near future -- be it through partnerships with marketplaces and/or site localization. Recent examples include Asian phone makers, which have started to sell directly, partly cutting middlemen (see Xiaomi case).

"The Chinese will lose a part of their domination. In the low-price segment, Chinese products are becoming more expensive. Turkish ones, on the contrary, are now becoming better and cheaper," says Alex Vassiliev, Chief International Officer of the Yandex.Market JV (see interview).

Finally, it is possible that Western players – which once dominated the Russian cross-border scene – could make a strong come back: "These players, mostly in other price segments, do have their chance: their setback in 2014-17 was due to the ruble's abrupt fall and the political or 'psychological' context. But many Western players have learned to work with Russia under the new conditions," notes Vassiliev.

Though unlikely to immediately threaten AliExpress's leadership, these players from Russia and across the world will provide a more diversified impetus to the Russian cross-border e-commerce market in the upcoming years. As noted above, the traffic of large Chinese platforms tended to decrease between August 2018 and June 2019 while that of some Western site grew significantly.

And, who knows, perhaps giants like Amazon or Rakuten will take at last more active steps in Russia.

(8) Also affected by the tax reform are the buyers of massive quantities of goods who resell them online or offline on the domestic market. Although they formally operate as individual purchasers, such buyers are regarded as being de facto wholesalers.

1.3. Analysis by product categories

Two product categories enjoy the highest demand in Russian e-commerce:

— Clothing and footwear, which accounted for 23% and 33% of total domestic and cross-border sales value, respectively, in 2018;

— Electronic goods and home appliances (31% and 28.3%, respectively, according to AITC/AKIT and Sberbank)

Other major categories in domestic purchases are furniture and items for the home as well as groceries. In the cross-border segment, items for the home, car parts as well as health and beauty products are also popular.

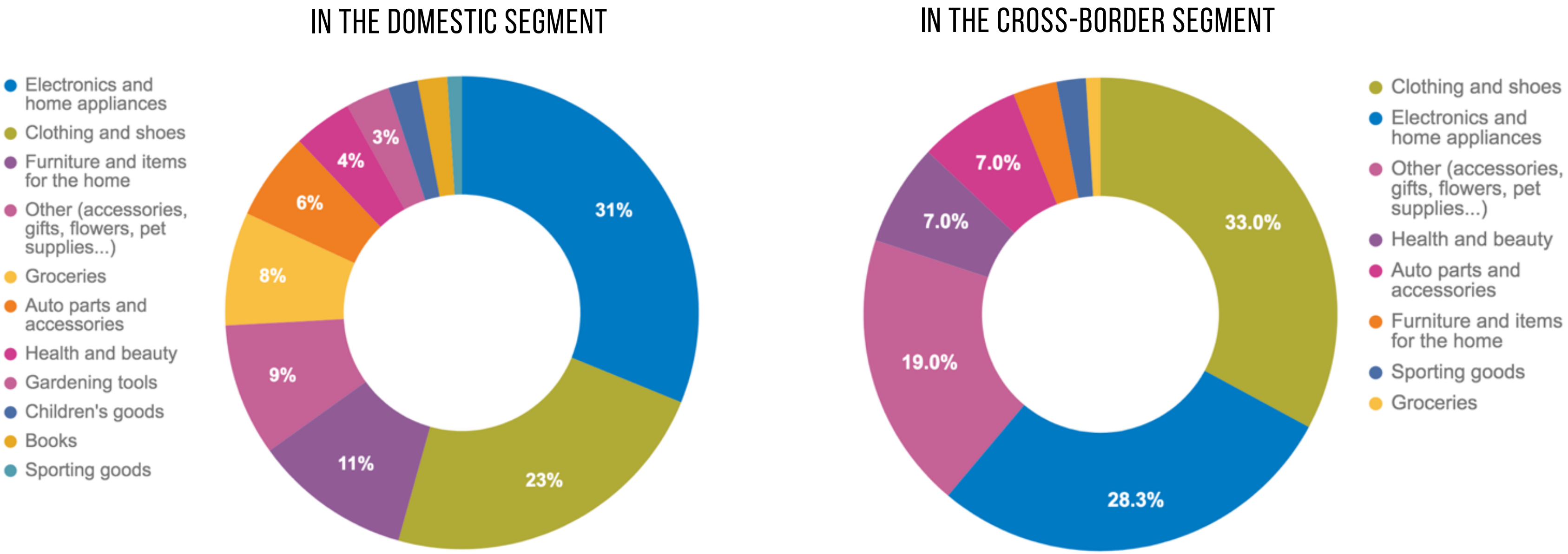
However, the types of purchases differ strongly depending on the country of origin. Thus, in 2018, according to Gfk-Yandex, Russians tended to look at Chinese sites for mobile phones, tablets and electronic accessories. As many as 32% of Russian e-shoppers declared to have made such purchases on Chinese sites. Even domestic sites were less popular (30%) for this category of items.

Chinese sites also attracted more than 20% of Russian e-shoppers for cheap clothing, shoes, bags, belts, toys and games.

Meanwhile, Western online stores attracted up to 8% of Russian e-shoppers for more pricey fashion items and leather goods as well as cosmetics, perfume and personal care products.

There seems to be no strong correlation between cross-border consumption and consumers' age or revenue level, but some studies found that cross-border purchases are more popular in small cities and towns than in large cities.

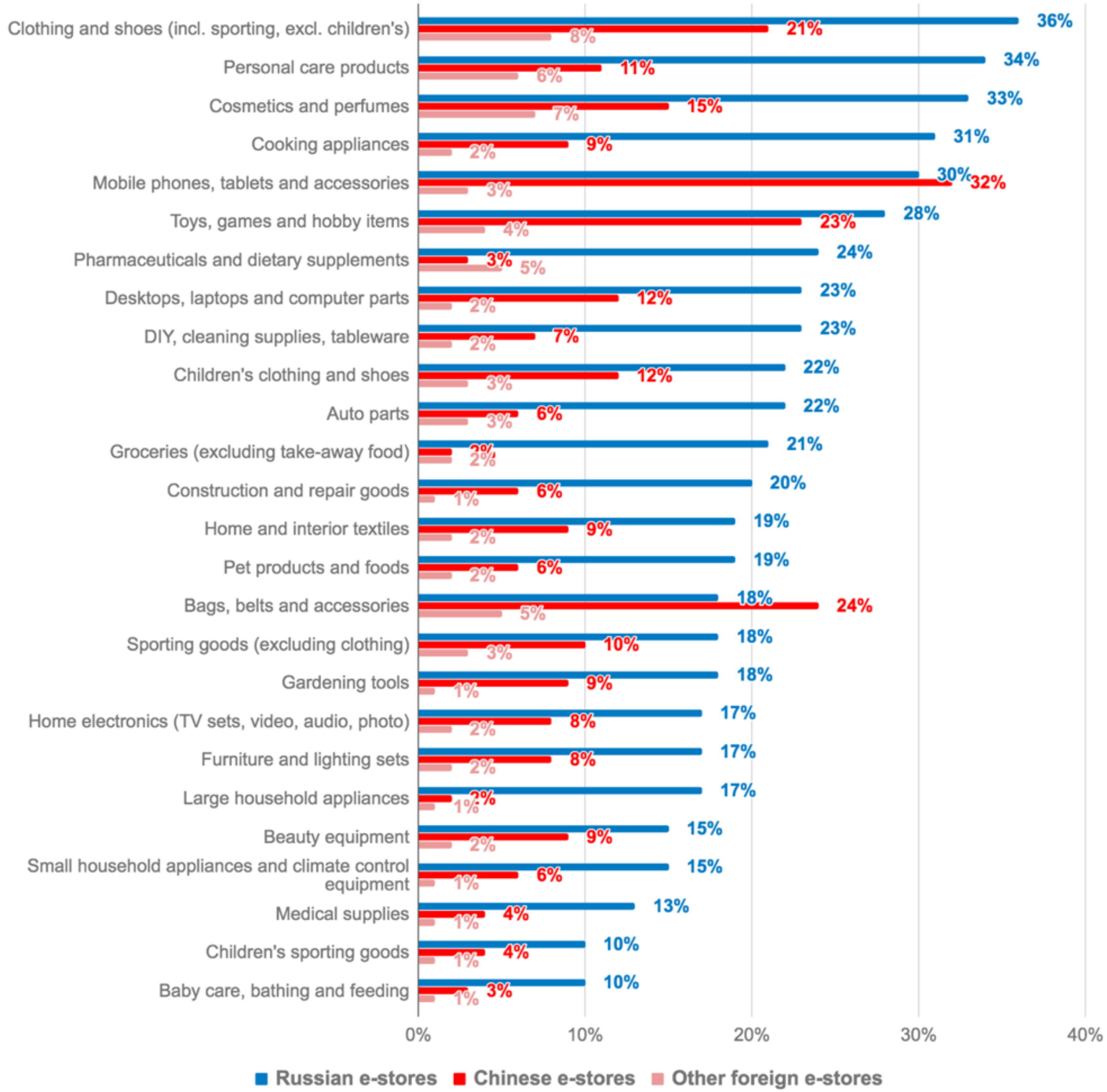
E-COMMERCE SALES VALUE SPLIT BY PRODUCT CATEGORY (2018)



AITC/AKIT AND SBERBANK (HTTPS://BIT.LY/2ZCWBKL)

PRODUCT CATEGORIES BY POPULARITY (DOMESTIC VS. CROSS-BORDER) IN RUSSIA (2018)

PERCENTAGE OF RUSSIAN CONSUMERS HAVING MADE PURCHASES ON SITES FROM DIFFERENT COUNTRIES



SOURCE: GFK-YANDEX (HTTPS://BIT.LY/2WXOGWA)

Historically, the categories of physical goods which grew the most in recent years are goods for animals, jewelry, cosmetics and health, electronic appliances, food products as well as sporting and tourism-related goods.

Personal services and hotel bookings grew even faster, though, based on payment statistics provided by Yandex.Money.

MARKET GROWTH BY SEGMENT (2016-2018)

BASED ON PAYMENTS PROCESSED BY THE AGGREGRATOR YANDEX.CHECKOUT

Rank	Categories
1	Personal services
2	Hotels
3	Goods for animals
4	Restaurants
5	Jewelry
6	Cosmetics and health products
7	Electronic appliances
8	Food
9	Sport and tourism
10	Educational services

SOURCE: YANDEX.MONEY SPECIAL TO EWDN

1.4. Market geography

The Russian e-commerce map is not even. While e-commerce companies are hyperconcentrated in Moscow, the capital and the country's largest cities account for a disproportionately large number of orders. As well, substantial differences based on city size may also be observed in purchase frequency and in the demand for certain product categories.

E-commerce penetration reaches the highest levels in large cities: in 2018, around 72% of their inhabitants declared they had made at least one online purchase in the preceding 12 months. According to a statement made in May 2018 by a government official (https://bit.ly/2Kq1wKF), the share of online sales in total retail sales reaches 18% in such cities as Moscow, St. Petersburg, Novosibirsk, Yekaterinburg and Vladivostok.

In no way, however, should the demand potential from outside large cities should be underestimated. Small cities and rural areas are catching up fast, and many e-commerce players realize a large fraction of their sales in such cities and areas which account for more than 63.7 million inhabitants.

1.4.1. Consumer characteristics and e-commerce penetration by city size

Data Insight analysts have divided Russian online consumers into three categories based on the size of the city or rural area they live in.

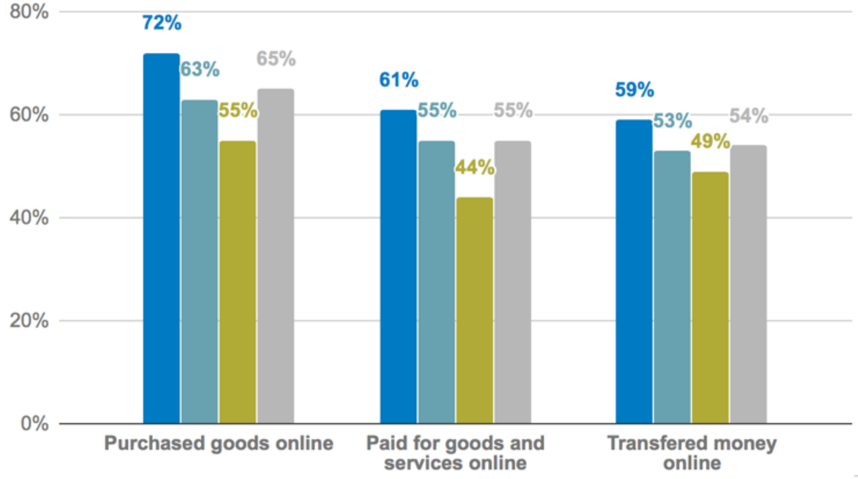
THREE GROUPS OF ONLINE CONSUMERS IN RUSSIA BASED ON CITY SIZE

	Large cities (more than 1m inhabitants)	Mid-sized cities (100k-750k inhabitants)	Rest of Russia (cities below 100k inhabitants and rural areas)
Total population across Russia	34.7 million	36.8 million	63.7 million
Average number of people per household	2.8	2.7	2.9
Median household income per month	50,000 rub. ($793)	36,000 rub. ($571)	28,000 rub. ($444)
Tertiary education rate (Percentage of people with university diplomas)	61%	54%	40%
Median Internet use seniority	10 years	9 years	7 years

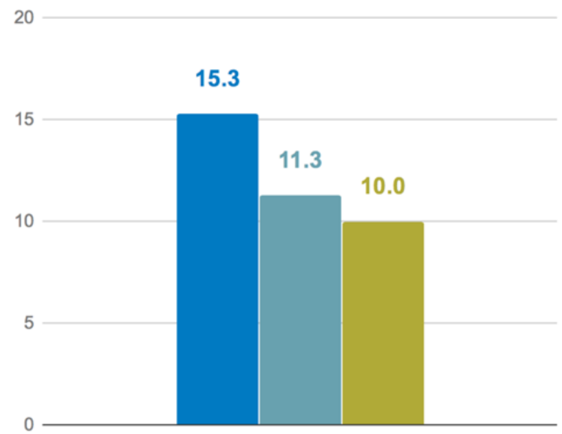
SOURCE: DATA INSIGHT & PAYPAL (HTTPS://BIT.LY/2WTLEXF)

E-COMMERCE AND E-PAYMENT PENETRATION BY CITY SIZE (2018)

PERCENTAGE OF INHABITANTS WHO MADE AT LEAST ONE ONLINE PURCHASE,



ANNUAL NUMBER OF ONLINE PURCHASES PER E-SHOPPER (2018)

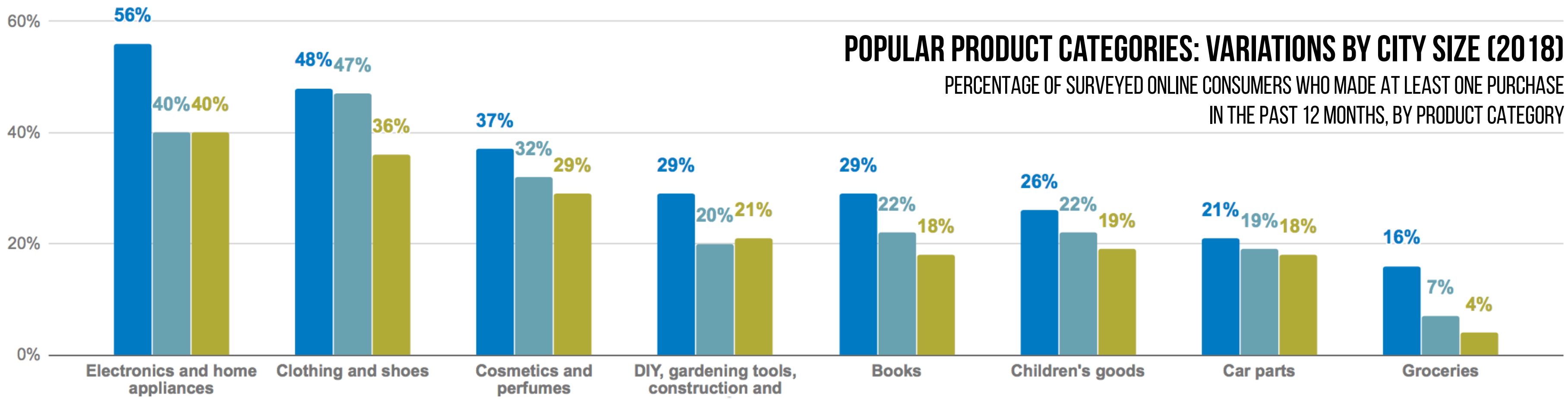


Large cities (more than 1m inhabitants) Medium-sized cities (100k-750k inhabitants) Rest of Russia (cities below 100k in habitants and rural areas)

SOURCE: DATA INSIGHT & PAYPAL (HTTPS://BIT.LY/2WTLEXF)

POPULAR PRODUCT CATEGORIES: VARIATIONS BY CITY SIZE (2018)

PERCENTAGE OF SURVEYED ONLINE CONSUMERS WHO MADE AT LEAST ONE PURCHASE IN THE PAST 12 MONTHS, BY PRODUCT CATEGORY



SOURCE: DATA INSIGHT & PAYPAL (HTTPS://BIT.LY/2WTLEXF)

These studies show certain contrasts in e-commerce penetration, with inhabitants of large cities more inclined to make online purchases or money transfers than those of smaller cities or rural areas. Purchase frequency is significantly higher in large cities than in small cities and rural areas.

The popularity of e-shopping "on the go", i.e. using a smartphone, is especially evident in large cities: in 2018, more than half (52%) of all e-shoppers in such localities purchased goods online at least once a year using their handhelds. For medium-sized and small cities, these numbers were more modest – 43% and 34%, respectively.

However, these contrasts are not considerable: according to Data Insight's analysts, e-commerce penetration indicators in small or large cities are just about one year behind, or ahead the median Russian indicator.

The number of e-shoppers in Russia is growing faster in smaller cities. From 2017 to 2018, it increased by seven percentage points in large cities (with more than one million residents) and by nine percentage points in smaller towns (with populations below 100,000). Thus, in the past two years, it doubled in large and medium-sized cities, and more than tripled in smaller towns.

When it comes to ordering services online, every third resident of large cities (31%) did it at least once a year. Such practice was twice as low in Russian medium-sized cities (16%) and three times as low in smaller cities and rural areas (11%) in 2018, according to the same Data Insight-PayPal research. This might be explained by the lesser range of such services available in small cities and rural areas.

1.4.2. Variations in consumer demand by city size

Significant contrasts in consumer demand and behavior may be observed depending on city size. For example, electronics and home appliances, clothing and footwear, as well as groceries are more in demand among consumers from large cities than among inhabitants of small cities or rural areas.

A significant difference in online purchase frequency can also be observed: this indicator is around 50% higher in large cities than in small cities and urban areas.

1.4.3. Sales volumes by region

The size of the population of Moscow and St. Petersburg, combined with higher purchasing power and deeper e-commerce penetration, explain why the two capitals and their surrounding regions account for almost half (46%) of the Russian e-commerce market.

None of the other large cities of the country host more than 1.5-1.6 million inhabitants, hence the small share of these cities in total e-commerce market.

In 2018, as reported by the company (https://bit.ly/2XC6KXo), Wildberries five best selling cities or regions were the following:

— Moscow: 21.6 millions of orders, 37,965 million rub. in sales volume;
— St. Petersburg: 3.8 millions of orders, 6,384 million rub.;
— Krasnodar: 2.9 millions of orders, 4,649 million rub.;
— Nizhny-Novgorod region: 2.2 millions of orders, 3,118 million rub.
— Sverdlovsk (Yekaterinburg) region: 2.2 millions of orders, 2,980 million rub.

SHARE OF RUSSIAN CITIES AND REGIONS
IN TOTAL ONLINE SALES VOLUME (2018)

	Region	Domestic e-commerce	Cross-border e-commerce
1	Moscow + region	36%	32%
2	Moscow city	29%	25%
3	Saint Petersburg + region	10%	9%
4	Saint Petersburg city	9%	8%
5	Krasnodar region	4%	4%
6	Sverdlovsk region	3%	3%
7	Rostov region	2%	2%
8	Nizhny Novgorod region	2%	2%
9	Novosibirsk region	2%	2%
10	Samara region	2%	2%
11	Chelyabinsk region	1%	2%
12	Republic of Tatarstan	1%	2%
13	Krasnoyarsk region	1%	2%
14	Republic of Bashkortostan	1%	1%
15	Omsk region	1%	1%

SOURCE: YANDEX.MONEY SPECIAL TO EWDN

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1.5. Analysis by sales channels

Russian e-commerce is much more diversified than just online stores. According to a survey conducted in 2018, nearly two thirds of Russian Internet users made at least one online purchase online in a year; but these purchases are made through different channels.

In addition to regular online stores (54% of respondents made such purchases), Russians buy through classifieds platforms (21%), marketplaces (17%), social networks (11%), and other channels. In total, 40% made online purchases outside of classic online stores at least once in the preceding 12 months.

1.5.1. Marketplaces

- Domestic marketplaces

Marketplaces are one of the most important online sales channels in Russia. Not only do powerful marketplaces operate on the market, like AliExpress, Beru.ru or Goods.ru; nine of the fifteen top Russian e-commerce Internet stores also work partially as marketplaces.

Some of Russia's largest retail and related businesses launched or backed marketplaces, as exemplified by the following moves in recent years:

— Sberbank and Yandex joined forces to launch Beru.ru (domestic platform) and Bringly (cross-border);

— After starting the Pandao platform to sell Chinese goods, Mail.ru Group made an alliance with Alibaba Group to develop jointly AliExpress Russia and the Tmall site;

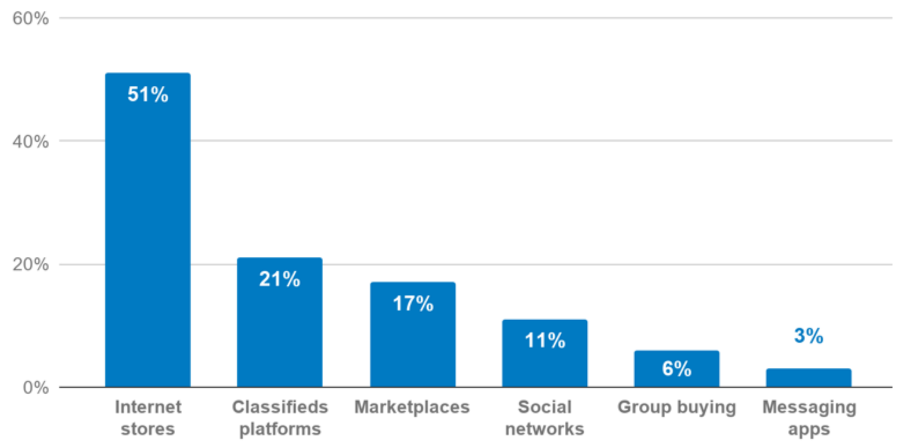
— Mvideo, one of the biggest retailers of home appliances and electronics, launched its own marketplace, Goods.ru.

— Home Credit Bank, Qiwi Bank and other players also developed marketplace projOther major categories in domestic purchases are furniture and items for the home as well as groceries. In the cross-border segment, items for the home, car parts as well as health and beauty products are also popular.

The main domestic marketplaces to date have been developed by online retailers Wildberries and Ozon, complementing their own offer. Beru, launched in late 2018 by the Yandex-Sberbank e-commerce JV, is likely to grow to a leading position.

USE OF ONLINE SALES CHANNELS IN RUSSIA (2018)

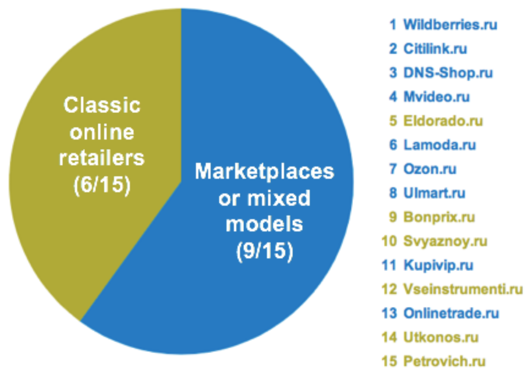
PERCENTAGE OF RUSSIAN INTERNET USERS HAVING MADE AT LEAST ONE ONLINE PURCHASE THROUGH SOCIAL CHANNELS DURING ONE YEAR



SOURCE: DATA INSIGHT & PAYPAL (HTTPS://BIT.LY/2WTLEXE)

CLASSIC ONLINE RETAIL, MARKETPLACES AND MIXED MODELS

AMONG THE TOP 15 RUSSIAN E-COMMERCE SITES



SOURCE: COSSA (HTTPS://BIT.LY/2KEA7W1) – E-COMMERCE RANKING SOURCE: DATAINSIGHT

"Marketplaces will play an increasingly important role in Russia. This evolution is especially sensitive for brands, manufacturers and their wholesalers: it is approximately the same as offering them a rack in a department store in complement or instead of their own outlet," notes Data Insight expert Boris Ovchinnikov.

'It is unlikely that any of the current leaders could be as strong as Amazon – at least because there are at least three contenders," he adds.

- International marketplaces

Foreign marketplaces have had highs and lows in Russia. While the cross-border e-commerce scene is dominated by AliExpress, other key platforms have not gained massive traction. JD.com launched in Russia in 2015 with big ambitions (https://bit.ly/2If3QCR) but failed for strategic and management reasons.

However Joom, a marketplace launched in 2016 by Russian entrepreneur Ilya Shirokov, has managed to get significant traction not only in Russia (more than 17 million monthly visits in early 2019). The site now operates in 12 languages, selling millions of mostly chinese-made products in Western Europe (https://bit.ly/2Id7DAH), Latin America, Turkey and other countries.

On the Western side, Amazon is virtually absent on the Russian e-commerce scene, selling just small quantities without localization. eBay, which did enjoy traction in the early 2010s, has declined since 2014; it is now concentrating its efforts on developing an outbound cross-border business.

Turkish players such as Hepsiburada and N11 made attempts to enter the Russian market through Bringly under a marketplace-to-marketplace (M2M) model. Bringly, however, ceased activities in late 2019 (https://bit.ly/2M3SanK)

According to media reports (https://bit.ly/31sqvmE), the Loop marketplace, created by global corporations in the FMCG segment, including Procter & Gamble, Nestle, PepsiCo, Mondelēz International, Danone will launch in Russia in 2020–2022. Branded products in eco-friendly packaging will be commercialized through this platform.

Marketplaces offer several types of benefits to e-merchants in Russia. Not only do they ensure traffic, they also serve de facto as payment aggregators, allowing online stores to provide customers with diverse payment means, including specific Russian ones. Some of these marketplaces also provide foreign e-merchants with a full-cycle logistics, customs clearance and delivery service offer – which brings a substantial advantage in Russian conditions.

However, relying only on a marketplace also has drawbacks, and not only in terms of commissions. Working with any marketplace entails a loss of control of your business, which may have undesirable consequences (see interview with Iurii Popolitov).

1.5.2. Price aggregators

The landscape is dominated by Yandex.Market, which aggregates nearly 231 million offerings from 25,000 Internet shops as of June 2019. Tiu.ru, the second-largest price aggregator, claims to present nearly 36 million offerings from 38,000 e-merchants

"Price aggregators will keep their role in the Russian e-commerce ecosystem as an alternative to SEO, context, CPA – but their traffic is in stagnation and they are unlikely to grow strongly in the future," believes Ovchinnikov.

"Users tend to have more loyalty to online stores due to their more sophisticated, data-driven CRM, and deeper user experience," he adds.

1.5.3. Social commerce

Social channels have a massive importance in the Russian e-commerce space. According to a research by Yandex.Checkout and Data Insight (https://bit.ly/2wRiYzA), no less than 39 million buyers and 22 million sellers – both companies (B2C) and individuals (C2C) – were involved in social commerce in 2018, and these numbers tend to grow.

The Russian social commerce market – including sales of goods and services via social networks, messaging apps, classifieds platforms and other P2P platforms – was estimated at 591 billion rubles (around $9 billion) generated by 394 million transactions in the course of 2018.

Defined in a more restrictive way as sales of goods and services via social networks and messaging apps only, social commerce was worth 236 billion rubles, around $3.6 billion, in 2018. Social media and messengers accounted for about 65% and 35%, respectively, of this amount.

TOP MARKETPLACES IN RUSSIA (Q1 2019)

INCL. PURE MARKETPLACES AND ONLINE RETAILERS WITH A MIXED MARKETPLACE MODE

Site	URL	Monthly visits in millions	Estimated GMV in million rub.	Specialization
AliExpress Russia	aliexpress.ru	152	41 283	Multicategory
Wildberries	wildberries.ru	61	17 050	Multicategory
Ozon	ozon.ru	50	14 003	Multicategory
Citilink	citilink.ru	23	6 373	Electronics
Joom	joom.com/ru	17	4 807	Multicategory
Lamoda	lamoda.ru	17	4 780	Fashion
Tmall	tmall.aliexpress.ru	12	3 494	Multicategory
Beru	beru.ru	12	3 354	Multicategory
Ulmart	ulmart.ru	8	2 180	Multicategory
Pandao	pandao.ru	5	1 258	Multicategory
Goods.ru	goods.ru	3	922	Multicategory

SOURCES: MARKET EXPERT ALEXEY PETROVSKY BASED ON SIMILARWEB TRAFFIC ESTIMATES

TOP PRICE AGGREGATORS IN RUSSIA BY TRAFFIC (Q1 2019)

URL	URL	Monthly visits in millions	Specialization
Yandex.Market	market.yandex.ru	127.5	B2C
Tiu.ru	tiu.ru	25.5	B2C
Regmarkets	regmarkets.ru	14.7	B2C
Price.ru	price.ru	4.6	B2C
Nadavi.ru	nadavi.ru	0.33	B2C
BRC	business-rating.company	0.29	B2B
Tkat.ru	tkat.ru	0.24	B2C
Sravni	sravni.com	0.17	B2C
Priceok	priceok.ru	0.15	B2C
Mixprice.ru	mixprice.ru	0.09	B2C

SOURCE: SIMILARWEB

COMMERCIAL USE OF SOCIAL COMMERCE CHANNELS IN RUSSIA (2018)

BASED ON THE SURVEYED USERS' LATEST PURCHASE VIA SOCIAL CHANNELS

	Purchasing channel "On which type of social platform did you make your last purchase?"	AOV "What was the amount of the purchase?"	Value split by channel Split of total amount of purchases by purchasing channel
Social media	26%	$20	32%
Classifieds platform	33%	$30	27%
Sharing economy platform	21%	$22.5	23%
Messaging apps	16%	$33.75	11%
Group buying	4%	$15	7%

SOURCE: YANDEX.CHECKOUT & DATA INSIGHT (HTTPS://BIT.LY/2WRIYZA)

TOP CATEGORIES OF GOODS AND SERVICES SOLD VIA SOCIAL CHANNELS IN 2018

Categories	Estimated sales volumes	AOV	Percentage of transactions
Apparel and footwear	$1.52bn	$29	15.7%
Electronics and household appliances	$1.46bn	$54	8.2%
Real estate rental services	$1.20bn	$97	3.7%
Other services	$1.12bn	$22	17.6%
Animals and plants	$0.95bn	$45	6.4%
Baby and child-specific products	$0.46bn	$20	6.9%
Tickets (transport, events)	$0.34bn	$17	6.2%
Household goods	$0.31bn	$22	4.2%
Arts and crafts materials	$0.27bn	$27	3.0%
Gifts and jewelry	$0.23bn	$19	3.6%
Food	$0.18bn	$15	3.7%
Gaming characters and objects	$0.17bn	$5	10.1%
Automotive parts and accessories	$0.13bn	$37	1.1%
Other	$0.46bn	-	7.7%

SOURCE: YANDEX.CHECKOUT & DATA INSIGHT (HTTPS://BIT.LY/2WRIYZA)

Sales via social channels accounted on average for around 40% of the total sales of the surveyed Russian e-merchants. Small merchants (less than 10 sales per day) are significantly more involved in social commerce, especially through social networks, than large online stores. Some e-merchants – from 4% to 12% depending on different studies with their own methodologies – do not even have their own website: they rely only on social channels to sell their goods or services.

The most important social commerce category is apparel and footwear, with a sales volume estimated at more than 100 billion rubles (approximately $1.5 billion) in 2018. Electronics and household appliances as well as real estate rental services are other important categories.

The average order value (AOV) via social channels was around 1,500 rubles ($23) in 2018, with 73% of orders below 3,000 rubles ($45). Russians spend an average of 1,950 rubles ($29) on each purchase in the most popular category: apparel and footwear.

Social channels are used not only by legally established e-commerce companies as an additional sales method. They are also used massively by individuals trading second-hand items, as well as informal micro-entrepreneurs who resell items they bought, for example, on a cross-border marketplace.

Thus, in 2018, 31% of the Internet users surveyed by Yandex.Checkout and Data Insight (which makes around 30 million people across Russia) said they traded via social channels. For 15% of them, this activity generates the primary source of income or a significant part of it.

This is one of the main reasons of the success of cross-border marketplace AliExpress, classifieds platform Avito and social network VK, which attracts dozens of millions of Russians every month.

Many of these grey market and C2C purchases are settled in card-to-card transactions, the amount of which has been skyrocketing for the past few years. E-wallets, cash, or even less transparent transactions, are also used, notes e-commerce and e-payment expert Anna Kuzmina (see interview).

- Sales via social networks

Of the 76% of e-merchants that use social channels for sales purposes, 94% work with social networks, by far their favorite instrument. Social networks account for nearly more than 29% of the sales of e-merchants using social channels, according to the Yandex.Checkout-Data Insight survey in 2018.

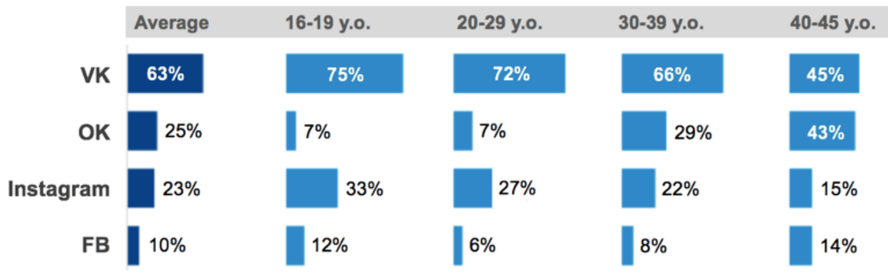
Reflecting its domination on Russia's social media scene, Mail.ru Group's VK (Vkontakte) is by far the most used social network in Russia for e-commerce transactions. Of all Russian Internet users surveyed, 15% said they made purchases via VK (Instagram: 6%; OK: 4%).

VK claims over 300,000 communities "actively selling goods" on the network: "Almost any business in Russia has its page on VK, using it for promotion, customer retention and direct sales," says VK's Head of Social Commerce Irina Denezhkina (see interview).

In 2018, VK launched the VK Pay social commerce platform, allowing any business to create their own online store on the basis of its VK community – with an online shopping cart, delivery options and online payment. VK has also launched stores or marketplaces dedicated to gaming, online TV and movies as well as marketplace for popular software.

SOCIAL COMMERCE RANKING OF SOCIAL NETWORKS

VIA WHICH SOCIAL NETWORKS DID YOU PURCHASE NEW PRODUCTS?
(% BY AGE GROUP AMONG USERS MAKING PURCHASES ON SOCIAL NETWORKS)



SOURCE: YANDEX-GFK (HTTPS://BIT.LY/2WXOGWA).

On the technological front, VK is working on applying neural network technologies, which are already in use on the social network, to social commerce. A technology for object recognition in photos and video recordings was announced in late 2018, with a special button to purchase the corresponding products in just one click (https://bit.ly/2Ou7PPF).

VK now intends to develop e-commerce even more actively in synergy with AliExpress. The Russian social network and the Chinese marketplace are the cornerstones of the new joint venture of Alibaba and Mail.ru Group – which they defined as a "social commerce joint venture."

AliExpress, on its side, expects the integration with VK will help the platform to double the number of customers within one year (https://bit.ly/2Ilmq57).

Other social networks should not be ignored, especially when targeting specific age groups. OK (another Mail.ru Group property) is used for online purchases by a significant number of users above 30. Instagram has a stronger commercial traction among Russia's youngest social network users, those between 16 and 29 years of age.

The traction of these two social networks, however, does not equal that of VK in whatever age group. Facebook, whose monthly reach in Russia is less than half of that of VK,[9] has an even weaker traction in terms of social commerce. Just 10% of users buying products via social networks do so via FB, vs 63% via VK. However, FB should be considered when targeting upper and middle-upper urban classes, among which the US social network has its most active users.

"I think that the share of social commerce in the e-commerce sphere is only going to grow. VK, Instagram and Facebook are all taking steps in that direction," says Denezhkina in her interview.

"As before, large businesses will exist separately as large, high-traffic websites. However, a decent amount of their sales will be made through social networks. Small and micro-businesses will, in contrast, fully integrate into social networks, where all of their customers already are," she adds.

- Messaging apps

Twenty-nine percent of the merchants that use social channels for sales purposes work with messengers, according to the Yandex.Money - Data Insight survey. However, the sales volumes generated by these instruments have remained modest so far: less than 6% of merchants' total sales.

Accordingly, none of the popular messengers in Russia (Whatsapp, Telegram or Viber) is used for purchases by more than 5% of Internet users.

(9) 11.5 million vs. 23.6 million monthly users in March 2019, according to Mediascope.

In April 2019, according to Admitad, a global affiliate marketing network with strong activity in Russia, advertisers' CPA sales targeting Russian users via Telegram exceeded $1 million. (This source of traffic generated just around $150,000 in sales in the same month of the previous year.)[10]

Cheap goods from China are the most popular, which explains that AOV amounted to just $8.73 in April 2019. However, electronic appliances (AOV $140), clothing and footwear (AOV $80), sporting goods (AOV $79) as well as financial products also sold well, notes Admitad.

"Telegram's main business model relies on discounts on such common products as electronics and cosmetics as well as some specific products like sporting footwear and air tickets. This channel is appreciated by advertisers because it attracts many users with high purchasing power," says Alexey Sinelnikov, who manages special projects at Admitad.

1.5.4. E-commerce via classifieds platforms

In terms of number of users involved, classifieds platforms[11] are no less important than social networks as an online sales channel. According to the Yandex.Checkout-Data Insight study, 30% of merchants and 71% of Internet users purchase items on them.

This creates a variety of opportunities for online retailers, but essentially domestic ones.

- Main market players

The market is dominated by Avito, the Russian classifieds giant which was founded by a Swedish team in 2007 and sold to Naspers in 2015-2019 for several billions of US dollars (https://bit.ly/2Ih46B7).

In 2017, according to a research conducted by Data Insight and Avito (https://bit.ly/2IjufiH), some 1.5 million professional sellers traded on the platform, accounting for 28% of all Avito sellers. Half of these professional sellers were companies, the other half were individual businesses. Avito's B2C sales volume amounted to 27,2 million deals monthly.

(10) This statistic could be a reflection of Telegram's total CPA activity in Russia, since Admitad claims to connect 95% of the channels working on a CPA basis in this country

(11) Not including "sharing economy" platforms such as Airbnb or Blablacar

The most popular categories of goods sold by professionals were:
— Repair and construction;
— Consumer electronics and computers;
— Auto spare parts and accessories.

According to this study, males account for 53% of Avito buyers. About 45% of buyers are aged 25-34, 25% are aged 35-44, 17% are between 18 and 24. One third of buyers (33%) have a middle income, 42% have an upper-middle income, 18% enjoy a high income.

Avito is the leading multi-vertical Russian classified with monthly audience of 35 million unique visitors and more than 51 million listings as of spring 2019. It is the absolute leader for the general category as well as for auto, realty and services verticals.

Avito has such distinctive services as **C**2**C** delivery across Russia, 'Autoteka' (service to check car history, Russian analogue to Carfax) and a short-term rent online booking service. It also has such rare features as search by image.

Avito does not support cross-border sales.

Several other Russian classifieds platforms deserve attention. In the general segment, Youla (a property of Mail.ru Group) is certainly used less intensively by Avito, if judging by the number of visits; but the platform is a popular destination for online purchases by number of involved Internet users.

RUSSIA'S MAIN CLASSIFIEDS PLATFORMS BY DESKTOP TRAFFIC

Site	URL	Monthly visits (Q1 2019)	Nb of classifieds (June 2019)	Specialization
Avito	avito.ru	306.2m	51.3m	Multicategory
Drom.ru	drom.ru	83.1m	635k	Automotive
Auto.ru	auto.ru	47.5m	747k	Automotive
Youla	youla.ru	36.0m	N/A	Electronics
Iz Ruk v Ruki	irr.ru	4.5m	2.75m	Multicategory

SOURCE FOR TRAFFIC ESTIMATE: SIMILARWEB
CERTAIN PLATFORMS LIKE YOULA, WHICH GENERATE MOST OF THEIR TRAFFIC VIA MBILE APPS, MAY BE UNDERESTIMATED

In 2018, some 12% of those surveyed by Yandex.Money and Data Insight said they purchased products on Youla, just under Avito's 14%. Several established players compete with Avito in such verticals as auto (Auto.ru, Drom.ru), real estate (Cian.ru), jobs classifieds (HeadHunter, Rabota.ru). and individual services (YouDo.com, Profi.ru).

1.5.5. Flash sales, coupons, group buying

These channels should be considered by online retailers, brands and manufacturers, including foreign ones, since they have a notable traction among Russian e-consumers. This is due, in particular, to the importance of the price factor in online purchasing decision in the context of stagnating or decreasing purchasing power (see Section 1.1.2.1.)

- Flash-sales

There are two big players in the flash-sales segment: KupiVIP and Mamsy, both focusing on clothing and related items, with some differences.[12]

- Coupons

The leader in this segment is Biglion, which was founded in 2010 and backed by Ru-Net (now RTP Global). Biglion provides coupons with discounts on goods and services and develops its own cashback service. The site claims to operate in 50 Russian cities, attracting 25 million users and partnering with 49,000 businesses across the country.

RTP Global also operates Frendi, a resource it acquired for free from Groupon back in 2016 (https://bit.ly/2ZuHdjG). This international e-commerce platform had spent in vain several dozens of million US dollars in the early 2010s.

- Group buying

A variety of group buying sites are thriving, generally at the local level where they show high audience, loyalty and activity indicators. Sitepokupok.ru is an example: although group buying is made available across dozens of Russian cities, this site has half of its traffic (2.9 million visits) coming from Yoshkar-Ola. This makes six sessions per month per capita in this city of less than 250,000 inhabitants, notes Boris Ovchinnikov of Data Insight. Sitepokupok.ru presents group buying from US sites as one of its key features.

(12) KupiVIP declined to take part in this research

At the national level, 100sp.ru is a leading resource in its segment. It claims 1.2 million monthly users, an access to 1.5 million items from 27,000 brands and manufacturers. It has made available 2,600 pick-up points to its users.

1.5.6. Mobile commerce

As Russians tend to spend more time with their mobile than on their computer,[13] m-commerce is getting a noticeable traction. In 2018, according to a Yandex-GfK survey, 27% of online consumers made their latest purchase from a Russian online store or platform via a mobile device (incl. 5% via a tablet) – up from 15% in 2016 and 21% in 2017. The share of mobile was even higher for cross-border purchases: 40% were made from mobile (incl. 7% via a tablet), up from 18% in 2016 and 23% in 2017.

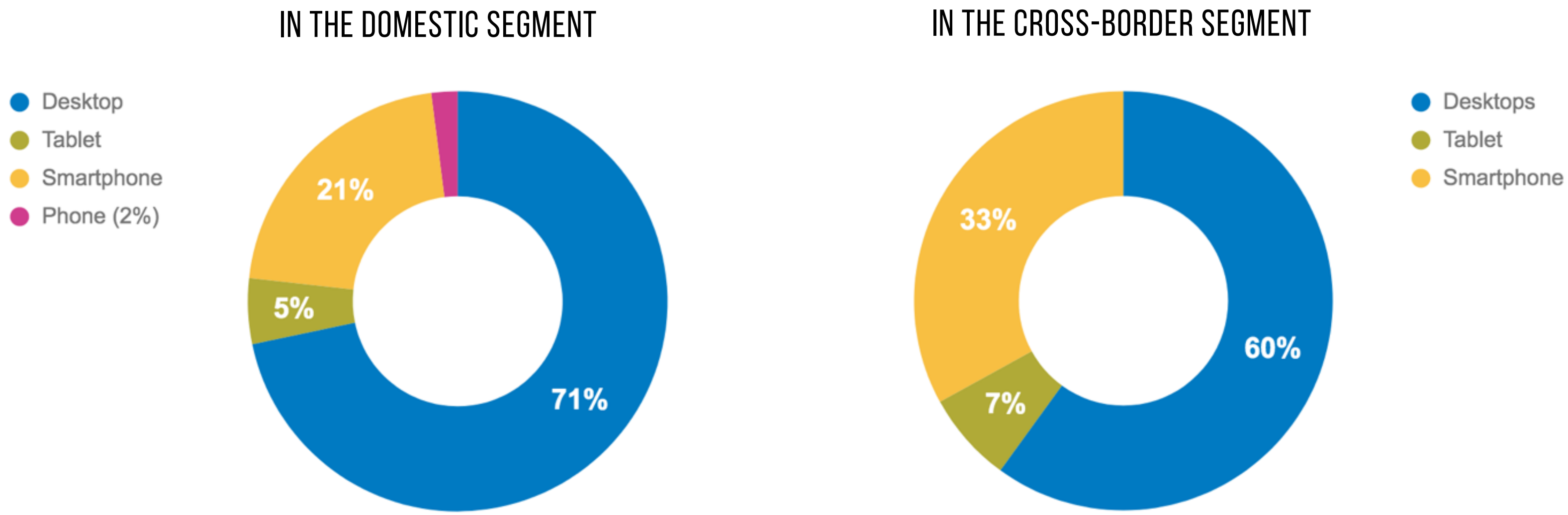
(13) In 2018, Russians spent on daily average 98 min. on mobile apps, 24 min. on their mobile browser and 100 min. on their desktop browser. Source: Mediascope survey among Russians aged 12-64 in cities of 100,000 inhabitants or more. Cited by Data Insight (https://bit.ly/2FeKTyi)

In mobile commerce, the share of mobile apps and browser seems approximately the same, as suggested by the findings of a PayPal & Data Insight survey in 2017 (https://bit.ly/2KS74xD). But there are sharp contrasts among different age groups, with mobile apps much more popular among the youngest mobile purchases.

This 2017 survey also showed that those who shop using native apps of brands or retailers tend to buy and spend more, demonstrating higher brand loyalty and conversion rates. Those who shop via mobile web browsers show lower conversion rates and AOV.

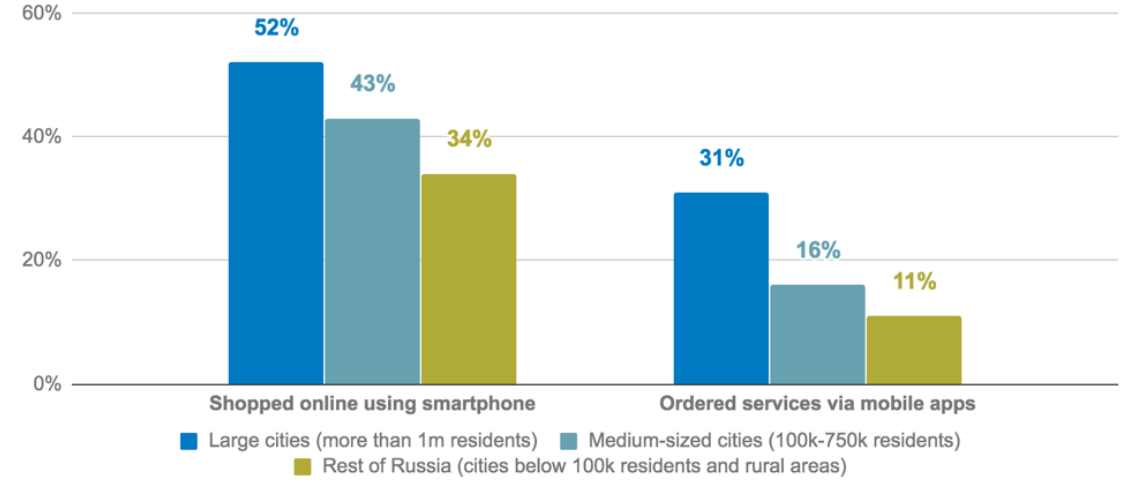
Significant variations can also be observed among inhabitants of different types of cities. In 2018, according to another survey by PayPal and Data Insight (https://bit.ly/2KRae4R), more than half (52%) of those living in cities of one million inhabitants or more made one or several purchases via their smartphones in the preceding 12 months. Meanwhile, only 34% of those living in small cities and rural areas said they did so.

USE OF MOBILE DEVICES BY RUSSIAN E-SHOPPERS IN 2018



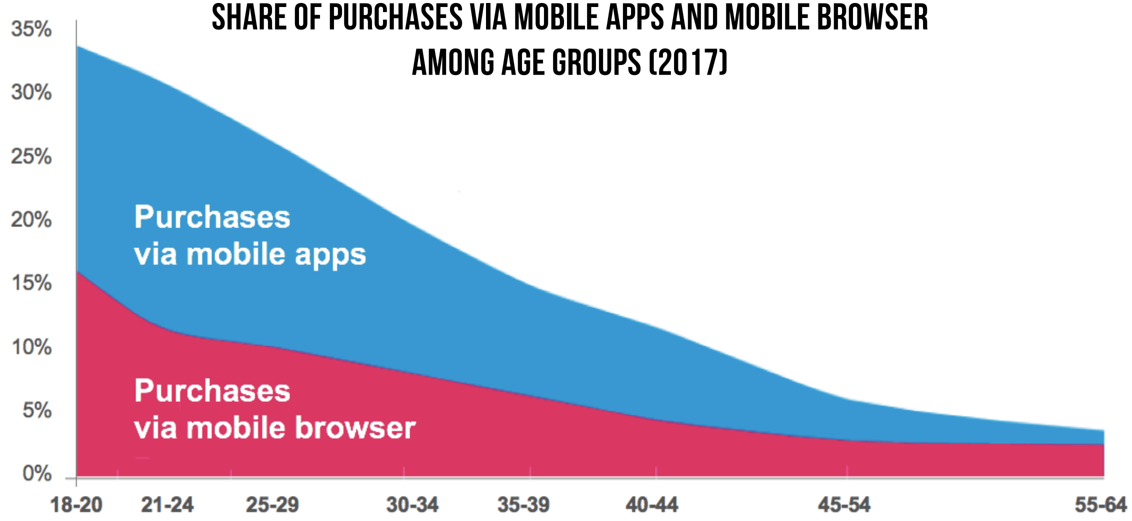
SOURCE: YANDEX-GFK (HTTPS://BIT.LY/2WXOGWA)

SHARE OF MOBILE USE FOR PURCHASE OR SERVICE ORDERING PURPOSES: VARIATIONS BY CITY SIZE (2018)

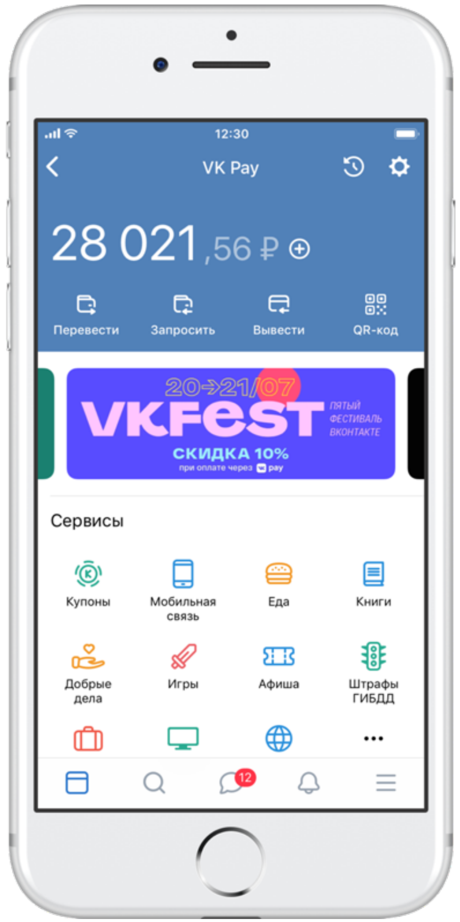


SOURCE: PAYPAL & DATA INSIGHT (HTTPS://BIT.LY/2KS74XD)

SHARE OF PURCHASES VIA MOBILE APPS AND MOBILE BROWSER AMONG AGE GROUPS (2017)



SOURCE: PAYPAL & DATA INSIGHT (HTTPS://BIT.LY/2KS74XD)



PAYMENT ACCOUNT AND DISCOUNTED OFFER ON VK'S MOBILE INTERFACE

1.6. Digital goods and services

Online sales of digital goods and services are, in volume, of the same order of magnitude as sales of physical goods:

— **Travel** sales alone accounted for $10.7 billion-$14.7 billion in 2018 (depending on methodologies);

— **Services** (incl. transport, ticketing, professional and household services, etc.) accounted for some $4 billion;

— **Online games** and in-game purchases reached around $1 billion;

— **Online video** sales amounted to around $250 million.

Insiders put the volume of **online gambling** and related activities anywhere between $5 billion and $10 billion, gray part included.

The revenues of illegal online casino Azino777 was estimated between around $100 million and $250 million in 2018. Fonbet.com generates around $200 million monthly, according to an industry insider.

Sellers of digital goods and services are predominant among the foreign sites that generate the largest payment volumes from Russia. According to industry sources, these sites include, in particular, Aerobilet.com, Airbnb, Facebook, Booking.com, Google, Hotels.com, iTunes, Microsoft.com, Moneta.trade, Netflix, Olymptrade.com, Playstationnetwork, Rentalcars.com and Steamgames.com – as well as the sites of Air France, Finnair, KLM, Pegasus and Turkish Airlines.

ONLINE SALES VOLUME ESTIMATES FOR DIGITAL GOODS AND SERVICES IN RUSSIA (2018)

Segment	Estimated sales volume			Source
	Rubles	USD equivalent	Y-o-y evolution	
Digital travel incl. leisure and unmanaged business travel	**670.6bn**	**10.7bn**	**+8.2%**	RAEC (https://bit.ly/2RYHfOd)
	920bn	**14.7bn**	**+18%**	Data Insight (https://bit.ly/2L46a25)
Services	**255bn**	**4.1bn**	**+25%**	RAEC (https://bit.ly/2RYHfOd)
Delivery and transport incl. taxi apps, car sharing, joint trips	148.6bn	2.4bn	N/A	RAEC (https://bit.ly/2RYHfOd)
Event ticketing	11bn	175m	N/A	
Professional and household services (repairs, beauty services, etc.)	95.4bn	1.5bn	N/A	
Online gaming incl. via social networks, consoles and mobile platforms as well as in-game purchases of virtual items and services	**62bn**	**989m**	**+5%**	RAEC (https://bit.ly/2RYHfOd)
Online video	**15.8bn**	**250m**	**N/A**	RAEC (https://bit.ly/2RYHfOd)
AVOD (with ads in video content)	10bn	160m	+25%	RAEC (https://bit.ly/2RYHfOd)
Video sales, rentals, subscribtion to SVOD, TVOD)	5.8bn	93m	+13.7%	
Online video	**16.5bn**	**260m**	**+46.3%**	Telecom Daily (https://bit.ly/2RZZ7bi)
AVOD (with ads in video content)	6.1bn	97m	+26.3%	Telecom Daily (https://bit.ly/2RZZ7bi)
Video sales, rentals, subscribtion to SVOD, TVOD)	10.4bn	166m	+61.3%	
Online music	**3.5bn**	**56m**	**+16.7%**	RAEC (https://bit.ly/2RYHfOd)
E-books	**3.7bn**	**59m**	**+23.3%**	RAEC (https://bit.ly/2RYHfOd)
E-learning	**21bn**	**330m**	**+50%**	ATOL (https://bit.ly/30kiAqk)

EXECUTIVE INTERVIEWS

- E-commerce and e-payment expert Anna Kuzmina: “The Russian e-commerce market is very big, but not in the way it is usually assessed”
- Shiptor co-founder Iurii Popolitov: “Product, price, delivery time and choice: If you are good on all or most of these four, you’re likely to succeed in Russia”
- Irina Denezhkina, Head of VK Social E-Commerce: “The share of social commerce in e-commerce is only going to grow”

E-COMMERCE AND E-PAYMENT EXPERT ANNA KUZMINA: "THE RUSSIAN E-COMMERCE MARKET IS VERY BIG, BUT NOT IN THE WAY IT IS USUALLY ASSESSED"

You've been an attentive observer of the Russian e-commerce scene over the past decade. How would you analyze its main trends?

The first generation of Russian online retailers appeared in the late 1990s-early 2000s. These sites included Ozon, Exist [car parts], Wildberries, B2B-Center as well as Yandex, Cyberplat, Mamba [dating]... They emerged almost as early as eBay in the West. Ozon was seemingly inspired by Amazon.

Around 2006-2013, new models emerged, which now appear as being closer to e-commerce standards. Typically, in 2011, Rocket Internet launched Lamoda (https://bit.ly/2RasiZ3), largely inspired by the Zappos model. Meanwhile, Amazon became a giant, but no Russian site had any comparable success even at the domestic scale.

Starting from 2014, new regulations have been proliferating in Russia as elsewhere. Meanwhile, most large Russian e-commerce companies, especially those of the first generation, still didn't develop as fast as their Western or Asian peers, with the notable exception of Wildberries and of course Aliexpress. The latter is foreign but localized successfully -- and in many ways gave birth to Joom and Pandao.

This was, in major part, due to legacy issues, or to the lack of ability to adapt to new market conditions, e.g. quick switch from context ads to influencer marketing. Thus, some companies are running on outdated models, while others have managed to adapt at least partially.

Among other sensitive problems are questionable financial management in certain companies, and poor capacities in terms of consumer studies -- even though habits are changing fast in Russia.

We still see every year new projects emerge and quickly disappear, led by enthusiastic amateurs. This is good and bad news for established players: less competition, but also less market pressure to improve and optimize processes.

E-COMMERCE AND E-PAYMENT EXPERT ANNA KUZMINA: "THE RUSSIAN E-COMMERCE MARKET IS VERY BIG, BUT NOT IN THE WAY IT IS USUALLY ASSESSED"

Note that the recent development of e-commerce services has been more impressive, generally speaking, than that of "classic" e-commerce. In the past years we saw the emergence of strong companies in the fields of meal delivery (with notable VC and M&A developments in spite of limited turnover so far); individual or shared services (Blablacar, YouDo...); e-learning (though at a slower pace); as well as online micro credit and SaaS services.

How would you assess the market's growth potential?

Surely, there is an obvious potential ahead, given the relatively low e-commerce penetration in Russia compared with advanced countries. No doubt the market will grow considerably. However, one shouldn't expect Russia's 90 million Internet users (https://bit.ly/31jYPAp) to all become frequent online buyers. Many people just don't have money. For them, pricing – even a small price difference in the delivery fee – is a crucial factor. Product quality and service issues are perhaps secondary to many consumers.

This is one of the main reasons why AliExpress is so successful: they sell the very same Chinese-made products that were, in the past, sold on markets -- but cheaper. Then, people will resell them on Avito or VK in what is not only C2C transactions. The purchases are paid in card-to-card transactions, or e-wallets, or even Apple Pay (which is fairly popular in large cities), or cash, or in even less transparent transactions.

Is this grey market significant in terms of volume?

It is huge, seemingly several times as much as the official e-commerce market of physical goods. From this point of view, the Russian e-commerce market is very big, but not in the way it is usually assessed.

How did the cross-border market develop over these years?

The ruble fell sharply [by around 50%] in 2014-15 due to the economic crisis and the international political context. Aliexpress was present in Russia before, but began getting strong traction only then, with significant marketing investment – while eBay, Amazon and many other Western sites, but not all, fell (https://bit.ly/2FKZgdY).

A fierce battle took place between Aliexpress, DHGate, JD.com, (https://bit.ly/2FEFoZO), eBay... The winner was Aliexpress (https://bit.ly/1qvgbR3), due to big marketing spending and the use of very advanced tools – from gamified marketing actions, to viral videos (https://bit.ly/2Ls0NsR). No one, be it domestic or cross-border, did match this. The company also made spectacular progress in delivery time (https://bit.ly/2NjQppz).

JD.com did try to challenge Ali, although in a slightly different segment, but failed essentially for strategic and personal reasons. As a result, no one even won the second prize, and the market atomized under Ali's domination.

Ali's victory was also favored by the absence of a strong Russian platform or marketplace open to foreign players, with all logistics processed, tax settlement systems, etc., correctly set up.

E-COMMERCE AND E-PAYMENT EXPERT ANNA KUZMINA: "THE RUSSIAN E-COMMERCE MARKET IS VERY BIG, BUT NOT IN THE WAY IT IS USUALLY ASSESSED"

What about the classic Russian e-commerce sites with cross-border ambitions?

So far, none of the main ones (Ozon, KupiVip, Lamoda. Wildberries) has succeeded in developing a significant cross-border business. The term "cross-border" has been used in many corporate announcements, but reality remains modest or inexistent. The reasons lie essentially in the strategic obstacle posed by Ali; in the complexity of cross-border business; and in the fact that locals already have to manage their own domestic headaches and legacies.

Can players from other countries also get in the game?

Japanese, South Korean, Vietnamese, Turkish players may come and find their niche – actually cross-border flows from these countries are already noticeable. French, Italian and American ones can also be in the game, even though they're handicapped by the unfavorable exchange rate.

These players have several options to enter the market. They may come to the marketplaces Aliexpress/Tmall – reinforcing Alibaba's leadership – or to ASOS, Aizel or Wildberries in the fashion segment. As an alternative or complement to dealing with marketplaces, they may also choose their own website. But this is possible only if their brand enjoys some popularity in Russia, and if they have the budget and energy to localize or build their branded site. Some may bet on classic offline distribution.

ASOS, iHerb and Yoox are examples of foreign companies succeeding in Russia, due to the quality and uniqueness of their offer. They may not always need to complement their direct online sales with a marketplace. For example, why would iHerb need a marketplace for the moment, if its own site has stronger traffic?

Other examples include Asian phone makers, which have started to sell directly, partly cutting middlemen: Lenovo, Xiaomi, and unfortunate Huawei & Honor (Huawei brand). And South Korean cosmetics, food and fashion makers – I'm a firm believer in their potential. Korean products already have brands, followers and trust, the rest is a matter of practical implementation – who gets them in and how.

It might sound counter-intuitive, but I believe anyone who wants to sell to Russia can succeed. There are no absolute obstacles – no local marketplace domination, no real or artificial walls. I'd even say it's easier to penetrate the Russian market than to come to such markets as Dubai or China, where you need to have good local ally and face huge cultural differences.

(May 2019)

- Anna Kuzmina is known both in Russia and abroad as one of the best e-payments and e-commerce experts in Russia. After a career start at Mail.ru Group, she occupied senior positions at major payment service providers, including Xsolla and Yandex.Money. She is now COO at Bank 131, a brand-new Russian bank (https://bit.ly/2KCdKQB) that aims to serve online businesses.

SHIPTOR CO-FOUNDER IURII POPOLITOV: “PRODUCT, PRICE, DELIVERY TIME AND CHOICE: IF YOU ARE GOOD ON ALL OR MOST OF THESE FOUR, YOU’RE LIKELY TO SUCCEED IN RUSSIA. ”

Since its foundation in 2013, Shiptor has asserted itself an important player on the Russian cross-border e-commerce logistics scene. In this interview, the company’s co-founder Iurii Popolitov pointed out key market trends and offered advice for international e-merchants to succeed with Russian online consumers.

What are the latest trends on the Russian cross-border e-commerce scene?

This market is promising. The lower threshold for tax-free orders, at €500 starting from Jan. 2019 [from €1000 per person and per month previously] did have an impact, especially on costly electronic goods. However, as far as we could see with AOV at $150 [essentially from Western sites], we just saw a 5% fall in the B2C orders we process as a consequence of this measure. And if considering cheaper orders from Chinese sites, I assume there has been no impact at all.

The Russian authorities are planning to lower again the threshold to €200 [per order] in the future. This might do some harm, but real issues would come only at even lower levels.

Which types of products are the most in demand today?

Since Jan. 2019, it’s become harder to sell big electronics for the reason we discussed: who wants to pay a 30% tax over €500? But clothes, shoes, toys, baby clothes and other such goods from abroad are still popular among Russian e-shoppers.

What would you recommend to foreign e-merchants to succeed in Russia?

Russian e-shoppers are sensitive to product, price, delivery time, and choice. If you are good on all or most of these four, you’re likely to succeed in Russia. Note that price does not only refer to product price: cash on delivery, free delivery – or delivery presented as being ‘free’ – returns are all strong arguments.

IURII POPOLITOV: “PRODUCT, PRICE, DELIVERY TIME AND CHOICE: IF YOU ARE GOOD ON ALL OR MOST OF THESE FOUR, YOU’RE LIKELY TO SUCCEED IN RUSSIA”

Marketing is crucial – and specific. Cultural contexts and other specifics are always to take into account, whether you sell to Russia, the US or China. This is why you should work with local providers. I know no success stories of foreign e-merchants relying only on their own “foreign” market knowledge and strengths. You need to partner with local experts, including a digital marketing agency and a logistics provider: it’s always about using know-how and assistance from the best professionals.

The good news is that, if you do these and other things properly, there’s virtually no limit to increasing your sales. Even a small player can sell a lot and become big!

Aren’t marketplaces a good option, too, to enter the market successfully?

Marketplaces can simplify things for foreign e-merchants; they can help sell products sometimes massively. But the problem is, you completely lose control - it’s like working with Amazon.

I know a company from Hong Kong selling electronic gadgets: they have 70 employees busy working with Amazon, 20 of which manage several marketplace accounts. While Amazon generates $1 million sales per month, the merchant is exposed to a number of customer complaints, justified or not (sometimes created by competitors), which can lead to closing accounts. This happened several times, forcing the company to have multiple accounts and continuously open new ones just to keep on running this sales channel.

There is always an option – to do your own marketing and spend money on attraction and retention of customers, or pay-off 13-20% from your check and sell without any visible control instrument.

So, working with marketplaces is certainly a good thing, but it shouldn’t substitute to own localized site, marketing, etc.

IRINA DENEZHKINA, HEAD OF VK SOCIAL E-COMMERCE: "THE SHARE OF SOCIAL COMMERCE IN E-COMMERCE IS ONLY GOING TO GROW"

Just days following the signature of the joint-venture agreement between Mail.ru Group, Alibaba, MegaFon and the RDIF (https://bit.ly/2K7lZo8), VK's Head of Social Commerce Irina Denezhkina told EWDN about VK's existing and future e-commerce activity within the JV.

What do people buy on VK?

Almost any business in Russia has its page on VK. Companies use it for promotion, customer retention and direct sales. Over 300,000 communities actively sell goods on VK. Until recently, however, there were no instruments for sales automation on VK. Sellers had to settle delivery and payment details with every customer.

In the course of 2018, according to market analysts [from Data Insight and Yandex Money], 55% of all Internet users made payments on social platforms [including social networks, instant messengers, classifieds sites]. And 44% of these paid inside VK. We are committed to making this process more convenient for both sellers and buyers.

In June 2018 VK launched the VK Pay social commerce platform. This allows any business to create their own online store on the basis of its VK community – with an online shopping cart, delivery options and online payment.

VK Pay also allows merchants to sell through full-fledged marketplaces on VK. In 2018, VK launched Game Store (https://bit.ly/2IAflUo), Online TV & Movies Store (https://bit.ly/2IAd6jW), and marketplace for popular software

The platform also provides special offers from Burger King, Delivery Club, OneTwoTrip, Durex, Doc+, RipCurl, LitRes, TourGlobal, Proskater, SpaceKix and many other companies.

IRINA DENEZHKINA: "THE SHARE OF SOCIAL COMMERCE IN E-COMMERCE IS ONLY GOING TO GROW"

You're mentioning mainly digital goods and services...

But not only. Most of the goods presented on the platform are physical goods, and they are also in great demand. Clothing, accessories, food products are among the most popular categories.

How many merchants and buyers does all this involve?

As of June 2019, we had more than 9 million registered VK Pay wallets, while more than 150,000 merchant communities accepted payment through VK Pay.

Vendor categories range from large companies, such as Burger King and Microsoft, to local sellers of handmade goods. Most of the goods presented on the platform are physical goods.

How do you plan to develop further this commercial activity?

We do plan to develop e-commerce actively. VK will be a key component of the social e-commerce ecosystem which Alibaba and Mail.ru Group are starting to build. In February 2019, just a couple of months after their partnership was announced, VK and AliExpress announced the start of a social e-commerce project in Russia. Integration will include several products which are new both for VK and AliExpress.

We intend to give sellers new, convenient tools, focusing on small and micro-businesses. We will provide them real support, creating an environment in which they will have no need to create their own separate website. VK communities allow for purchases to be made in the same way as standard websites do.

Thus, VK users will receive access to the entire AliExpress marketplace, which offers tens of millions of items as well as various payment methods, including VK Pay. VK users and merchants will have a convenient way to buy and sell products on one of the world's largest e-commerce platforms.

Will the existing VK e-commerce tools be maintained?

VK indeed currently provides many tools to sell goods via communities and stores. Since we want to build a fully-integrated social commerce platform, these tools will be integrated to AliExpress and TMall. This will be exclusive for AliExpress Russia, so the traffic and sales that merchants will be able to generate will be much higher than through the existing VK tools.

We are ready to work with all merchants, including foreign companies. All the documentation is available in English and we offer an English-speaking customer service.

Since we are the largest social network in the country, we can provide a serious push to international brands in Russia. Certain categories of goods, however, are prohibited or subject to restrictions according to Russian law. Together with AliExpress Russia we will enhance even further our tools for merchants to join the platform easily and efficiently.

How do you envision future market developments?

I think that the share of social commerce in the e-commerce sphere is only going to grow. Instagram and Facebook are both taking steps in that direction, and VK is actively developing its role in e-commerce. As before, large businesses will exist separately as large, high-traffic websites. However, a decent amount of their sales will be made through social networks. Small and micro-businesses will, in contrast, fully integrate into social networks, where all of their customers already are.

(June 2019)

Yandex Checkout

Leading payment service provider* in Russia & CIS

106 000 online businesses worldwide

≈37.6% market share*

Safe and convenient payments to your business:
bank cards, wallets, online banking, cash, etc.

Fast onboarding & no subscription fee

https://checkout.yandex.com

merchants@money.yandex.ru

*MARC 2019

IN THE NEWS

- 18 December 2018: Yandex and Sberbank launch two marketplaces, aim for e-commerce leadership
- 26 November 2018: Online car orders are taking off in Russia
- 4 April 2019: Up to 15% of online purchases in Russia are made on credit
- 2 August 2019: Major Russian bank to launch marketplace to sell seized assets

AS PUBLISHED IN

East-West Digital News

YANDEX AND SBERBANK LAUNCH TWO MARKETPLACES, AIM FOR E-COMMERCE LEADERSHIP

East-West Digital News, 18 December 2018

As the Russian e-commerce market is entering a new growth and concentration cycle, the joint venture formed by Yandex and Sberbank, launched two online marketplaces over the past few weeks.

One of them, dubbed 'Beru' ("I'll take it"), became fully operational in early November, after five months of beta testing. The platform features "over 1,000 retailers and 600 shopping categories, from household appliances, to cosmetics, to dry grocery goods," claims Yandex.

An online pharmacy enables users to order medications online and pick them up from over 10,000 physical pharmacy outlets.

In contrast with Yandex.Market, the popular e-commerce aggregation and price comparison platform launched in 2000, Beru presents itself as an integrated marketplace – similar in many respects to the Amazon marketplace. Not only can users make purchases from multiple categories on one platform: payment and delivery operations are also managed by Beru.

Yandex went as far as integrating Alice, its AI-powered voice assistant launched last year (https://bit.ly/2Lsukms), to the platform: users may choose and purchase products on Beru by just saying: "Alice, help me buy on Beru."

FASTER DELIVERY AT LOWER COSTS

Orders are processed and delivered from a Moscow-based fulfillment center, which allows Beru to provide "more reliable and affordable shipping options across Russia."

The platform promises to deliver next day in Moscow and to provide an "improved delivery experience to the far regions of Russia" – where shipping services are often characterized by long wait times and significant costs.

"With Beru, Yandex is using its technological developments to create a greater e-commerce experience," stated Maxim Grishakov, CEO of Yandex.Market.

In late November, the Yandex-Sberbank JV also introduced Bringly, an e-commerce platform for cross-border shopping.

Bringly claims to offer "over four million products from the world's most popular brands." These include virtually anything from clothing and footwear (Koton, LTB Jeans, Lumberjack…) to Korean beauty products, to such niche products as Chinese shock and water-resistant smartphones (Cubot, Nomu).

The platform's first major international supply agreement was inked this past summer with Turkish Ziylan Group, a major manufacturer and seller of footwear.

Bringly aims to improve logistics and delivery times with a Latvia-based warehouse for expedite shipping. Customers may also use Russian Post's standard or express delivery service.

Shipping costs vary depending on retailer location. Delivery is free for goods purchased from China, Latvia and Turkey.

For a substantial part of its assortment, nevertheless, Bringly will compete with Aliexpress, the Alibaba subsidiary which is dominating the Russian cross-border market.

YANDEX AND SBERBANK LAUNCH TWO MARKETPLACES, AIM FOR E-COMMERCE LEADERSHIP

Beru's Moscow fulfilment center. Photo credit: Yandex

BATTLE OF TITANS

In September 2018, Alibaba made an alliance with Mail.ru Group, a leading Russian Internet group rivalling with Yandex. The two partners want to create a whole ecosystem that would encompass e-commerce, social communications and gaming.

On its side, Yandex has received massive support from Sberbank, the state-own national savings bank and Russia's largest banking institution, in its bid for e-commerce leadership.

"Yandex has brought to the JV the Yandex.Market platform with its audience, traffic and technologies. Sberbank has injected $500 million into the JV and contributed its financial expertise, distribution opportunities and technologies," Yandex.Market's PR director Polina Upitis explained in an exchange with East-West Digital News.

Also christened 'Yandex.Market,' the JV owns the Yandex.Market, Beru and Bringly platforms. Beru and Bringly, which are now presented separately, will ultimately "be added to [the Yandex.Market platform] to offer a comprehensive online shopping experience for Russian consumers and retailers," Yandex announced.

"Yandex.Market is building an ecosystem which will generate, under plans, 500 billion rubles within five years [nearly $7.7 billion at the current exchange rate]," Upitis said.

CROSS-BORDER MARKETPLACE BRINGLY CEASES ACTIVITY

East-West Digital News, 18 December 2019

Earlier this month Bringly, the cross-border e-commerce marketplace of the Yandex Market group of companies, stopped accepting orders – just one year after its launch in beta version.

The group intends to transfer its cross-border offers to Beru.ru, another marketplace initially designed for domestic purchases.

Bringly aimed to become "a truly global platform, including both cheap goods from China and alternative supplies, notably from Turkey and Western countries." Bringly also aimed to experiment new models, such as marketplace-to-marketplace and manufacturer-to-consumer.

Bringly's experienced staff and the deep pockets of its shareholders, Yandex and Sberbank, did not bring the expected success. Meanwhile, not only did AliExpress maintain its absolute leadership on the Russian cross-border scene, it also garnered the support of new shareholders and partners through Alibaba's alliance with Mail.ru Group.

In an exchange with East-West Digital News, an industry insider attributed Bringly's failure to a combination of such factors as:

- A lack of strategic focus of the shareholders, which continued developing a variety of other businesses, in comparison with the concentration of AliExpress Russia and its shareholder Alibaba on the sole cross-border business;
- The slow-down of the Russian cross-border e-commerce market;
- The lower-than-expected appeal of alternative supplies from Western countries.

Not only do Western e-merchants still have to put up with Chinese competitors, they now face a competition from a new generation of small Russian brands. These enjoy a growing traction among domestic consumers, as exemplified by local fashion makers selling through Wildberries, the leading Russian e-commerce site.

ONLINE CAR ORDERS ARE TAKING OFF IN RUSSIA

East-West Digital News, 26 November 2018

Russian BMW aficionados can now pre-order online the brand's new flagship BMW X7 (https://bit.ly/2I84lyu) – a model which will be made available at dealers only next spring. Buyers may go online to specify the desired type and features of the car, choose the nearest dealer, and pre-pay 150,000 rubles (a little less than $2,300 at the current exchange rate).

This pre-order system has been made available in Russia – following the USA, Canada and China – through a partnership with Yandex.Checkout (https://bit.ly/2BVHBvz), the B2B branch of Yandex.Money.

BMW Group Russia and Yandex.Checkout launched a similar system for MINI cars (https://bit.ly/2MGG8U7) in August this year.

Yandex.Checkout also works with Tesla and Renault. "Since the start of Renault online showroom, 19,500 cars have been sold due to May 2019," Oksana Sherr, Head of Foreign PR & Communications at Yandex.Checkout, told East-West Digital News.

Online orders of new cars are rapidly gaining popularity in Russia, according to the company: "The number of customers making online payments for car pre-orders via Yandex.Checkout in October 2018 has increased 14 times year-on-year."

"These statistics show Russians' growing confidence in e-commerce. More customers are ready to buy luxury and expensive products online. We believe that online platforms will become the main distribution channels for high-end products, particularly in the automotive industry," commented Dmitry Karmishin, Sales Director at Yandex.Money.

Ozon's service fee will amount to 6% of the loan.

Alfa-Bank, the Internet Initiatives Development Fund (IIDF, or FRII in Russian) and the Italian company General Invest have launched similar C2B loan platforms in Russia.

UP TO 15% OF ONLINE PURCHASES IN RUSSIA ARE MADE ON CREDIT

East-West Digital News, 4 April 2019

Yandex.Checkout, the B2B branch of Yandex.Money, recently released a study about online sales on credit in Russia. The research is based on the data collected by the company itself, following the launch of its 'Payments in installments' (https://bit.ly/2R4kMi0) offer in March 2018.

The key findings of the study are as follows:

MOST CONCERNED PRODUCT OR SERVICE CATEGORIES

- Electronic goods – 15% of online purchases made on credit
- Household appliances – 11%
- Educational services – 9%
- Sporting and tourism-related goods – 8%
- Goods for the home and garden – 8%
- Car parts – 7%
- Souvenirs – 7%
- Event tickets – 6%
- Jewelry – 6%
- Medical products – 6%
- Travel products – from 1% to 3%

AVERAGE LOAN AMOUNTS

The average loan amount reaches 22,000 rubles ($294), with sharp contrasts among different product or service categories:

- Tourism — average loan amount of $960
- Electronics — $454
- Educational services — $400
- Car parts and car repair services — $360
- Flight tickets — $294
- Sporting and tourism-related goods — $267
- Medical products and services — $267
- Items for the home and garden — $267
- Household appliances — $240
- Tickets for concerts and other events — $227
- Souvenirs and hobby-related products — $200
- Jewelry — $187

Yandex.Checkout claims that more than 8,000 businesses use the 'Payments in installments' service. E-merchants can parametrize the duration of the loan (from 3 months to 12 months) and of the grace period (from 30 days to 120 days). Repayments are made through the Yandex.Money e-wallet.

The service was launched in partnership with Russian startup Paylate. Yandex.Money is a joint venture of Yandex and Sberbank, a leading state-controlled financial institution.

MAJOR RUSSIAN BANK TO LAUNCH MARKETPLACE TO SELL SEIZED ASSETS

East-West Digital News, 2 August 2019

VTB, a major Russian state-owned bank, intends to launch a marketplace to sell such non-standard assets as seized apartments and cars from insolvent debtors, as reported by Russian business daily RBC (https://bit.ly/2l7ey5F).

The marketplace will provide a wide range of services related to the purchase, registration, moving, repairs, and upkeeping of the purchased properties purchased.

Scheduled for launch in 2020, the platform will be open to the bank's own clients as well as other buyers. VTB's clients will be able to apply for online loans from VTB and other lenders. However, VTB will not allow other banks to sell their problematic assets through its marketplace

"We have a pretty big amount of mortgage and car finance and we seize both cars and real property from our debtors. We are launching this marketplace to sell such assets more efficiently," said VTB deputy chairman of the board Anatoliy Pechatnikov.

Currently, VTB offers its problematic assets for sale through its special website, which allows the visitors to view the assets on offer, calculate finance options, and view respective contacts. The new marketplace will replace the current website. In 2018, VTB sold such assets to the tune of 5 billion rubles (nearly $79 million at the current exchange rate.)

The bank hopes it will be able to double the revenues once the marketplace is launched, with the value of assets offered online increased fivefold.

SECTION 2: ONLINE CONSUMERS

RESEARCH PARTNERS:

DATA insight

Yandex Market

2.1. Country demographics

With a population of 146.9 million people,[1] Russia ranks ninth among the countries of the world. The urban population of Russia accounts for 74% (about 109.3 million people). The largest cities in Russia are its capital Moscow (more than 12.5 million residents) and St. Petersburg (5.4 million).

There are 171 cities in Russia with a population of above 100,000 residents. They include 15 cities with a population above 1 million; 22 cities with a population from 500,000 to 1 million people, 41 cities with a population of 250,000 to 500,000 people, and 93 cities with a population from 100,000 to 250,000.

As of January 1, 2018, there were 68.1 million men (46.7% of the total population) and 78.8 million women (53.6%) living in Russia.

At present, every seventh Russian resident, i.e. 14.6% of the total number of Russia's inhabitants, is aged 65 years and above.

According to internationally accepted criteria, the population of a country is considered to be old if people aged 65 years and above exceed 7% of its population.

The median age of people in Russia is 39.8 years. It is 37.1 years for men and 42.2 years for women.

Every fourth resident of Russia (37.3 million people as of January 1, 2018) is in the retirement age. The number of children and teenagers up to 16 years is 10 million people, or 26.8%, lower than the number of people of active working age (82.3 million).

2.2. Socio economic data

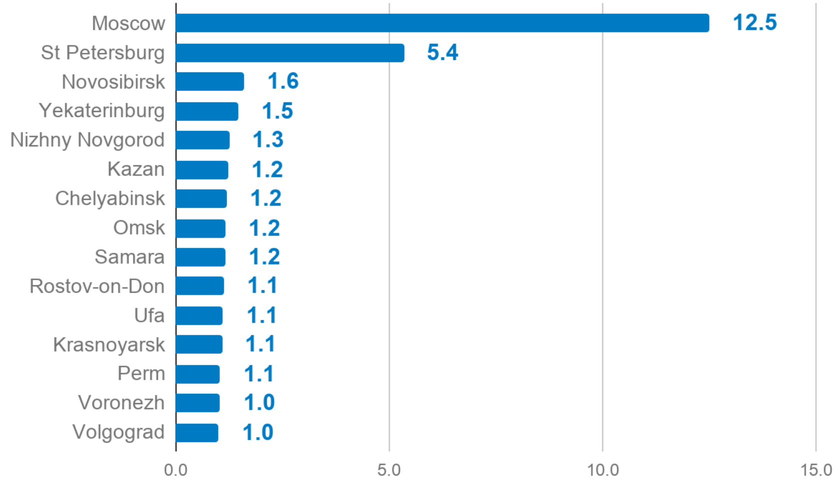
IMF estimates (http://bit.ly/imf-gdp-2018) put Russia's 2018 nominal GDP per capita at $11,947 or $28,957 using the purchasing power parity (PPP) methodology. In France, by comparison, these figures stand at $44,933 and $45,473, respectively.

(1) Data as of January 1, 2018 from the Russian Federal State Statistics Service (https://bit.ly/1fCo68h)

(2) United Nations data (https://bit.ly/29Qqzm3)

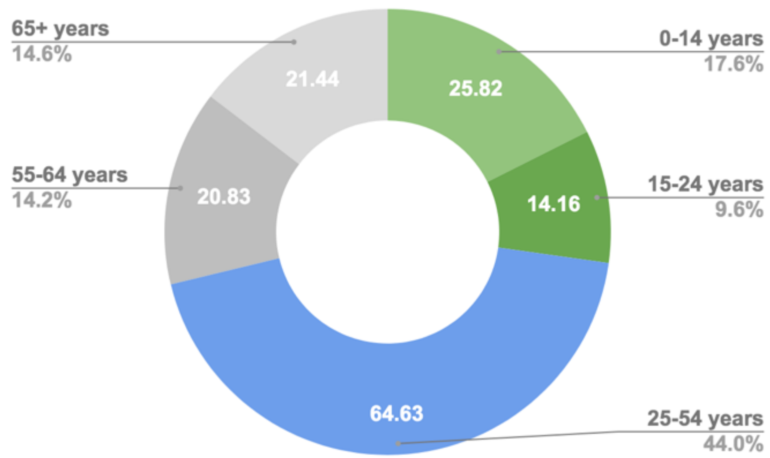
MAIN RUSSIAN CITIES AND THEIR POPULATION

IN MILLION INHABITANTS AS OF JAN. 2018



AGE STRUCTURE IN RUSSIA

IN MILLIONS OF PEOPLE AS OF JAN. 2018)



SOURCE: RUSSIAN FEDERAL STATE STATISTICS SERVICE

The Russian Federal Statistics Service reports that in 2018, the average gross monthly salary in Russia amounted 43,431 rubles (about $693).[3] According to OECD data (https://bit.ly/1EUAx2S), in 2017, the average gross monthly wage in France was $3,646 and in Germany it was $3,965. This puts the average monthly wage in Russia about five times as low.

In terms of average population income, depending on the calculation methodology, Russia was is either well below (in nominal terms) or at the same level (in real purchasing power) as Portugal or Greece.[4]

According to official data (https://bit.ly/2q9JaQa),[5] the population's disposable income decreased in real terms by up to 10% from 2015 to 2017, before modest growth resumed.

- Impact on domestic consumption

A recent nationwide survey showed that four Russians out of five feel difficulties to buy the required minimum of goods with their disposable income. While more than half of the respondents could not face unplanned expenses, including medical ones, one third could not even buy a pair of shoes every season, according to Rosstat (https://bit.ly/2FTTLKf).

As seen in Section 1, these circumstances are not creating an obstacle to larger e-commerce penetration in the country. On the contrary, e-commerce tends to provide cheaper purchase opportunities to low-income population groups. However, the population's low incomes pose a clear limit to online consumers' purchasing capacities. This is the factor that keeps average order value so low in Russia (3,970 rub., or $63, in 2018, down 2% from the previous year in domestic e-commerce).

(3) This figure is doubted by many in Russia, with real figures being twice as low, according to some estimates (https://bit.ly/2ZSKPMv)

(4) Adjusted for living costs (PPP), Russia's €1,408 stood at around half of the French or German levels, and was comparable to the average salaries in Portugal and Greece (https://bit.ly/1JL5hV9).

(5) State statistics service (https://bit.ly/2Sal6i9), World Bank (https://bit.ly/2Qzqa5S)

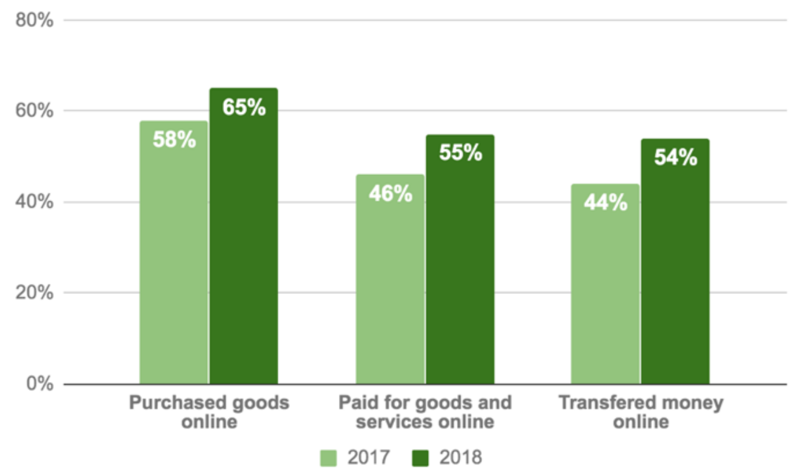
2.3. Online purchasing behavior

The number of online consumers in Russia continues to grow fast. According to Yandex.Market/GfK https://bit.ly/2FEKOnA), as of July 2018, 37% of Russians purchased goods online in the previous six months, up from just 17% in April 2014. The number of e-shoppers in Russia doubled in just four years!

As of January 2018, more than half of Russia's 90 million regular Internet users in Russia (who account for three quarters of the total population) purchased goods online, paid for goods and services online, and performed online money transfers.

The proportion of e-shoppers is above the average in large cities, among the more educated people, among richer people, and among advanced Internet users.

ONLINE PAYMENT AND PURCHASING PRACTICE OF RUSSIAN INTERNET USERS IN 2017-2018



SOURCE: DATA INSIGHT & PAYPAL (HTTPS://BIT.LY/2WTLEXF)

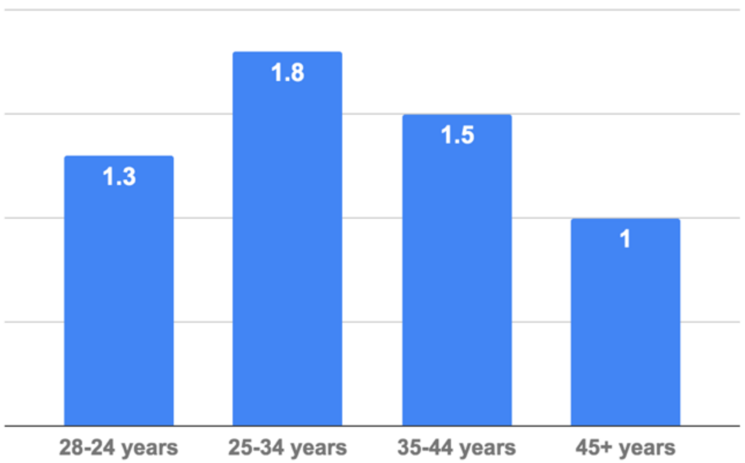
- Variations by age

In 2017, according to a research by PWC (https://pwc.to/2XcNApW), Russian consumers made on average every month 4.6 purchases in offline stores and 1.4 purchase online. Online purchases were most popular among Russian consumers aged 25 to 34 years because, on the one hand, they are more at ease with online technologies than older people; and, on the other, they can afford to shop more than the youngest groups of consumers.

Interestingly, consumers aged 35 to 44 are more active buyers than the youngest consumer group (aged 18 to 24). Finally, elders are least active when it comes to e-shopping; however, they are not far behind of the other age groups in terms of frequency of online purchases.

The age factor is of more importance when it comes to Internet penetration rather than to the proportion of e-shoppers inside an Internet user group.

MONTHLY FREQUENCY OF ONLINE PURCHASES BY AGE GROUPS IN RUSSIA (2018)



SOURCE: PWC 2018 RUSSIA CONSUMER BEHAVIOR STUDY (HTTPS://PWC.TO/2XCNAPW)

2.4. Preferences and attitudes

2.4.1. Online consumption drivers

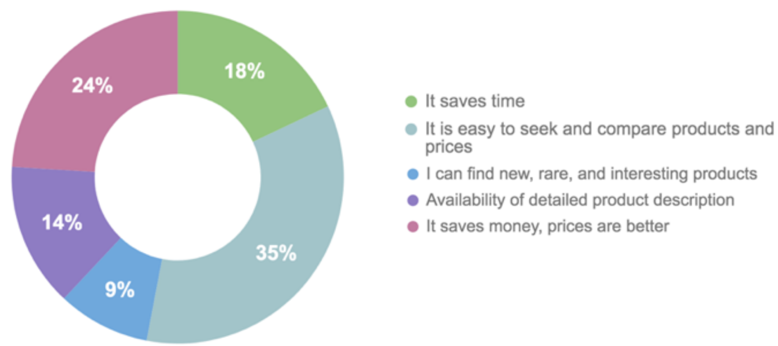
Saving time and money, making product search and price comparisons easier: these are the main perceived benefits of online shopping.

Due to a difficult socio-economic context (see Section 1), the price factor generally comes as the main factor in Russian online consumers' purchasing decisions. This applies to both product price and delivery price: thus, in a 2018 survey, a large majority of respondents named free delivery and discounts or bonuses as the first factors that could trigger them to buy something online.

Another 2018 survey, by GfK and Yandex Market,[6] confirmed the importance of the price factor: almost 60% of the respondents said they shop online because it is cheaper than offline and as many mentioned the benefits of comparing prices and enjoying discounts. More than half (56%) would "probably" or "certainly" not consider making a purchase if there is no discount offered. The matter is almost equally sensitive with foreign online stores: the absence of discounts would "probably" or "certainly" deter 40% from confirming their purchase.

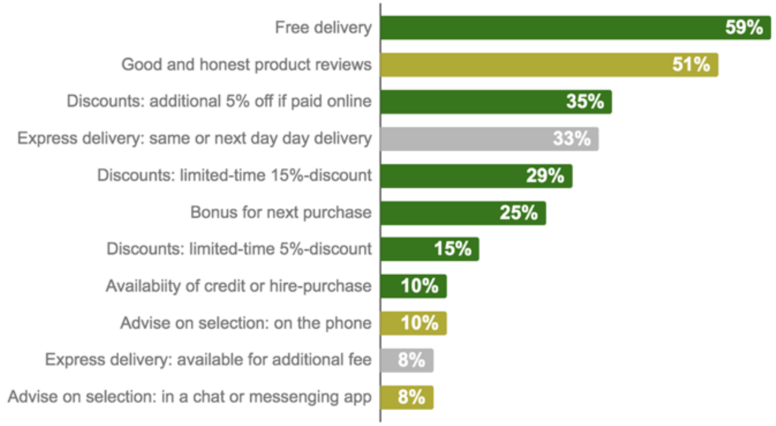
(6) Survey among Russians aged 16-55 living in cities of 100,000 inhabitants or more (https://bit.ly/2Wx0gwA)

WHAT MOTIVATES RUSSIANS TO SHOP ONLINE (2018)



SOURCE: DATA INSIGHT (HTTPS://BIT.LY/31KL9KD)

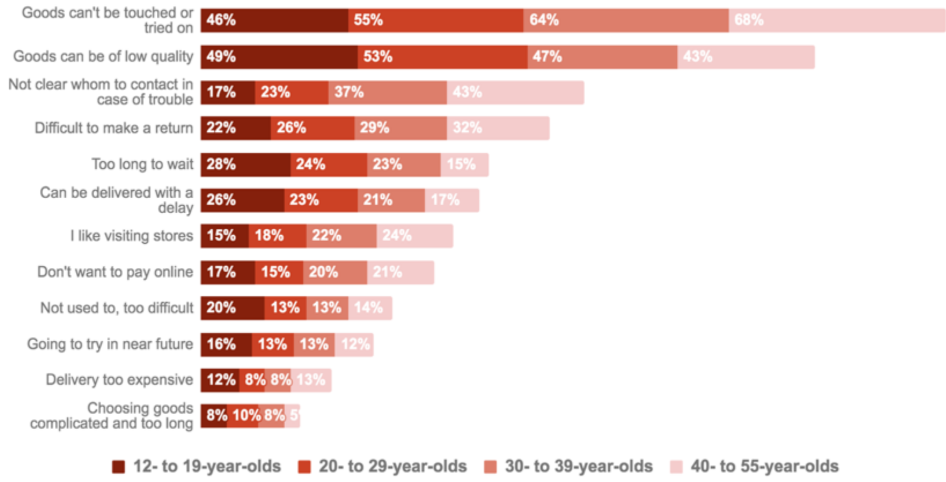
POTENTIAL DRIVERS OF PURCHASING DECISIONS ON DOMESTIC E-COMMERCE SITES (2018)



SOURCE: DATA INSIGHT & PAYPAL (HTTPS://BIT.LY/2WTLFXF). THE RESPONDENTS WERE ASKED WHAT COULD TRIGGER A PURCHASING DECISION ON A RUSSIAN E-COMMERCE SITE

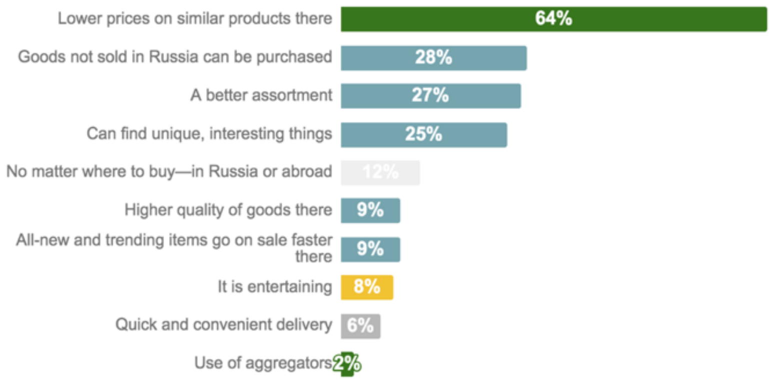
WHAT DETERS CONSUMERS FROM BUYING ON DOMESTIC E-COMMERCE SITES

WITH VARIATIONS BY AGE GROUPS (2018)



SOURCE: GFK AND YANDEX MARKET (HTTPS://BIT.LY/2WXOGWA)

POTENTIAL DRIVERS OF PURCHASING DECISIONS ON FOREIGN E-COMMERCE SITES (2018)



SOURCE: DATA INSIGHT & PAYPAL (HTTPS://BIT.LY/2WTLFXF). THE RESPONDENTS WERE ASKED WHAT MOTIVATED THEM TO MAKE PURCHASES ON FOREIGN E-COMMERCE SITES

OBSTACLES TO CROSS-BORDER ONLINE SHOPPING IN RUSSIA (2018)

SOURCE: GFK AND YANDEX MARKET (HTTPS://BIT.LY/2WXOGWA)

2.4.2. Fears and issues

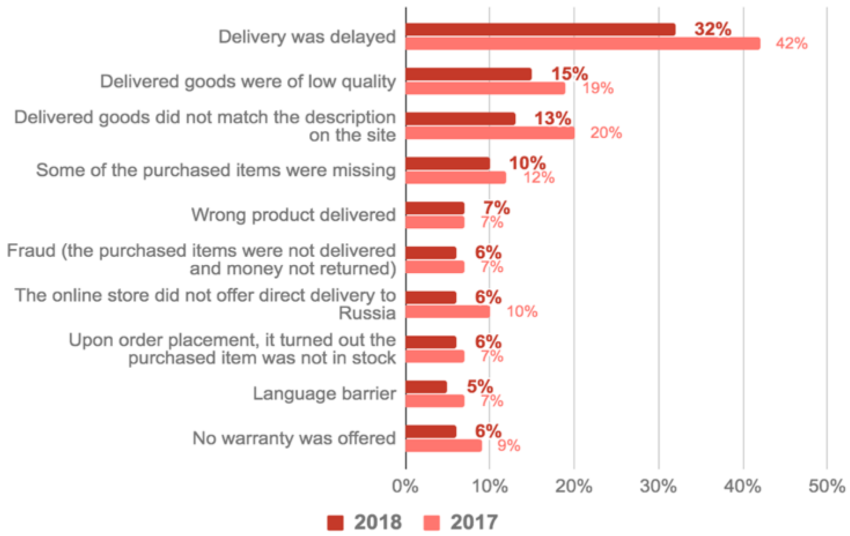
In the same survey, when asked what was hampering their online purchases on domestic websites in 2018, Russian e-shoppers provided responses that differed by age groups. For instance, almost one third of the teenagers group said they did not shop online because it was too long to wait for the delivery.

On the other hand, the eldest group was primarily concerned that when shopping online, they could not touch or try on the products they were interested in purchasing.

Among the main deterring factors in cross-border e-shopping, Russians mention too long delivery time, the difficulty to make a return and insufficient warranty coverage. A substantial, but minority number of e-shoppers (28%) have fears about product quality.

In 2018, the perceived experience of Russian cross-border e-shoppers improved compared to 2017, especially when it came to delivery time and incorrect product description on foreign sites.

PERCEIVED CROSS-BORDER E-SHOPPING ISSUES (2017-2018)



SOURCE: GFK AND YANDEX MARKET (HTTPS://BIT.LY/2WXOGWA)

2.4.3. Payment preferences

According to the Yandex-GfK survey, payments by bank cards accounted for 56% of e-commerce purchases in 2018, becoming predominant for the first time ever. These payments included online pre-payments (34%, up four percentage points in one year) and payments by cards on delivery (22%, up four percentage points).

Still, 64% of Russian e-shoppers preferred to pay for their online orders of physical goods upon delivery either by cash or by bank card. This is especially the case for domestic e-commerce, while Russians are more used to pre-pay by cards or other electronic methods when making purchases on foreign online stores or marketplaces (see Part 2, Section 3).

Upfront payments tend to be more accepted by younger Russian e-shoppers while more senior consumers prefer payment-on-delivery.

The most preferable way to pay for online purchases was upfront with a bank card for 32% of teenagers aged from 16 to 19, 28% for e-shoppers aged 20-29, 27% for those aged 30-39, and just 19% for people aged 40-55.

On the other hand, payments on delivery by bank card or in cash were most welcome by the eldest group (40-55 years) who chose it in 39% and 32% of the cases respectively. Those aged 30-39 would choose payment on delivery by bank card in 37% of the cases and in cash in 26%. The figures for the 20-29 age group were 28% for payments upon delivery by bank card and 32% in cash. The teenagers choose to pay on delivery with their bank cards in just 21% of the cases, and in 31% they paid in cash.

2.4.4. Delivery preferences and expectations

When it comes to delivery methods, most Russian online consumers would go for self pick-up (around 40% of online consumers surveyed by GfK in 2018) and non-express courier delivery (26%). Postal delivery is cited by 17% of respondents for domestic online purchases but as much as 80% for cross-border purchases.

Significant differences can be observed depending on city size. The smaller the city, the more popular Russian Post for delivery, according to the Yandex-GfK survey.

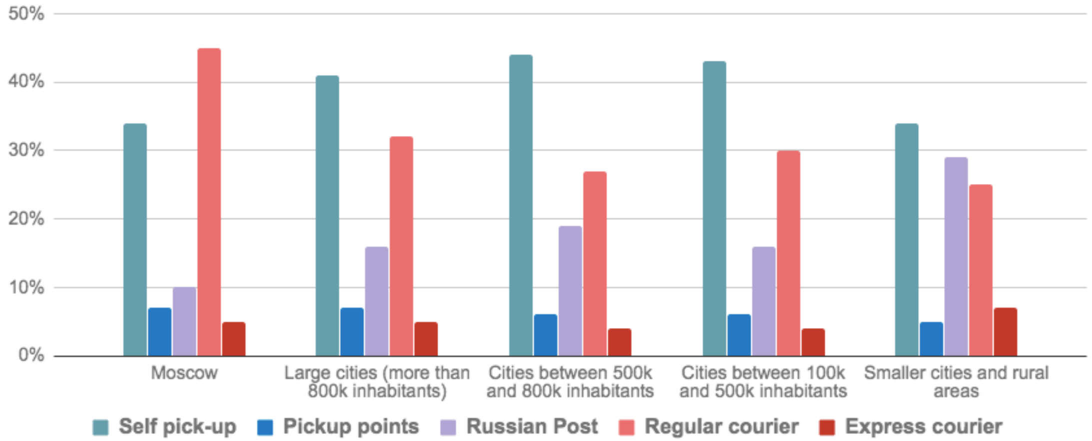
Russian e-shoppers are used to waiting three to eight days for their purchases to be delivered. The acceptable delivery time in Moscow is three to four days and twice as long in smaller cities.

Acceptable delivery time for cross-border purchases is about three weeks, according to this 2018 survey.

Russian Post, which delivers around 80% of cross-border e-commerce shipments, has announced plans to cut delivery time for orders from Western Europe to four to five days (https://bit.ly/2RJGTur).

Meanwhile delivery time from China can still go for weeks or even months, in spite of improvements over the past few years.

DELIVERY PRACTICE IN RUSSIA BY CITY SIZE (2018)



ACCEPTABLE DELIVERY TIME FOR ONLINE PURCHASES (2018)

Customers from Moscow	Cities over 800k inhabitants	Cities 500k-800k inhabitants	Cities 100k-500k inhabitants	Smaller cities and rural areas	Cross-border orders
3-4 days	6 days	7-8 days	6-7 days	8 days	About 3 weeks

SOURCE: GFK AND YANDEX MARKET (HTTPS://BIT.LY/2WXOGWA)

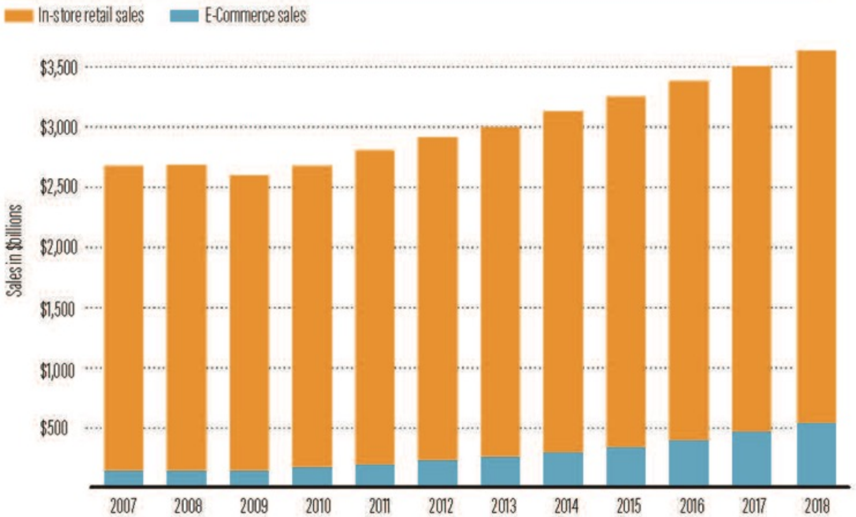
DIGITAL COMMERCE 360 **RESEARCH**

Our team tracks hundreds of metrics on more than 6,000 online retail sites around the world, with key data points including web sales, conversion rates and average ticket. We also survey consumers regularly to keep close tabs on shifts in their online buying behavior. What makes the Digital Commerce 360 research team different from any other research is that it uses a journalistic approach to data gathering and data analysis.

GLOBAL LEADER IN ECOMMERCE DATA

U.S. E-COMMERCE GROWTH OVER THE LAST DECADE

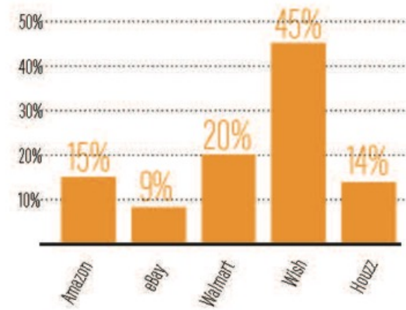
U.S. E-COMMERCE PENETRATION



U.S. LEADERS

TOP 5 ONLINE RETAILERS (in billions)

TOP 5 U.S. MARKETPLACES (2018 growth)



MERCHANDISE CATEGORIES

ECOMMERCE SALES GROWTH, BROKEN DOWN BY THE 10 MAIN MERCHANDISE CATEGORIES

ONLINE MARKETPLACES

$1.86 TRILLION

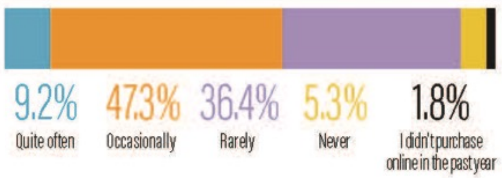
spent globally on the top 100 marketplaces in 2018

23% GROWTH

in gross merchandise value on the 100 top marketplaces in 2018

STARTUPS

HOW OFTEN CONSUMERS PURCHASE FROM WEBSITES THEY'VE NEVER PURCHASED FROM BEFORE



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Source: Digital Commerce 360 Research, U.S. Commerce Dept., Bizrate Insights

SECTION 3:
THE SUPPLY SIDE: MARKET PLAYERS

RESEARCH PARTNERS:

DATA insight · lamoda · OZON · Yandex Market · Yandex Money

3.1. Market structure and leadership

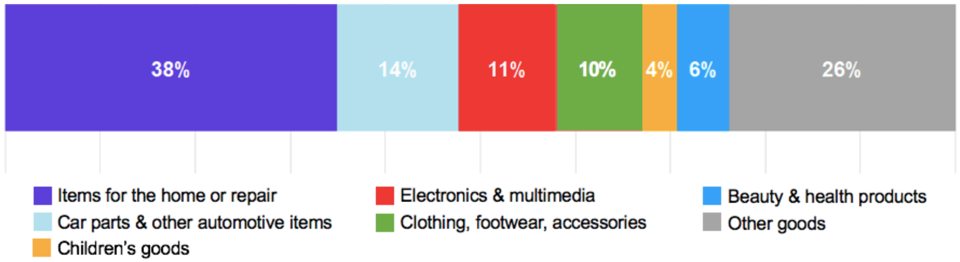
3.1.1. Key numbers

There are at least 300,000 – perhaps even 500,000 – Russia-based web domains that offer online ordering of physical goods. In addition, millions of Russians and hundreds of thousands of professional sellers sell online without their own domain, using social networks or classifieds platform (see Sections 1.5.3 and 1.5.4).

Data Insight has estimated the number of active e-shops (i.e at least 1 order per day) at around 100,000. The vast majority of these sites tend to trade items for the home, the car, or repair purposes: these product categories combined account for more than half of the 100,000 active e-merchant sites.

BREAKDOWN OF RUSSIA'S 100,000 E-MERCHANT SITES

BY PRODUCT CATEGORY, 2018



SOURCE: DATA INSIGHT

The breakdown of the top 1000 sites is very different: after exclusion of the smallest e-shops from the analysis, the focus shifts toward electronics and fashion, especially if analyzing them by number of orders rather than number of sites, notes Data Insight's Boris Ovchinnikov.

Around 100 sites generated $30 million in sales revenues in 2018 (excluding marketplaces, see Top 100). They sell electronic appliances (38 sites), home items and furniture (13 sites), or are multi-category players (18 sites).

Sales revenues exceeded $100 million in 26 cases and $500 million only in five cases (Wildberries.ru, Citilink.ru, Mvideo.ru Ozon.ru, Dns-shop.ru). Of them, only Wildberries.ru and Citilink.ru generated sales above $1 billion.

Electronic appliances also dominate among Russia's 10 largest sites.

WHICH PRODUCT CATEGORIES LEAD BY NUMBER OF ONLINE STORES (2018)

BASED ON PAYMENTS PROCESSED BY PSP YANDEX.CHECKOUT

Rank	Categories
1	Household and garden goods
2	Digital content and subscriptions
3	Souvenirs, arts and crafts materials
4	Masterclasses and workshops
5	Apparel and footwear
6	Equipment and instruments
7	Automotive parts and accessories
8	Cosmetics and health products
9	Food
10	Sport and tourism
11	Tickets for entertainments
12	Flowers and plants
13	Baby and child-specific products
14	Household appliances
15	Electronics
16	Restaurants
17	Books, video, CD
18	Constructions supplies
19	Educational institutions
20	Goods for animals

SOURCE: YANDEX.MONEY SPECIAL TO EWDN

3.1.2. From atomization to leadership

3.1.2.1. The domestic scene

- Current market fragmentation

According to Data Insight, Russia's top 100 online retailers account for just 57% of the total online retail markets, as far as physical goods are concerned. The largest site, Wildberries, claims to have generated nearly $1.8 billion in sales in 2018, approximately 10% of total market volume for physical goods.

The sales of the top four online retailers combined amounted to approximately $4.5 billion, accounting for 27% of the market. A far cry from the top four's 63% in the USA and 84% in China, as noted by Morgan Stanley.

The bank's analysts see this "high fragmentation" as "simply the consequence of the lack of funding," with "no single company being able [so far] to achieve sufficient scale required to become a dominant platform."

This is all the more true that, on the one hand, Russia's Internet giants Yandex and Mail.ru Group were not very active in developing online retail activities until very recently, while no investor from the tiny Russian VC market was willing, or able, to fund massively Russia's future e-commerce champion.

On the other hand, the world's largest e-commerce companies either did not try entering the Russian market (Amazon, Rakuten), or did try but failed partially (eBay) or fully (JD.COM). The only exception is Alibaba, whose B2C subsidiary has brilliantly succeeded in the cross-border segment.

- Consolidation prospects

There are essential reasons for the market to consolidate. First, as a "natural" consequence of market growth: "When some players see their business almost double in a year, consolidation is taking place even without M&As," notes Data Insight's Boris Ovchinnikov.

"This was particularly visible in 2018, when just two players, Wildberries and Ozon, concentrated the bulk of market growth (65% y-o-y in Q2). The median growth rate in 2018 (by number of orders) was +56% for the top 10 players, +31% for the top 100 and only +15% for the top 1000. Thus, the top 10 sites jumped from 44% to 53% of the total number of orders of the top 1000 sellers."

Second, as growth is accelerating, Russian e-commerce is becoming more appealing from a strategic standpoint. While Russia did not look as a priority to a range of domestic and international players as long as its market did not even reach $20 billion, the perspective looks different when this market is expected to exceed $50 billion in just four years (not including cross-border sales, digital goods and services).

In no way should the $50 billion mark be considered as a maximum. Should e-commerce, in the long term, develop in Russia as strongly as it already has in other countries with threefold or fourfold higher penetration rates, the order of magnitude of this market will be closer to $100 billion.

These prospects are likely to translate into more investment from existing players with potential mergers or acquisitions – as witnessed by the recent Mail.ru-Alibaba alliance. New market entry attempts with acquisitions from foreign giants cannot be ruled out, even though the current political context poses a serious at least psychological obstacle.

- The race for leadership

"Russia is missing a dominant player in e-commerce," justly notes Morgan Stanley. It is hard to imagine any of the current player dominate the market in the upcoming years to the same extent as Amazon does in the US, absorbing more than half of the market. However, several players may legitimately hope for considerable growth and aim for a leadership position far beyond Wildberries' current record, and Morgan Stanley's analysts put the theoretical valuation of such potential leader at around $10 billion.

"RUSSIA IS MISSING A DOMINANT PLAYER IN E-COMMERCE"

	USA	China	Russia
Search	Google	Baidu 百度	Yandex
Social networks	facebook	Tencent 腾讯	@mail.ru group
Classifieds	craigslist	58.com 同城	Avito
Food delivery	GRUBHUB	Tencent 腾讯	@mail.ru group
Gaming	Activision Blizzard	Tencent 腾讯	@mail.ru group
E-commerce	amazon.com	Alibaba.com	?

INSPIRED BY MORGAN STANLEY

RUSSIAN E-COMMERCE STRATEGIC ALLIANCES

Finance	Logistics	Audience	E-commerce platform
SBERBANK Yandex Yandex Money	*New business unit 'Sberbank Logistics' with expected acquisition*	Yandex	Yandex Market bringly беру!
СИСТЕМА Baring Vostok Capital Partners	OZON	МТС MTS	OZON
Alibaba Group 支付宝 ALIPAY mail.ru group RUSSIAN DIRECT INVESTMENT FUND GAZPROMBANK	ПОЧТА РОССИИ Russian Post CAINIAO 菜鸟 dpd ЕВРОСЕТЬ Euroset MEGAFON Связной Svyaznoy	MEGAFON AliExpress	Связной Svyaznoy ЕВРОСЕТЬ Euroset AliExpress TMALL
VTB	ПОЧТА РОССИИ Russian Post МАГНИТ Magnit		МАГНИТ Magnit
САФМАР Safmar	М.Видео Mvideo		М.Видео Mvideo ЭЛЬДОРАДО.RU ЛЮДЯМ ВЫГОДНО Eldorado MediaMarkt goods

AUTHORS: ALEXEY PETROVSKY AND CITYADS MEDIA WITH ADJUSTMENTS BY EWDN

3.2. Market players

3.2.1 The race for leadership

Marked by accelerated market growth and the formation of major alliances, 2018 and 2019 are seeing the start of a new race for market leadership. Without making any prediction about the outcome – the past years have shown how fast the Russian e-commerce landscape can change – it is possible to identify the strongest contenders as of today and weigh their key assets in the race.

In the starting blocks, the **Alibaba-Mail.ru-Megafon-RDIF JV** seems in a good position. The alliance aims for leadership in e-commerce as a whole, based on the AliExpress cross-border marketplace and the Tmall domestic platform (see interviews with AliExpress Russia executives Dmitry Sergeev and Evgeniy Yakushkin).

The growth of the AliExpress platform seems to have stalled, if judging by its traffic which fell from 15.5 million visitors monthly in August 2018 to 13.4 million in June 2019 (source: Yandex Radar cited by A. Petrovsky). Meanwhile, Tmall's traction should not be underestimated: it was among the top 20 domestic sites in 2018 and aims to get to the top 10 in 2019.

AliExpress and TMall will benefit from the support of Mail.ru Group's properties: these include dominant positions in social networks (VK, OK), the gaming space as well as the related advertising segments. Future growth will be also supported by Cainiao, the logistics system which Alibaba has developed in Russia in the past few years (https://bit.ly/2Im43El), while MegaFon, a major telecom operator, may become an asset in the race.

No doubt significant capital injections will be required, probably beyond the already committed $400 million. But the three listed companies and the sovereign fund which are forming the JV are likely to be in the capacity to provide such support. This alliance, however, has yet to demonstrate its capacity to merge or synergize its multinational teams and assets in an efficient way.

Based on the alliance of Yandex and Sberbank, the **Yandex Market group of companies** is another obvious contender for market leadership. Its three current platforms (the Yandex.Market price comparison engine and the Beru marketplace on the domestic segment as well as the Bringly cross-border marketplace) are covering the e-commerce market in its entirety or have been designed to do so in the near future.

As stated by its chairman Gabriel Naouri (see interview), the group's goals are "to see (1) Beru become the leading marketplace in Russia; (2) Bringly become a leading cross-border marketplace, and (3) Yandex.Market maintain its leadership among price comparison sites."

To reach these goals, this group is building on the Yandex.Market price comparison engine, which has been dominating its segment since its inception in the early 2000s. However, the JV's shareholders have a much larger asset base in the Russian digital space.

Not only is Yandex the leader on the online search market (even before Google): it also owns or co-owns a variety of properties in the fields of e-payments (Yandex.Money), taxi-hailing (merged with Uber's Russian business), mapping services, medical services, and much more. Yandex is also widely regarded as one of Russia's strongest companies in terms of tech R&D, ahead of Google in certain fields.

The other shareholder, Sberbank, is not just a big bank. Better defined as a multi-industry giant, this organization is in the process of creating a series of "ecosystems" in a variety of fields that include business services, e-commerce and e-payments, food services, digital healthcare, digital HR, CRM and neuroscience, online media and more.

There is little doubt that Sberbank, which already put $500 million in the JV, and Yandex, a NASDAQ-listed and profitable company, can mobilize the financial resources required in the race for e-commerce leadership. However, it is too early to judge the robustness of the alliance between the two companies; and as for now, Yandex Market's market domination is rather a plan than a reality.

Established for a long time as a major player in the fashion segment, **Wildberries** recently moved to a multicategory positioning and asserted its leadership on the Russian e-commerce market as a whole.

Founded in 2004 by a school teacher, Tatyana Bakalchuk, and her husband Vyacheslav, a radiophysicist (https://bit.ly/2XiO2am), the site generated more than 72 million orders and $1.7 billion in sales revenues in 2018, according to Data Insight – significantly above any other domestic player.

That same year, Wildberries recorded one of the highest growth rates among large players if judging by the number of orders (+82%) and sales volume (+74% year-on-year).

Forbes Russia recently estimated Wilderries' value at $1.2 billion, making it the fourth most valuable Internet company in Russia after Yandex, Mail.ru Group, and Avito.

It is difficult to assess the situation and prospects of a non-listed company that communicates very scarcely – but so far Wildberries has struck observers by its agility in developing a billion-dollar business from scratch, probably with a record-high capital efficiency.

"They are demonstrating a rare ability to sustain extreme growth without major operational perturbations," notes Data Insight's Boris Ovchinnikov.

"The company is supported by a remarkably strong and loyal team," he adds.

The question whether Wildberries will be able to sustain its leadership for a long time is wide open. Competition against the new-coming colossi Yandex Market and AliExpress Russia – as well as some relatively more modest competitors – will become harder and harder. With its current shareholder structure, Wildberries might lack financial means for such struggle.

However, money does not provide everything, and no one expects this company to yield its current leadership position quickly and easily.

Also coming from the first generation of Russian e-commerce sites, **Ozon** was originally inspired by the Amazon model in the USA. Twenty-one years after inception, this site with 23 categories of merchandise and a base of 30 million customers seems well-equipped to stay in the running.

Over the two past decades, Ozon has developed a strong delivery network – covering 40% of the population with next-day delivery. The company plans to add at least 100,000 sq. m. of fulfilment capacities in 2019 while the last mile infrastructure will grow by 145%. Ozon believes these investments are needed to meet market demand and support company growth.

Such investment should help the company "be technically best equipped to offer quality delivery services to consumers," note Morgan Stanley.

After seeing its sales volume grow by 73% y-o-y in 2018 – its own record in 10 years – Ozon now wants to grow even faster by developing its marketplace, logistics and IT platforms. Inspired by global experience, Ozon has launched new services "above e-commerce," including financial services both for customers and suppliers as well as the Ozon.Premium subscription offer.

Confident in its chances to succeed in developing a marketplace model, the Morgan Stanley analysts even see in Ozon "the most credible challenger" to AliExpress Russia and Yandex Market in the race for market domination.

Another positive outcome for Wildberries, Ozon and alike would be an acquisition as Yandex Market and AliExpress Russia will be struggling for market domination – or as international giant will be looking for an entry point to the Russian market.

- In specific segments

In the fashion segment – estimated at 23% of domestic Russian e-commerce, as seen in Section 1.3 – one category-focused leader is emerging: **Lamoda.** This site is still generating less sales volume of clothing and related goods than Wildberries, but the latter is leaving its initial fashion focus to build a multicategory platform.

Two other players could contend for leadership in this segment. One of them is the Otto Group, whose properties combined once sold more fashion items online than any other site in Russia. In the past year, however, the German distance selling giant suffered setbacks. The shutdown of Otto.ru and Quelle.ru was announced in 2018 (https://bit.ly/2Ir76v7) while two other sites, Bonprix.ru and Witt.ru, are declining.

Another strong player is KupiVIP with its specific flash-sales model. Founded in 2009 by German entrepreneur Oskar Hartmann and generously funded by international VCs (https://bit.ly/2KS7owr), this site quickly asserted itself as the leader in this type of business. It continued growing fast during the 2014-2015 crisis, when Russian consumers were in need for cheap products (https://bit.ly/2Ilyla3).

However, KupiVIP has been declining since this period: its sales volume fell by more than half between 2016 ($225 million according to Data Insight) and 2018 ($107 million).[1]

These circumstances allow Lamoda's co-founder and CEO Florian Jansen to present his company as being "virtually the only major pure player in the fashion segment" (see interview). The company's growth was relatively modest in 2018 last year (+14% to $463 million), but Lamoda saw its growth accelerate in early 2019 (+23.5% y-o-y in Q1 https://bit.ly/2FaNqJN).

(1) KupiVIP declined to participate in this research.

In the segment of electronic goods and home appliances, which accounts for around 31% of domestic Russian e-commerce (see Section 1.3), the current leader is **Citilink.** Last year its site generated nearly $1.2 billion in sales revenues, according to Data Insight, placing itself at the second place of the Russian e-commerce ranking behind Wildberries.

Citilink is an omnichannel retailer owned by Merlion, a leading distributor of electronic appliances. (The Citilink site was launched in 2008.) The company was valued at $245 million in 2019, according to experts cited by Forbes Russia (https://bit.ly/2CsBW35).

Citilink has maintained its leadership on its segment for the past few years, but the question whether it will manage to maintain its leadership in the future is open. This segment is occupied by several strong players: no fewer than six sites focusing on electronic appliances are featured among the top 10 online retailers in Data Insight's 2018 ranking (see Section 3.2.3).

Competition is also coming from big multi-category players willing to assert themselves in this segment: in particular, Wildberries, Ozon, Tmall and Beru.

- On the cross-border scene

On the cross-border scene, meanwhile, there already is a clear leader: **AliExpress Russia.** As seen in Section 1.2, the Chinese marketplace gained an extremely strong traction starting from 2014, when the ruble's sharp depreciation and the economic crisis led millions of Russians to seek cheap online alternatives to Western or domestic products.

Since then, AliExpress's domination has not weakened; and few would bet on a setback in the foreseeable future as the Chinese player should benefit from the huge audience of Mail.ru Group's online properties.

What is more, cross-border flows on AliExpress will originate "from a larger range of countries than just China, including from Europe and Turkey [while] at the same time, Russian businesses will be able to sell their goods locally and abroad," tells us co-CEO Dmitry Sergeev (see interview).

Launched in late 2018 by Yandex Market group of companies, **Bringly** ceased activities one year later. This cross-border marketplace aimed to become "a truly global platform, including both cheap goods from China and alternative supplies, notably from Turkey and Western countries."

Bringly also aimed to experiment new models, such as marketplace-to-marketplace and manufacturer-to-consumer.

Bringly's experienced staff and the deep pockets of its shareholders, Yandex and Sberbank, did not bring the expected success. Meanwhile, not only did AliExpress maintain its absolute leadership on the Russian cross-border scene, it also garnered the support of new shareholders and partners through Alibaba's alliance with Mail.ru Group.

Bringly's failure can be attributed to a combination of such factors as:

- A lack of strategic focus of the shareholders, which continued developing a variety of other businesses, in comparison with the concentration of AliExpress Russia and its shareholder Alibaba on the sole cross-border business;
- The slow-down of the Russian cross-border e-commerce market;
- The lower-than-expected appeal of alternative supplies from Western countries.

3.2.2. From offline to omnichannel

Russian retail is continuing its shift to the omnichannel model by developing a variety of e-commerce activities often intertwined with offline. The most developed verticals are electronics, followed by fashion and DIY.

- Electronics omnichannel retailers Citilink, MVideo, DNS, Eldorado and Svyaznoy are among the top 10 Russian e-commerce sites by sales revenues (see Section 3.2.3.)
- Sportmaster and Ostin are leaders in the fashion segment, while a range of global players have developed partnerships with third parties to develop online sales (e.g. Mexx via Wildberries, Benetton via Lamoda).
- IKEA is one of the fastest-growing Russian online stores (+366% in 2018) with a strong omnichannel strategy, while Hoff and Leroy Merlin achieve impressive performances both offline and online.

Still at a very early stage of development, e-grocery is among the fastest-growing e-commerce segments: it grew by 50% to some 23 billion rubles (around $365 million) in 2018, according to Infoline Analytics (http://bit.ly/2J5k0Pw). The segment is dominated by pure players Utkonos and, to a lesser extent, Ozon; meanwhile, several traditional retailers such as O'Key, Azbuka Vkusa, Auchan, Perekrestok and Vkusvill have been developing projects actively, sometimes in partnership with delivery startups (https://dostavka.vkusvill.ru)

*

Below are brief descriptions of the e-commerce or omnichannel activities of Russia's biggest retailers by turnover. Worthy of note is the fact that several of them (DIXY, Lenta, Magnit) have not developed any significant online sales activities thus far.

Auchan is the fourth largest food retailer in Russia, where it has been operating since 2002. As of today, the French company runs 314 stores of different formats. The company launched its website in 2013, initially offering wine and then furniture to customers.

In 2018, Auchan's online sales in Russia grew to 1.5 billion rubles, a 100% increase from 2017 (0.7 billion rubles), following a 40% increase in 2017. The number of orders, too, is quickly growing, with 1,500 online orders received everyday as of April 2019.

In an April 2019 exchange with EWDN, Online Sales Director Ismael Germain claimed Auchan's online activities are now "one step ahead of other countries" if judging by "the wide range of needs [addressed by the online store] and the number of SKUs in a variety of non-food segments."

By the close of 2019, Auchan plans to launch its full e-commerce project that will allow Russian customers in Moscow to order online any kind of goods from fresh products to non-food items.

In 2018, Auchan reported €51 billion in consolidated revenue excluding taxes worldwide, of which 19% came from its operations in Central and Eastern Europe. The company's sales in Russia amounted to 306.4 billion rubles, down 8.5% from 2017, according to Infoline (https://bit.ly/305NT7U), partly due to business model and organizational factors. In terms of revenues, Auchan ranked fourth among retailers in Russia in 2018.

Detsky Mir, the biggest children's goods retailer in Russia, Kazakhstan and Belarus, has been developing e-commerce projects with highs and lows since the launch of its first online store in 2011.

In 2018, the sales revenue of Detsky Mir's online store reached 8.8 billion rubles (up 89.2% from 2017), which accounted for 7.9% of the retailer's overall revenue, according to company information. The growth of online revenues was stimulated by the introduction of an improved in-store pickup delivery option with online orders processed and made ready for in-store pickup in just 60 minutes (https://bit.ly/2Npnkcs). As a result, the number of online orders with the in-store pickup delivery option reached 77% of all the online purchases (https://bit.ly/327DXgi).

As of late 2018, Detsky Mir Group operated 673 Detsky Mir stores in Russia and Kazakhstan and 66 stores of its ELC and ABC retail networks, according to company information. In February 2019, the company opened its first store in Belarus under the Detmir brand. The group's consolidated revenues in 2018 reached 110.9 billion rubles, a 14.3% increase from 2017, according to the company's reports. In 2018, the group enjoyed a 23% share of the Russian market of children's goods. The AOV in Detsky Mir's stores decreased by 2.4% in 2018 while the number of orders increased by 6.9%.

Detsky Mir is affiliated to Sistema, a large conglomerate which also is a major shareholders of Ozon and MTS.

DIXY, the fifth largest food retailer in Russia, does not sell online as of June 2019. Its website only lets customers look for products, prices and discounts.

A mobile app, updated in January 2019, allows customers to check prices on products in Dixy's stores that may run different promotion campaigns at different times (https://bit.ly/dixy-app-price-checker).

As of Dec. 31, 2018, DIXY Group operated 2,707 stores in Russia, including 2,537 Dixy convenience stores, 129 Victoria supermarkets and convenience stores, and a total of 41 Megamart and Minimart compact hypermarkets. DIXY's revenues in 2018 reached 298.7 billion rubles, up 5.6% from 2017, according to the company's reports.

Swedish retailer **IKEA** began testing the Russian e-commerce waters in 2013 with an online store in Omsk (https://bit.ly/2FMPLLn). IKEA's official online store only opened in Russia in April 2017 (https://bit.ly/2XFelb7).

In 2018, IKEA introduced a new delivery option, allowing customers to collect their online purchases at IKEA's own pickup points in Moscow and Samara in addition to self-pickup option from its brick-and-mortar stores. IKEA was to open as many as 100 self-pickup points in Russia between August 2018 and August 2019 (https://bit.ly/2FOyRvH).

In late 2018, Ingka Group, part of IKEA, which runs Mega shopping centers in Russia, announced the launch of the MEGA Online marketplace to sell goods offered by its tenants (https://bit.ly/2ROfxU6).

IKEA's online sales reached 1.9 billion rubles in 2018, with a total of 106,000 orders received and an AOV standing at 18,000 rubles, according to Data Insight. In 2018, online sales jumped to 9.08 billion rubles, up 366%, with 530,000 orders placed and an AOV decreasing to 17,130 rubles (see Section 3.2.3).

In FY2018 (ending August 2018), the share of IKEA's online sales in total sales in Russia reached 8%, with its website enjoying a 12% increase in traffic, the company reported.

In 2017, IKEA operated 14 stores, one store distribution site, and 14 shopping centers in Russia (http://bit.ly/30en1D5). No new store openings in Russia were reported in 2018 (http://bit.ly/30779lo). In FY2017 (ending August 2017), IKEA's sales in Russia dropped by 10% for the first time.

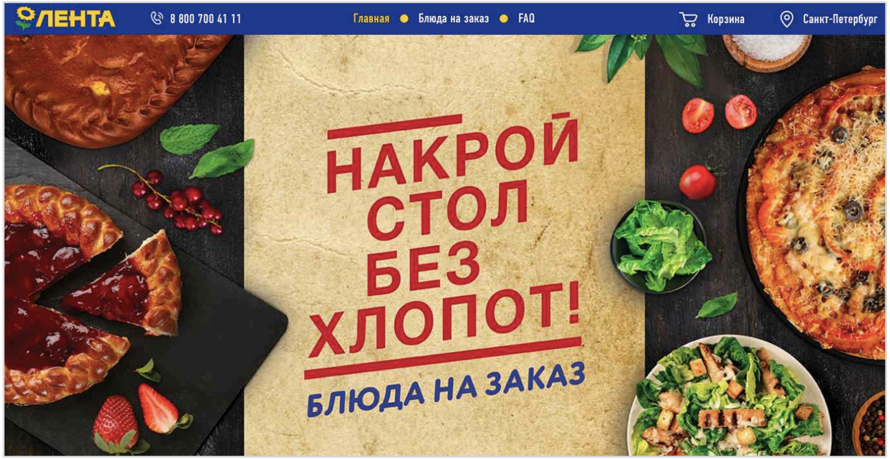
At the close of FY2018, IKEA reported a 2% increase (in rubles) in retail sales in Russia while global retail sales reached 38.8 billion euros, up 4.5% from FY2017. Russian operations in global retail sales accounted for 4% in FY2017.

Lenta, the third largest food retailer in Russia, is an observer rather than an active player on the Russian e-commerce scene.

As of June 2019, the company still did not have a full-fledged online store. A redesigned version of its consumer website, Lenta.com, was launched in February 2019, but this site only allowed customers to browse through the retailer's catalogue of products and view the prices.

The company also offered a dedicated site (https://zakaz.lenta.com) to order ready-made meals before picking them up in a Lenta store. In an April 2018 media interview (https://bit.ly/2uP6M4r), Lenta's former general manager Jan Dunning explained that, through partnerships with a few online stores in Moscow and St. Petersburg, the company's online sales were "not significant." Lenta will start developing substantial online activity when such sales will reach another order of magnitude.

As of April 2019, Lenta's operated 1,245 hypermarkets and 136 supermarkets in Russia. Its consolidated revenue in 2018 amounted to 414 billion rubles, up 13.2% from 2017 (365 billion rubles), according to company reports.



The dedicated site Zakaz.lenta.com allows customers to order ready-made meals before picking them up in a Lenta store.

Leroy Merlin, which launched in Russia in 2004, began selling online in 2013. Only Moscow and St. Petersburg were served at the beginning, but in 2018 all cities with an offline outlet were covered online, too.

Online sales exceeded $71 million in 2018 (up 161% from the previous year) with some 16 million visits per month. The French DIY giant expects its online sales to account for up to 8% of total sales in three years, up from 1.5% in 2018 and 3% by the end of 2019 (see below the interview with Leroy Merlin Vostok Marketing Leader Philippe Mougeot).

Magnit, the second largest food retailer in Russia, launched its first mobile app in 2014, allowing consumers to browse products and prices (https://bit.ly/323D0oW).

Even though Magnit's CEO in May 2018 announced plans to finally launch an e-store for the company (https://bit.ly/304OvLa), Magnit still does not have its own e-store as of July 2019. Customers can just use a Promos and Discounts app (https://apple.co/324xOBu) which does not allow them to place orders.

Also, Magnit's cosmetic branch operates a website, Magnitcosmetic.ru, with a catalogue to only browse available products without prices indications.

However, Magnit – which is backed by state-owned bank VTB – is expected to assert itself more aggressively on the e-commerce scene. It is developing new formats in partnership with Russian Post.

As of 31 December 2018, Magnit operated 18,399 stores in 2,976 cities and towns in Russia. Its revenue in 2018 reached 1,237 billion rubles, an 8.2% increase from 2017 (1.143 billion rubles), according to the company's reports.

In February 2019, partnering with food delivery service Instamart, **Metro Cash & Carry** launched a B2C section of its online store for customers from Moscow, Kazan and Yekaterinburg (https://bit.ly/2NshQhq).

Before this initiative, Metro's food products were available to individual customers only through such platforms as Instamart, iGooods and Golama, while business customers could place orders directly on the company's own online store (https://www.metro-cc.ru).

The German company plans to expand its e-commerce outreach by the end of 2019 to all Russia cities above one million inhabitants, as well as the Moscow region (https://bit.ly/2JyzHiu).

As of 30 September 2018, Metro operated 93 stores in Russia, with four new stores launched that year. According to the company's reports, Metro's sales in Russia in 2018 dropped by 16.3% to 2.81 billion euros (about 203.3 billion rubles), down from 3.36 billion euros (about 221 billion rubles) in 2017.

Russian telecom operator **MTS** launched its online store in 2010. Its sales grow by 30% to 35% annually.[1] The MTS online store has the highest turnover among online stores of Russian telecom operators.

In 2018, the MTS online store ranks 23rd in Data Insight's Top 100 Russian online retailers (see Section 3.2.3): this site generated 8.26 billion rubles in revenues, a 31% increase year-on-year (6.3 billion rubles in 2017). The number of online orders dropped by 27% to 540,000 while the AOV increased by 79% to 15,300 rubles. In 2018, MTS tested sales via QR codes placed at public transport stops in Moscow (https://bit.ly/327Oacj).

In February 2019, MTS sold its 18.69% stake in Ozon, the fourth largest online retailer in Russia, to its parent company Sistema. MTS was in talks to purchase ivi.ru, the largest online cinema site in Russia (https://bit.ly/2Xn4ySY) but the parties failed to reach an agreement.

As of 31 December 2018, MTS operated a total of 5,879 brick-and-mortar stores, including 5,700 stores in Russia. MTS's revenue in 2018 was 448.1 billion rubles, an 8.4% increase year-on-year (412.3 billion rubles in 2017), according to the company's reports.

MTS is affiliated to Sistema, a major Russian conglomerate which is also a major shareholder of Detsky Mir and Ozon.

(1) As stated by PR team of Sistema that owns MTS in an exchange with EWDN (see Section 4).

M.Video-Eldorado Group is the largest electronics and home appliances retailer in Russia, resulting from the acquisition of Eldorado by M.Video in 2018. Among the group's 941 offline outlets as of December 2018, 46 were rebranded from MediaMarkt after the group purchased the German retailer's activities in Russia.

M.Video has already implemented a comprehensive omnichannel approach to retail: the assortment, prices and services offered are the same when purchasing in offline outlets and and online. Using chat bots and machine learning technology, M.Video managed to cut the time required to hand over orders placed online to the customers when they come to pick them up at M.Video stores to just seven minutes from the entry to the exit from the store (https://bit.ly/2XjpEq1).

In April 2019, in partnership with SAP, the company also introduced an augmented reality navigation app to be used at its mortar-and-brick stores, allowing users to quickly find the products they are interested in on the shelves (https://bit.ly/2XIalXl).

In 2018, the group's online sales revenue grew to 77.3 billion rubles, a 31% increase year-on-year (59 billion rubles in 2017). The share of online sales in the group's overall operations reached 18.3% in 2018, up from 16.5% in 2017. Some 74.4% of online orders were picked up by e-shoppers themselves. The AOV for orders placed by M.Video's active buyers (1 to 3 purchases per year) grew by 9% to 10,000 rubles thanks to bonus incentives (https://bit.ly/2RTXSKU).

In 2018, the consolidated revenue of M.Video-Eldorado Group reached 421.4 billion rubles, a 17.7% increase year-on-year (358 billion rubles in 2017), according to the company's reports.

X5 Retail Group, the largest food retailer in Russia, began developing an online sales channel in 2012 with e5.ru – but this online store failed and shut down in 2014 (https://bit.ly/2J8edsJ).

Three years later, in 2017, X5 launched a new online store called Perekrestok Online, serving Moscow consumers with a hybrid supermarket to assemble orders. In 2018, Perekrestok Online expanded its e-commerce operations to St. Petersburg and several areas of the Moscow region, launching two dark stores (warehouses for online sales only) in Moscow and St. Petersburg.

The group is progressively expanding the platform's assortment beyond the items available in its offline outlets. Thus, X5 has announced plans to let small producers sell fresh food products through Perekrestok Online store. Some pastry, seafoods and artisan bread, were added, with suppliers given five to ten hours to deliver orders to a Perekrestok store for fulfillment.

Under an agreement with Santens, a major pharmaceutical logistics company, medicines will also be made available in a dedicated section of Perekrestok Online. They will be delivered from the manufacturer to pharmacy pickup points in X5 stores (http://bit.ly/2LWGtA0).

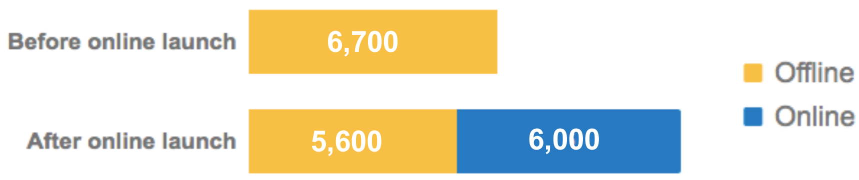
In early 2019, Perekrestok Online announced plans to add a B2B dimension to Perekrestok Onlin, serving legal entities like restaurants, office, etc. and competing with such companies as Metro Cash & Carry (https://bit.ly/2JqDOhP) Meanwhile, another retail network of X5, Pyaterochka, partnered with the Dostavista.Market marketplace and piloted last-mile express delivery services in Moscow.

Also, X5 plans to enable a click-and-collect service with its Karusel hypermarket network by the end of 2019. Shoppers will be able to place an order online and then collect it themselves at a Karusel offline outlet.

In 2018, with more than 408,000 online purchases, Perekrestok Online's sales accounted for 1.3 billion rubles, or 0.5% (https://bit.ly/2Xjs73C) of the total turnover of X5's supermarkets. 2019 started well, with 265,000 online purchases in Q2, four times as much as in Q2 2018 (https://bit.ly/32L2A2j)

In December 2018, Perekrestok Online fulfilled about 3,000 orders per day with a maximum capacity of 3,500 orders. In 2019, the company plans to open two additional dark stores to serve up to 7,000 orders per day (https://bit.ly/2XmlqXh). Perekrestok Online was not profitable yet as of March 2019.

AVERAGE CUSTOMER SPENDING PER MONTH AT X5 IN RUBLES



SOURCE: COMPANY REPORT (HTTP://BIT.LY/X5-ANNUAL-REPORT-2018)

How Leroy Merlin serves Russians, “the most rational consumers”

Launched in Russia in 2004, Leroy Merlin Vostok operated 96 outlets in Russia as of June 2019 plus one in Kazakhstan. The stores generally generate more sales volume but a lesser AOV than in Europe.

Online sales started in 2013, serving only St. Petersburg and Moscow at the beginning. *“This activity couldn’t develop fast during these first years: some operations had to be completed manually, and IT legacy issues had to be overcome,”* says Leroy Merlin Vostok Marketing Leader Philippe Mougeot.

“But in 2018, we could cover all cities where we had an outlet – which means practically all Russian urban areas.” Pick-up points were set up in outlets.

Growth accelerated substantially, reaching +161% in 2018. With onlines sales exceeding $71 million that year, Leroy Merlin ranked 32nd among on Russian online retailers in Data Insight’s ranking.

With some 16 million visits per month, online sales accounted for 1.5% of Leroy Merlin Vostok’s turnover in 2018. Mougeot expects this indicator to exceed 3% by the end of 2019. *“I believe we’ll reach 7-8% of total sales in three years – no less than Home Depot’s current level in the US,”* says Mougeot.

Most Russians shop online for price reasons, says Mougeot: *“This is why Avito’s classifieds and AliExpress’s cheap, tax-free products are so popular,”* he notes.

Meanwhile, people are not ready to pay a lot for delivery: they’d rather choose a cheap option or go to a pickup point. *“In terms of price comparison and optimization, Russian consumers are perhaps the most rational I have seen across several countries I worked in,”* says Mougeot.

3.2.3. Industry rankings

- Top 100 domestic online retailers

Each year specialized research agency Data Insight releases its ranking of Russian e-commerce sites. Sites are ranked by sales volume (incl. VAT), number of orders and average order value as estimated by the research agency and, in certain cases, confirmed by the companies. (The ranking excludes foreign sites, which explains why AliExpress is not mentioned.)

In 2018, **Wildberries.ru** maintained its leadership (since 2016) with sales revenues nearing $1.8 billion in 2018, up 74% from the previous year.

Three sites selling electronic appliances are ranked second, third and fifth – respectively, multichannel retailers **Citilink.ru** and **MVideo.ru** as well as pure player **DNS-Shop.ru.**

Recording an impressive growth (+73%), **Ozon** improved its rank from seventh place in 2016 and 2017 to fourth place in 2018.

Tmall, the domestic marketplace of AliExpress Russia, saw its sales revenue double in 2018 to around $170 million. The platform aims to get in the top 10 e-commerce site in 2019.

Lamoda generated $463 million in sales revenues last year. Lamoda’s year-on-year growth (+14%) is not as impressive as that of Wildberries or Ozon, but Lamoda does much better than two other Western fashion sites, **Bonprix.ru** (-6%, 14th place) and **Witt.ru** (-35%, 21st place). These are properties of Otto Group, which has partially left the market.

Another loser in the 2018 ranking is **KupiVip,** the leading flash sales platform backed by Western investors. The site was in the top 10 just a few years ago; it ranked 25th in 2018, with just $107 million in estimated sales revenues, down 13% from 2017.

Even more dramatic is the fall of **Ulmart.ru,** due essentially to shareholder disputes. With an initially successful hybrid online-offline model, the company topped the e-commerce market in 2015; last year the company ranked 17th in sales revenues at $158 million, down 57% in one year.

On their side, Western retailers **Ikea** and **Leroy Merlin** made a noteworthy performance last year. According to Data Insight’s analysts, the Swedish DIY giant generated almost $150 million in online sales revenues (up 366% from 2017), while its French competitor made around $71 million (up 71%).

- Top marketplaces and price aggregators

See Section 1.5.

TOP 100 DOMESTIC RUSSIAN ONLINE RETAILERS (2018, PHYSICAL GOODS)

Rank	Site	Segment	Sales revenues			Orders		AOV	
			Rub. value (millions)	Y-o-y evolution	USD equivalent (millions)	Number (thousands)	Y-o-y evolution	Rub. value	Y-o-y evolution
1	**Wildberries.ru**	Multicategory, incl. fashion items	111 200	74%	1 774	72 500	82%	1 530	-4%
2	**Citilink.ru**	Electronic appliances	73 200	33%	1 168	7 670	32%	9 540	1%
3	**Mvideo.ru**	Electronic appliances	52 800	46%	842	4 590	30%	11 500	12%
4	**Ozon.ru**	Multicategory online retailer	41 770	73%	666	15 550	85%	2 690	-6%
5	**Dns-shop.ru**	Electronic appliances	38 810	83%	619	5 240	78%	7 410	2%
6	**Lamoda.ru**	Clothing, footwear and accessories	29 030	14%	463	8 720	14%	3 330	0%
7	**Eldorado.ru**	Electronic appliances	24 500	8%	391	3 250	-21%	7 540	37%
8	**Svyaznoy.ru**	Electronic appliances	19 720	26%	315	1 690	14%	11 670	11%
9	**Technopoint.ru**	Electronic appliances	19 080	8%	304	3 000	5%	6 360	3%
10	**Petrovich.ru**	DIY tools and items	18 000	38%	287	1 350	32%	13 330	5%
11	**Vseinstrumenti.ru**	DIY tools and items	17 830	20%	284	2 530	17%	7 050	3%
12	**Onlinetrade.ru**	Multicategory online retailer	17 240	19%	275	3 480	45%	4 950	-18%
13	**Apteka.ru**	Beauty and health	12 630	59%	201	7 890	66%	1 600	-4%
14	**Bonprix.ru**	Clothing, footwear and accessories	11 350	-6%	181	3 110	-12%	3 650	7%
15	**Tmall Russia**	Multicategory marketplace	≈10 660	≈100%	≈170	N/A	N/A	5 310	-13%
16	**Utkonos.ru**	Groceries	10 190	8%	163	1 980	9%	5 150	-1%
17	**Komus.ru**	Office and business supplies	10 090	15%	161	1 360	12%	7 420	3%
18	**Ulmart.ru**	Multicategory online retailer	9 930	-57%	158	2 800	-53%	3 550	-9%
19	**Detmir.ru**	Children's goods	9 680	89%	154	5 130	115%	1 890	-12%
20	**Sima-land.ru**	Multicategory online retailer	9 540	46%	152	1 470	44%	6 490	1%
21	**Ikea.com**	Furniture and items for the home (DIY)	9 080	366%	145	530	304%	17 130	15%
22	**Witt.ru**	Clothing, footwear and accessories	8 760	-35%	140	2 350	-41%	3 730	10%
23	**Labirint.ru**	Books and paper items	8 680	3%	138	11 370	4%	760	-1%
24	**MTS (shop.mts.ru)**	Electronic appliances	8 260	31%	132	540	-27%	15 300	79%
25	**Holodilnik.ru**	Electronic appliances	8 050	20%	128	360	16%	22 360	3%
26	**Kupivip.ru**	Clothing, footwear and accessories	6 710	-13%	107	1 070	-9%	6 270	-4%
27	**Petshop.ru**	Pet food and other items	6 040	6%	96	2 180	19%	2 770	-11%
28	**Kolesa-darom.ru**	Car parts	5 820	29%	93	400	21%	14 550	7%
29	**Hoff.ru**	Furniture and items for the home (DIY)	5 490	50%	88	390	48%	14 080	1%
30	**Euroset.ru**	Electronic appliances	5 230	40%	83	530	30%	9 870	8%
31	**220-volt.ru**	DIY tools and items	4 980	79%	79	830	53%	6 000	17%
32	**Officemag.ru**	Office and business supplies	4 840	24%	77	370	16%	13 080	7%
33	**Leroymerlin.ru**	Furniture and items for the home (DIY)	4 420	161%	71	500	149%	8 840	5%

SITES ARE RANKED BY SALES VOLUME (INCL. VAT), NUMBER OF ORDERS AND AVERAGE ORDER VALUE AS ESTIMATED BY DATA INSIGHT AND, IN CERTAIN CASES, CONFIRMED BY THE COMPANIES.
ORIGINAL RUSSIAN VERSION: HTTPS://BIT.LY/31KL9KD

TOP 100 DOMESTIC RUSSIAN ONLINE RETAILERS (2018, PHYSICAL GOODS)

Rank	Site	Segment	Sales revenues			Orders		AOV	
			Rub. value (millions)	Y-o-y evolution	USD equivalent (millions)	Number (thousands)	Y-o-y evolution	Rub. value	Y-o-y evolution
34	**Faberlic.com**	Beauty and health	4 420	-20%	71	1 340	-20%	3 300	0%
35	**Pult.ru**	Electronic appliances	4 290	-12%	68	120	-14%	35 750	2%
36	**Laredoute.ru**	Clothing, footwear and accessories	4 290	-15%	68	630	-17%	6 810	2%
37	**Sportmaster.ru**	Sporting goods	4 220	29%	67	2 530	16%	1 670	11%
38	**Oldi.ru**	Electronic appliances	4 060	41%	65	440	42%	9 230	-1%
39	**Santehnika-online.ru**	Bathroom and related DIY items	4 000	29%	64	160	33%	25 000	-3%
40	**Rbt.ru**	Multicategory online retailer	3 820	73%	61	410	26%	9 320	37%
41	**Rendez-vous.ru**	Clothing, footwear and accessories	3 750	98%	60	640	72%	5 860	15%
42	**Techport.ru**	Multicategory online retailer	3 670	17%	59	300	16%	12 230	1%
43	**Vstroyka-solo.ru**	Electronic appliances	3 490	25%	56	180	12%	19 390	12%
44	**Gifts.ru**	Gifts and branded items	3 380	30%	54	100	23%	33 800	6%
45	**Autodoc.ru**	Car parts	3 350	27%	53	1 350	18%	2 480	8%
46	**Notik.ru**	Electronic appliances	3 350	37%	53	50	42%	67 000	-4%
47	**Mosautoshina.ru**	Car parts	3 150	25%	50	180	22%	17 500	2%
48	**My-shop.ru**	Books and paper items	3 120	48%	50	1 710	27%	1 820	17%
49	**E2e4online.ru**	Electronic appliances	3 060	18%	49	280	11%	10 930	6%
50	**Akson.ru**	DIY tools and items	3 020	13%	48	290	8%	10 410	5%
51	**Minicen.ru**	Beauty and health	3 020	124%	48	1 920	129%	1 570	-2%
52	**Dochkisinochki.ru**	Children's goods	3 010	29%	48	910	21%	3 310	7%
53	**Beru.ru**	Multicategory marketplace	2 920	n/a	47	620	n/a	4 710	n/a
54	**Apteka-ot-sklada.ru**	Beauty and health	2 920	90%	47	2 190	89%	1 330	1%
55	**Tmall.aliexpress.com**	Multicategory marketplace	2 920	49%	47	550	72%	5 310	-13%
56	**Tiu.ru**	Multicategory online retailer	2 870	3%	46	820	3%	3 500	0%
57	**123.ru**	Multicategory online retailer	2 830	-9%	45	210	-3%	13 480	-7%
58	**Re-store.ru**	Electronic appliances	2 780	29%	44	70	25%	39 710	3%
59	**Adidas.ru**	Sporting goods	2 770	-12%	44	500	-17%	5 540	6%
60	**Emex.ru**	Car parts	2 690	15%	43	1 280	15%	2 100	0%
61	**Shinservice.ru**	Car parts	2 660	16%	42	150	13%	17 730	3%
62	**Stolplit.ru**	Home furniture	2 660	5%	42	190	-5%	14 000	10%
63	**Kns.ru**	Office and business supplies	2 620	28%	42	40	32%	65 500	-3%
64	**Sunlight.net**	Gifts and branded items	2 560	n/a	41	340	n/a	7 530	n/a
65	**Kotofoto.ru**	Multicategory online retailer	2 550	120%	41	240	111%	10 630	4%
66	**Монастырёв.рф**	Beauty and health	2 520	199%	40	1 390	105%	1 810	46%
67	**Akusherstvo.ru**	Children's goods	2 390	-12%	38	320	-16%	7 470	5%

SITES ARE RANKED BY SALES VOLUME (INCL. VAT), NUMBER OF ORDERS AND AVERAGE ORDER VALUE AS ESTIMATED BY DATA INSIGHT AND, IN CERTAIN CASES, CONFIRMED BY THE COMPANIES.
ORIGINAL RUSSIAN VERSION: HTTPS://BIT.LY/31KL9KD

TOP 100 DOMESTIC RUSSIAN ONLINE RETAILERS (2018, PHYSICAL GOODS)

Rank	Site	Segment	Sales revenues			Orders		AOV	
			Rub. value (millions)	Y-o-y evolution	USD equivalent (millions)	Number (thousands)	Y-o-y evolution	Rub. value	Y-o-y evolution
68	**Exist.ru**	Car parts	2 380	-47%	38	880	-43%	2 700	-7%
69	**Goods.ru**	Multicategory online marketplace	2 340	256%	37	570	275%	4 110	-5%
70	**Askona.ru**	Furniture and items for the home (DIY)	2 330	37%	37	110	33%	21 180	3%
71	**Positronica.ru**	Electronic appliances	2 290	-19%	37	230	-26%	9 960	9%
72	**Pleer.ru**	Electronic appliances	2 240	21%	36	340	13%	6 590	7%
73	**6030000.ru**	Beauty and health	2 230	394%	36	700	439%	3 190	-8%
74	**Regard.ru**	Electronic appliances	2 220	3%	35	250	0%	8 880	3%
75	**4tochki.ru**	Car parts	2 210	50%	35	130	48%	17 000	1%
76	**Isolux.ru**	Construction materials (DIY & B2B)	2 190	7%	35	100	-2%	21 900	9%
77	**Chipdip.ru**	Electronic appliances	2 160	97%	34	550	23%	3 930	60%
78	**Onno.ru**	Electronic appliances	2 120	23%	34	200	22%	10 600	1%
79	**Okeydostavka.ru**	Groceries	2 100	-3%	33	650	3%	3 230	-6%
80	**Key.ru**	Electronic appliances (closed)	2 100	38%	33	220	34%	9 550	3%
81	**Oriflame.ru**	Beauty and health	2 070	-29%	33	530	-29%	3 900	0%
82	**Mebelvia.ru**	Home furniture	2 060	12%	33	140	-7%	14 710	20%
83	**Chitai-gorod.ru**	Books and paper items	2 050	66%	33	2 230	75%	920	-5%
84	**Vsemayki.ru**	Gifts and branded items	2 040	6%	33	1 020	5%	2 000	1%
85	**Metro-cc.ru**	Multicategory online retailer	2 030	-10%	32	290	-15%	7 000	6%
86	**Megabitcomp.ru**	Electronic appliances	2 000	53%	32	170	51%	11 760	1%
87	**Tsum.ru**	Clothing, footwear and accessories	2 000	-47%	32	80	-48%	25 000	2%
88	**Homeme.ru**	Home furniture	1 990	-9%	32	90	-13%	22 110	5%
89	**Leomax.ru**	Multicategory online retailer	1 980	77%	32	300	78%	6 600	-1%
90	**Zhivika.ru**	Beauty and health	1 970	55%	31	1 500	43%	1 310	8%
91	**Fotosklad.ru**	Electronic appliances	1 970	-56%	31	120	-58%	16 420	5%
92	**Consul.ru**	Gifts and branded items	1 940	-34%	31	40	-36%	48 500	3%
93	**Top-shop.ru**	Multicategory online retailer	1 930	-22%	31	380	-29%	5 080	10%
94	**Express-shina.ru**	Car parts	1 910	-2%	30	130	-7%	14 690	5%
95	**Shop.megafon.ru**	Electronic appliances	1 900	-23%	30	210	-29%	9 050	8%
96	**Shop.huawei.ru**	Electronic appliances	1 880	8%	30	80	7%	23 500	1%
97	**Kuvalda.ru**	DIY tools and items	1 860	31%	30	190	46%	9 790	-10%
98	**Av.ru**	Multicategory online retailer	1 860	25%	30	350	35%	5 310	-7%
99	**Video-shoper.ru**	Electronic appliances	1 840	-42%	29	80	-49%	23 000	16%
100	**Pm.ru**	Home furniture	1 820	54%	29	180	42%	10 110	11%

SITES ARE RANKED BY SALES VOLUME (INCL. VAT), NUMBER OF ORDERS AND AVERAGE ORDER VALUE AS ESTIMATED BY DATA INSIGHT AND, IN CERTAIN CASES, CONFIRMED BY THE COMPANIES.
ORIGINAL RUSSIAN VERSION: HTTPS://BIT.LY/31KL9KD


Software, hardware, IoT solutions
for omnichannel retail
re:point
http://repoint.io
hello@repoint.io
NEW RETAIL
The best russian IT engineers
for next-gen e-commerce

COMPANY PRESENTATIONS

- **Lamoda:** Building a fashion leader
- **Ozon:** From leading infrastructure to record sales and leadership
- **Yandex Market Group of Companies:** The emerging giant

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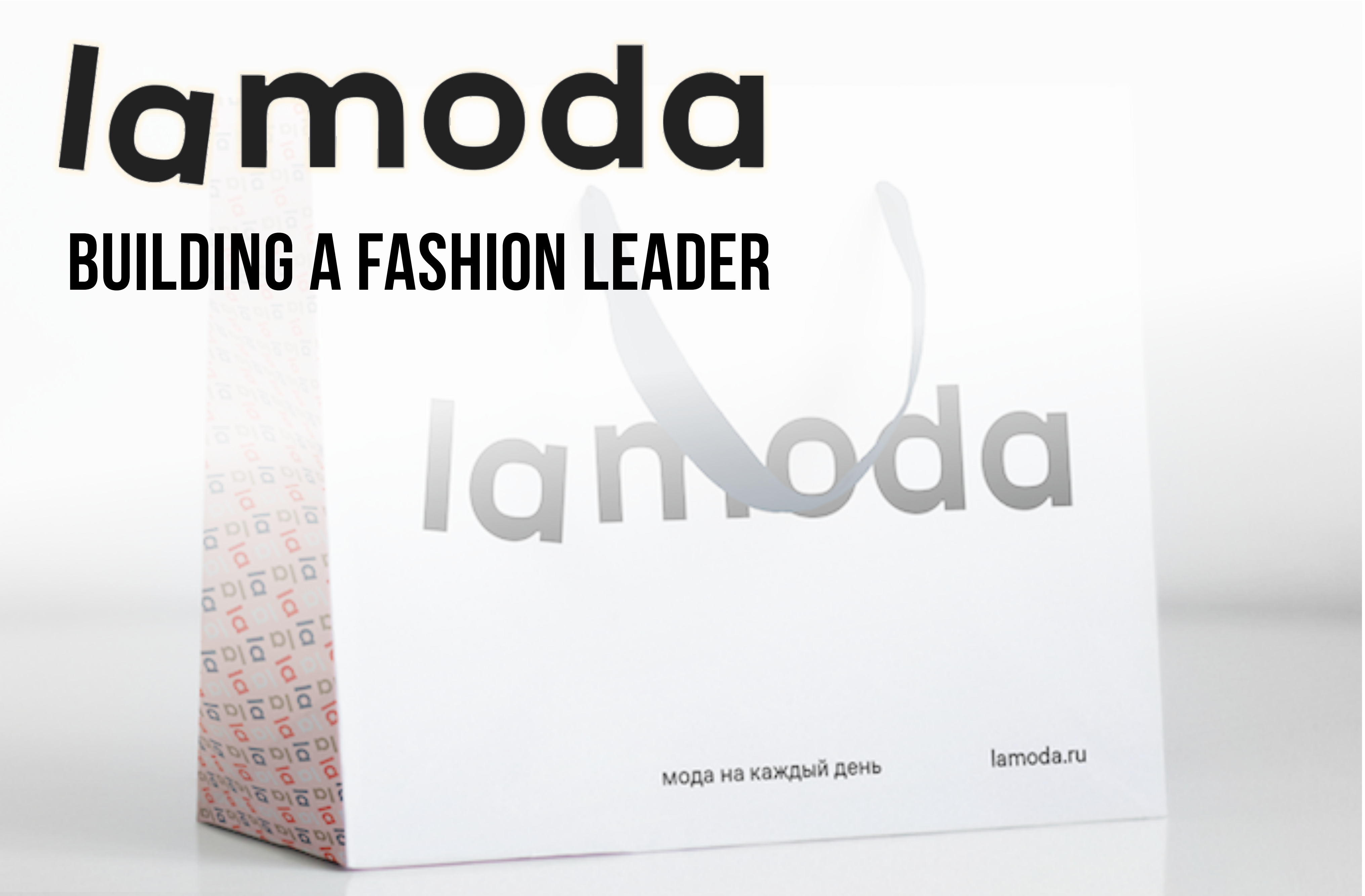
BUILDING A FASHION LEADER



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CATALOGUE

Lamoda is a lifestyle platform where consumers may find a wide range of fashion apparel, footwear and accessories in any price segment as well as a wide range of complementary categories like beauty and home.

Lamoda offers more than 4 millions of items and **more than 3,000 international and local brands.** These include:

- More than 1,700 brands in the clothing and shoes category;
- 800 brands for accessories;
- 400 brands for cosmetics and perfumes;
- More than 100 brands for home decor.

The company has doubled the number of brands in just three years. Focus is made on **renowned international brands.**

In addition, Lamoda intends to develop its offer of unique fashion brands with limited distribution, available only via Lamoda.

In the fast-growing **premium and luxury segments,** Lamoda works with more than 200 brands. The company has created a proper environment for such brands on the platform: a separate landing page (http://premium.lamoda.ru), separate catalogue and brand lists, customized brand pages with brand images and additional descriptions, relevant premium recommendations and navigation, differentiated approach to catalogue shootings, etc.

TIMELINE

2011

March 15, 2011: Launch of Lamoda.ru backed by Rocket Internet

Oct. 2011: Launch of in-house delivery service Lamoda Express (LME) in Moscow

2012

March 2012: Lamoda.kz launched in Kazakhstan: Lamoda is the first major online retailer in the country

Oct. 2012: Opening of Lamoda's own fulfillment center (20k sq. m.) in Bykovo, Moscow region lamoda

LOGISTICS

Lamoda delivery consists of three main delivery channels: own courier delivery via sales representatives, own pick-up point solution and external delivery companies chosen from a pool of reliable partners.

In 2011, after experimenting with external providers, Lamoda judged these logistics companies not to be able to meet its service requirements, including those specific to fashion and lifestyle products. Hence the decision to develop in-house capacities.

Since its launched in October 2011, 'LM Express' has developed a trucking and middle-mile management solution as well as highly customer-oriented last mile solutions such as courier delivery and pick-up points.

Lamoda still works with external providers, but these account for just 15-20% of shipment operations – for example, to deliver to remote areas with a low population density and low AOV.

When orders reach a certain level, Lamoda immediately starts preparing the launch of LM Express in the area.

Developing in-house capacity required important investments, but Lamoda believes this was the right decision, since it now enjoys high levels of customer satisfaction and loyalty.

Among the key advantages of Lamoda's courier delivery are:

- Same-day delivery in Moscow;
- Next-day delivery in 150 Russian cities;
- Coverage of 600+ cities in Russia;
- 3-hour, 1-hour and premium 15-minutes delivery intervals;
- Cash, card, IoS and Android payments, payments in installments
- Free try-on and partial rejection
- Delivery via sales representatives

Lamoda's pick-up points offer a convenient and standardized customer experience across 200 points in Russia.

These pick-up points feature clean, bright and professional try-on rooms with unlimited try on time. These pick-up points also have a fashion / beauty / lifestyle upselling function.

The company continues to invest in its in-house logistics infrastructure. Delivery investments in 2019-2020 will focus mainly on try-on pick-up.

2013

June 2013: Lamoda secures $130m from Access Industries, Summit Partners and Tengelmann, the largest equity deal in Russian e-commerce at that time

Dec. 2013: Lamoda.ua launched in Ukraine. Release of Lamoda mobile apps.

2014

Jan. 2014: Lamoda secures €10m from the World Bank's IFC, a reflection of the company's high corporate and environmental standards

Nov. 2014: Lamoda launches its own brand, LOST INK, in London

Dec. 2014: Lamoda.by launched in Belarus

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THREE BUSINESS MODELS

Lamoda has three main revenue models: the traditional retail business, commission business and B2B business.

Until 2015, the full assortment was sold under the **classic retail business model:** Lamoda purchased items from the brand, stocked them in a fulfilment center, sold them on the website, shipped them to the customer and collected the net selling price as revenue.

In 2015, the company launched its marketplace and B2B business offers to our brand partners: new business models emerged. **Under the marketplace model,** the brand owns the goods that Lamoda stocks at its fulfilment center, lists on the platform, ships to customers and collects a fixed % commission.

This limits the risks related to unsold items, allows the brand to offer a broader range to Lamoda customers, and saves working capital for Lamoda. In Q2 2018, 10% of the company's NVM was generated by this business model, and Lamoda has a strong pipeline of brands ready to embrace it.

Under the B2B model, several service combinations are possible -- essentially, the brand outsources parts of its supply chain to Lamoda, not necessarily listing the items on lamoda.ru. In 2018, this B2B business generated ~10% of handled orders.

While not generating significant revenues on its own, this activity enables Lamoda to expand the available inventory on the platform through cross-listing mechanisms.

The margin under each revenue model is determined by the market and differs significantly.

FROM INVESTMENT, TO PERFORMANCE, TO PROFITABILITY

Lamoda possesses state-of-the-art and semi-automated 40000+ sq. m. warehouse located in Bykovo (Moscow region). Along with Lamoda's warehouse management system, this facility gives an opportunity to offer very attractive cut-off times to customers (including same day delivery in Moscow, next day in 150+ cities), and contributes to Lamoda's high operational performance.

This warehouse, alongside the company's IT investments, represents a significant CAPEX and also forms a key part of its competitive advantage.

As announced in June 2019, Lamoda intends to open a new fulfilment center near Moscow in cooperation with Russian Post. Scheduled for launch in 2021, this facility will be scalable up to 100k sq. m. It will be highly automated, increasing Lamoda's capacity not only to offer a wider assortment to customers, but also to offer new categories and better shipping terms to its customers with the required flexibility.

To make these investments profitable, Lamoda bets on the on-going migration of retail sales to e-commerce while strategically positioning itself as a leading fashion and lifestyle destination in Russia and neighboring countries.

Thus, the company expects the investments to bring superior growth, scale and a dominant market position.

2015

April 2015: Lamoda launches full-service B2B support to partnering e-merchants

Nov. 2015: Launch of the Lamoda marketplace

2016

April 2016: Inditex Group partners with Lamoda, which provides operational support to Zara, Massimo Dutti, Bershka and Uterquein Russia.

2017

April 2017: Lamoda launches premium delivery service with 1-hour or 15-min. interval; introduces payment by instalments

June 2017: Lamoda launches the FIFA online store in Russia shortly before the World Cup 2018.

lamoda

LATEST FINANCIAL RESULTS

Lamoda saw its sales **surge by 23.5% year-on-year** in Q1 2019. During this quarter, the platform's sales exceeded €111 million, including Lamoda's business in Russia, Belarus, Ukraine and Kazakhstan.

Also included in this number are Lamoda's marketplace sales. These grew more than threefold in a year, now accounting for 22.2% of total sales through the platform. More than 2,000 partners are involved in this marketplace.

"While keeping inventory-based retail as a business model, the Lamoda platform is now articulated around the concept of connecting buyers and sellers of goods and services," says Florian Jansen.

Lamoda has also diversified its offer, which now encompasses such products as accessories, jewellery, cosmetics and perfumes.

These categories have recorded spectacular growth rates: watches sales, for example, grew by 35% and earrings by 200%, says Lamoda. However, unlike Russian e-commerce leader Wildberries, Lamoda is **keeping its focus on fashion,** integrating other products as complements to the core categories: clothing, accessories, and shoes. Sales grew the most through mobile apps. "Mobile orders doubled, now reaching almost 70% of total sales," notes Julia Nikitina, Director for Marketing and Product.

Lamoda's growth translated into a **3.3% gross profit year-on-year growth** in Q1 2019. "This revenue and profitability surge illustrates that the re-positioning of the company into a fashion, beauty and lifestyle expert has been successful and will continue to be so," the company stated.

FOUNDERS & MANAGING TEAM

Founders:

- Burkhard Binder, Florian Jansen, Dominik Picker and Niels Tonsen

Current management:

- CEO: Florian Jansen
- Managing Director: Burkhard Binder
- COO: Paul Rogowski
- CFO: Fabian Schaefer
- Chief Digital Officer: Yulia Nikitina

Lamoda co-founders Burkhard Binder, Florian Jansen, Dominik Picker and Niels Tonsen

2018

Jan. 2018: Lamoda acquires the network Pick-Up.ru to double its own network in size

Feb. 2018: Lamonda is 5th in Forbes Russia's ranking of 20 most expensive Russian Internet companies (up one rank up from 2017)

March 2018: Lamoda co-founders Niels Tonsen and Dominik Picker leave the company. Lamoda is now headed by Florian Jansen and Burkhard Binder.

LAMODA CO-FOUNDER AND CEO FLORIAN JANSEN: “LAMODA IS VIRTUALLY THE ONLY MAJOR PURE PLAYER IN THE FASHION SEGMENT”

How do you see the current state of e-commerce in Russia and its future prospects?

In 2011, when I started doing business in Russia, the market was very small, though promising; and until recently it grew at relatively quiet pace. E-commerce penetration is historically lower than in most Western countries: in grocery for example, online sales account for approximately 1% of the market vs. 3-4% in advanced countries.

But, for the past one-two years, we have witnessed a notable acceleration. The market is close to a tipping point that will lead to more adoption across consumer groups and in different shopping segments. Meanwhile, several very large multi-category players are asserting themselves and contending for leadership, including existing players like Ozon and Widberries, and such new entrants as Yandex Market, backed by Sberbank, and the Alibaba/Mail.ru Group alliance.

What about the fashion segment?

There’s a huge growth potential here. Only 6% to 7% of fashion goods are purchased online in Russia vs. 25% or 30% in Europe. But Russia is catching up fast: in 2018, the fashion segment grew by 30%, according to the AITC (AKIT) association, while the average market growth rate for e-commerce was 20%.

This segment was worth an estimated 500 billion rubles (nearly $8 billion) last year, including sales via marketplaces and social networks.

FLORIAN JANSEN: "LAMODA IS VIRTUALLY THE ONLY MAJOR PURE PLAYER IN THE FASHION SEGMENT"

What differentiates Lamoda from other Russian fashion players?

Unlike in most Western countries, there are not that many fashion players in Russia. Actually, there are only three big ones: Wildberries, Lamoda and KupiVIP. But the latter has a very specific model (flash-sales), and Wildberries is no longer a fashion-focused business. Now they sell virtually anything, from home appliances, to pet food, to car parts. Thus, putting aside KupiVIP, Lamoda has become the only major fashion-focused pure player in Russia.

Even without a fashion-focus, Wildberries remains extremely strong in this segment…

Sure, but we're not doing this fashion business in the same way. Lamoda focuses on middle- and high-end products, including exclusive brands, and develop a sophisticated, inspiring user experience with quality content. It's a bit like Zalando sustaining vs. Amazon in Germany: the fact that Amazon also sells fashion items doesn't make them the first destination for fashion aficionados.

What is so specific in the Lamoda user experience?

First, Lamoda offers a very wide fashion and lifestyle assortment. Users can effortlessly move between a unique collection from niche designers to premium brands as well as lifestyle goods, cosmetics, jewellery, home decoration and gifts.

Delivery is another key part of our unique user experience. We offer the vastest range of delivery options – even more than Ozon or Wildberries do – including our own self-pickup points. We deliver same-day in Moscow and next-day in 150 cities.

All our operations are absolutely customer-focused. We have created a UX lab and a dedicated consumer research team to develop a sophisticated UX experience. Even those working in our office provide their feedback!

But Lamoda is more than a place to shop easily: it is a platform to discover fashion and lifestyle, to help users make their personal lifestyle choices for every day. We create rich content with new formats such as purchases from blogs; use machine learning for personalization, as well as sophisticated advertising technologies. This might not sound exceptional in the West, but I don't think anyone does comparable things Russia. Such sophistication is important in all verticals, but in fashion even more than in others.

All this translates into a unique B2B proposition. It is not by chance that such brands as Calzedonia and Inditex work with us… and only with us: it seems that other platforms don't suit them.

What does this B2B offer consist in exactly?

Lamoda has the highest concentration of well-known brands. Among them are Nike, Mango, Hugo Boss, Arcadia Group, Inditex Group and many others. They work with us because of our focus on fashion, our audience, our customer service, our IT platform and our fulfilment capacity. What's more, we allow suppliers to provide content, developing jointly an online fashion ecosystem beyond just inventory. We are the only B2B provider and partner of that kind.

We are always looking forward to long-term partnerships with brands: not only those already established in Russia, but also those who need an entry point in the country. We have a double B2B offer: as a third-party service provider (including notably logistics) and as a marketplace.

At the moment, more than 2,000 companies are involved in this marketplace. While taking advantage of our ecosystem, they allow us to provide the widest possible choice, even in smaller, niche categories. All this represents a growing part of our business.

FLORIAN JANSEN: "LAMODA IS VIRTUALLY THE ONLY MAJOR PURE PLAYER IN THE FASHION SEGMENT"

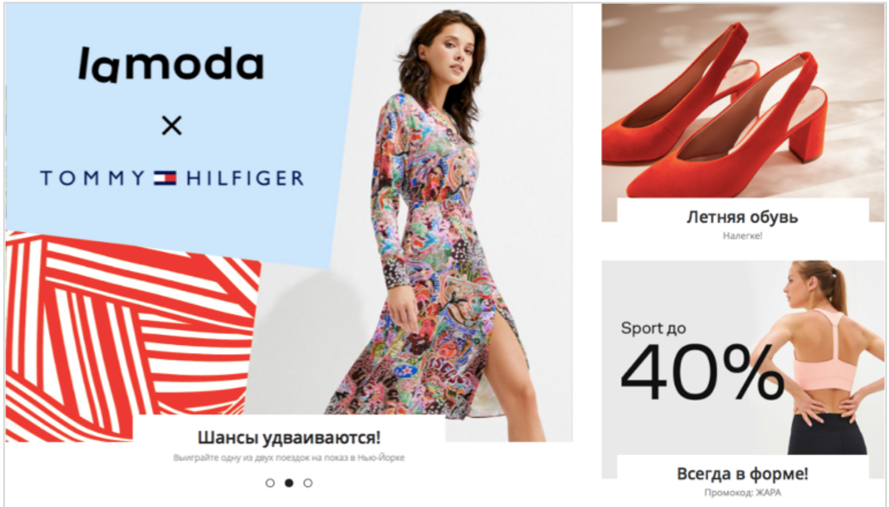
So, your business model is no longer that of a retailer?

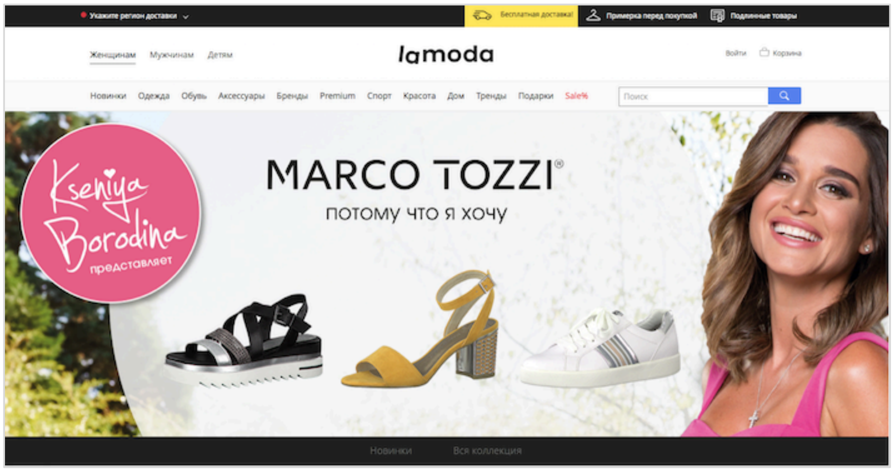
We were a retail company when we launched in 2011. Since 2015, we have been building a platform – not dropping inventory-based retail as a business model, but articulating things around the concept of connecting buyers and sellers of goods and services. In Q1 2019, our partners' sales through the marketplace accounted for 22.2% of total sales, more than three times as much as one year before.

Do you have any plans for offline?

Lamoda Market, our first offline store, was opened in March 2019 in Moscow, in the Atrium shopping center. It is a 1,000 square meters boutique combined with a traditional shop format and pick-up point. We also have more than 200 try-on (pick-up) points across Russia. They serve e-commerce orders through fast delivery, cash and card payments, and returns management. The largest ones, so called 'flagship' points, also have a kid's corner and upselling areas with relevant goods. Expanding these try-on points is a big priority for 2019-2020, with the goal of doubling their numbers in one year.

However, Lamoda is and will remain essentially an online business. We will develop an offline presence only as adjunct online operations and a stimulation to the online business. Our offline projects (pop-up stores, Lamoda Market) are about image. It's an opportunity to communicate with clients on another level and to introduce Lamoda to those who are still suspicious about online shopping.





FLORIAN JANSEN: "LAMODA IS VIRTUALLY THE ONLY MAJOR PURE PLAYER IN THE FASHION SEGMENT"

Can you comment on your company's latest financial results?

In the first quarter of 2019, total sales for Lamoda online stores in Russia, Belarus, Ukraine, and Kazakhstan increased by 23.5% year-on-year, exceeding €111 million (including both Lamoda-owned inventory and inventory listed through its marketplace). This growth also translated into a 3.3% gross profit year-on-year growth. This revenue and profitability surge illustrate that the re-positioning of the company into a fashion, beauty and lifestyle expert platform has been successful and will continue to be so.

How do you envision Lamoda to evolve in the future?

In the foreseeable future, the core of our model will remain the same: providing fashion and lifestyle solutions for both brands and customers. Going forward, we will keep expanding the share of marketplace goods on our platform, expecting these sales to account for half of total sales by 2022. At the same time, we are betting heavily on premium sales, which currently constitute 15% of our sales, but shows strong growth ahead.

I also see Lamoda expand even further beyond selling simply products from a catalogue, entering the lifestyle and services sphere, such as style advice. We want to inspire our customers and better enable them to discover lifestyle solutions by offering features such as 'shop by trend', 'shop by style', 'shop by occasion.'

We are also pushing the personalization agenda very hard across the board with personalized product recommendations and catalogue sorting based on purchase history, size recommendations and much more.

Lamoda is part of Global Fashion Group, what is the level of integration?

Participation in this group implies significant synergies. GFG supports us in global brand relations, technological solutions, supply chain innovations, investor relations and many more aspects. At the same time each GFG market is run in its own way: for instance, our region is the only one where try-on is offered. Independence in local execution is critical to the success of GFG overall. Since the balance between delegation and control is satisfactory, I don't see any real value in tighter integration at the moment.

Could Lamoda go public, raise funds, make an acquisition or even be acquired?

Investor relations, fundraising and capital allocation decision are a prerogative of GFG. They are currently reviewing several options to raise additional funds.[1]

As for a potential acquisition, we don't have any concrete offers right now in Russia, but such outcome is possible. E-commerce is developing fast in the country, and there are many players with plenty of capital and a rush to acquire market share.

(June 2019)

(1) This interview was made before GFG's IPO in Frankfurt in early July 2019

OZON

FROM LEADING INFRASTRUCTURE TO RECORD SALES

OZON

CATALOGUE

OZON, the leading multicategory e-commerce site in Russia,[1] sells an extremely large variety of goods and services. These include the following as of June 2019:

Physical goods:
- Books incl. out-of-print
- Electronics
- Household appliances
- Moms & kids
- Apparel
- Sports & leisure
- Beauty & cosmetics
- Health & vitamins
- Dry & fresh food
- Jewelry
- Home & decor
- Arts & hobbies
- Automotive
- Music & video
- Stationery goods
- Zoo
- DIY Antique goods
- 18+ merchandise
- Cross-border goods

Digital goods & services:
- Electronic books
- Air tickets
- Train tickets
- Games & software

In each order, customers typically buy merchandise from 3-4 categories.

Top categories (Q1 2019):
- In number of items: Health & beauty, Home & decor, Moms & Kids
- By GMV: Electronics, Moms & kids, Books, Home & decor, Health & beauty
- Fastest growing: Health & beauty, Moms & kids, Auto & moto, Dry & fresh food

The company is ready to add even more categories and plans to expand its assortment to 6 million SKUs or more by the end of 2019.

(1) Market leader Wildberries, traditionnally focusing on clothing and footwear, is now developing other product categories but clothing and footwear still account for the better part of its business.

SERVICES

More than just an online retailer, OZON has developed a large scope of servicesr to provide a superior customer experience.

In the field of **delivery:**
- More than 100,000 orders are fulfilled every day;
- More than 6,500 cities & towns all over Russia are covered;
- 40% of the Russian population can be delivered next-day;
- With the biggest self-owned self-pickup point network among Russian e-commerce companies, OZON plans to offer 8,500 Ozon.Box lockers by the end of 2019.

In the field of **financial services,** OZON has developed a variety of offers, including:
- Russia's first consumer loan service for multicategory orders;
- The Ozon.Card bank card with cashback;
- The Ozon.Invest user-to-supplier loan platform (https://bit.ly/2NqEdDK)

OZON recently launched Ozon.Premium, the first **e-commerce subscription service** in Russia. Its 200,000 subscribers make orders three times more frequently than other customers.

TIMELINE

- **1998:** The Russian software house Reksoft launches OZON as an online bookseller – a pioneering move on the embryonic Russian Internet scene
- **1999:** ru-Net, a major Russian VC, purchases a controlling stake in OZON
- **2000:** Leading PE firm Baring Vostok invests $3m in OZON, taking control of the company
- **2001-2002:** OZON expands assortment, including with software products, toys and electronics. Delivers to 400 cities.
- **2005:** OZON opens a logistics center in Tver, a first in Russian e-commerce
- **2006:** OZON launches same-day and next-day delivery in Moscow
- **2007:** Ozon.ru receives $18mn from Holtzbrinck Ventures, Index Ventures and Baring Vostok. Cosmetics added to assortment.
- **2008:** OZON starts building of a 10,000 sq.m. logistics center in Tver (yearly capacity 4.7m orders)

OZON

LOGISTICS INFRASTRUCTURE AS OF H1 2019

- Population density: 55-60 inhabitant per km^2
- Population density: 25-35 inhabitant per km^2
- Population density : 5-10 inhabitant per km^2
- Population density : 1-5 inhabitant per km^2
- Ozon fulfilment centers

6,500 cities covered

including **8** key Russian cities

100,000 m^2 fulfilment capacities
→ PLANNED: 200,000 m^2 in 2020

including **40,000 m^2** in Tver

2,800 pick-up points
→ PLANNED: 5,000 in 2020

2,200 own parcel lockers
→ PLANNED: 7,500 in 2020

100,000 orders delivered per day

>40% delivered on time

>90% delivered same- or next-day

- **2009:** OZON launches OZON.travel
- **2011:** OZON raises $100m in a round led by ru-Net, with participation from Rakuten, Alpha Associates and Index Ventures – a funding record in Russian e-commerce at that time
- **2014:** Sistema and MTS invest $150m – a new record – acquiring 20% of the company. OZON acquires a stake in e-book leader Litres.
- **2015:** OZON starts selling apparel
- **2016:** OZON expands its logistics infrastructure with a 6,800 sq.m. logistics center in Yekaterinburg and an additional one (3,500 sq.m.) in Kazan. Home & decor items added to site assortment.
- **2017:** OZON expands Tver fulfillment centerto 40,000 sq.m., launches new 5,000 sq.m. facility in Krasnodar. Fresh food added to assortment. Launch of 'OZON Box' parcel lockers. A. Shulgin appointed as new CEO.

OZON

BUSINESS MODEL

Moving from a 'classic' e-commerce 1P sales model to a mixed one, OZON launched its marketplace (3P sales model) in September 2018. More than 1,500 sellers were enrolled as of late December 2018 and 6,000 as of late May 2019. OZON plans to develop its markeplace while continuing to take on the best of the 1P model.

OZON has already invested more than $85 million in its current fulfilment infrastructure, and will continue large-scale investment in these developments going forward. By late 2019, the company will operate more than 200,000 sq.m., up from around 100,000 sq.m at the end of 2018. OZON will continue developing its fulfilment centers and last-mile capacities in 2020, as the company sees the lack of infrastructure as a major obstacle to exponential growth.

OZON was in a position to reach breakeven in 2018, but prioritized investing in growth instead. The company is expanding its logistics and IT infrastructure as well as new product development.

OZON will be economically ready to turn its cash flow positive by 2021, but may decide not to do so if it prioritizes investing in growth instead.

CORPORATE STRUCTURE

Ozon Holding owns the Ozon.ru multicategory e-commerce site as well as Ozon.travel, the leading online travel booking platform. The holding also has a blocking stake in Russia's largest digital bookstore Litres.

FINANCING

- **Past capital injections**

- 1999: ru-Net Holdings purchased a controlling stake in the company for $1.8 million and committed to invest again $1.2 million in 2000
- 2000: Baring Vostok became a controlling shareholder in OZON, having invested $3 million in the company
- 2007: OZON received an $18 million investment from Holtzbrinck Ventures, Index Ventures and Baring Vostok
- 2011: OZON raised $100 million in a round led by ru-Net with the participation of Rakuten, Alpha Associates and Index Ventures.
- 2014: AFK Sistema and MTS invested $150 million in OZON for a 20% stake
- 2018: OZON raised $92 million from existing shareholders Baring Vostok and MTS/Sistema
- 2019: OZON secured a convertible loan of $154 million from its key shareholders, Sistema and Baring Vostok

- **Latest company valuation**

In 2019, Forbes Russia estimated OZON's valuation at $694 million, ranking it at the 5th place among Russian Internet companies (https://bit.ly/2xmzyrp).

- **Further financial plans**

OZON may secure one or two capital injections of $200-300 million in the foreseeable future. The company may consider an IPO in 2 to 3 years.

SHAREHOLDING STRUCTURE

Ozon Holding is owned by Baring Vostok Capital Partners (about 40%), AFK Sistema (about 40%), a group of international investment funds and former top management (about 20%).

2018: OZON raises $92 million from existing shareholders.

2018: The company moves from the 'classic' online retail model to a mixed one with a marketplace (3P sales model). Sales volumes grow by 73% that year, 3 times faster than market average.

Jan. 2019: Jewelry adds to assortment. Launch of user-to-supplier loan platform Ozon.Invest, bank card with a cash back offer Ozon.card, and a consumer loan service.

Feb. 2019: OZON launches Ozon.Premium, Russia's first e-commerce subscription system

April 2019: OZON secures $154m convertible loan from its key shareholders, and announces plans to double its fulfillment infrastructure in 2019

OZON GROUP CFO DANIIL FEDOROV: "OUR PLAN IS TO DOUBLE THE BUSINESS EVERY YEAR, GAINING MARKET SHARE AGGRESSIVELY TO BOOST COMPANY VALUATION"

In less than a year, Ozon raised more than $200 million in two rounds. Is it that easy for Russian e-commerce companies to raise money in the current domestic and international context?

We see a very strong interest in e-commerce in general and OZON in particular both from international and local investors. Three factors are appealing: the company's hyper growth [+73% in sales volume in 2018 y-o-y]; Russia's big target consumer market; and the trend of consumers shifting online. We expect to remain the most appealing player in investors' eyes since we are growing 3.5 times faster than the market – which implies substantial value creation for our existing and new shareholders.

We have very strong investors who have supported our business over the years. They're supporting as well our strategy of aggressive growth as they see the potential to build a multi-billion dollar company.

Will this funding be enough to sustain competition with the two emerging giants? Will your shareholders be able to put on the table as much as Sberbank, Alibaba, Mail.ru Group, RDIF?

We welcome competition, and the more investments into Russian e-commerce infrastructure, the better, since this is essential for market development. It is also important to note that the market remains fragmented and relatively little developed, accounting for just 5% of the Russian retail turnover. Thus, we do not compete with other e-commerce players as much as all together we compete with offline retail; together we can grow our sector, build a sufficient logistics infrastructure and accelerate the shift in customers' habits.

We expect to grow by more than 100% in 2019 after launching more than 30 new products and projects in last 10 months. This demonstrates our capacity to attain an even stronger position in the market.

DANIIL FEDOROV: "OUR PLAN IS TO DOUBLE THE BUSINESS EVERY YEAR, GAINING MARKET SHARE AGGRESSIVELY TO BOOST COMPANY VALUATION"

There are very few exits in Russian e-commerce... what do your investors expect?

The plan is to double the business every year and gain market share aggressively to boost company valuation. An IPO would be the preferred scenario for both our shareholders and management.

Do you expect market entries from international e-commerce giants with potential acquisitions?

We see a very strong interest to e-commerce from international investors as it is one of the fastest-growing sectors of the Russian economy.

(June 2019)

Sistema: "Placing a strategic bet on the fast-growing e-commerce segment"

After acquiring shares from minority shareholders, Sistema, a major Russian conglomerate, owns a 19.3% stake in Ozon, while its corporate fund Sistema_VC, holds another 16.3% stake as of June 2019.

In an exchange with EWDN, the group's press service said: "*Sistema plans to continue expanding its presence in the Russian e-commerce market. Its nearest plans include increasing its stake in Ozon to around 40% (including Sistema_VC's stake) by acquiring shares from other investors and to support its business growth with capital injections. Sistema's equity holding in Ozon means that it is placing a strategic bet on the fast-growing e-commerce segment.*"

Ozon's competitive advantages include a broad product assortment, in-house logistics infrastructure, a recognized brand, a high level of customer support and a recently-launched marketplace. Ozon's strong team, which has already achieved impressive growth rates, is able to ensure the company's technological and market leadership in a segment that is extremely fragmented and undergoing consolidation. We believe that the implementation of Ozon's business plan will enable us to build the leader in the Russian e-commerce market."

We believe this market has high growth potential. It is continuing to grow, with growth projected to remain 20%-30% per annum in the next three years. The current penetration of the segment (5% of total retail turnover) is significantly lower than in more advanced countries (10%-15% in Western countries and over 20% in China and South Korea): it can double over the next five years, say experts."

Sistema has other footholds in Russian e-commerce. In particular, it controls Detski Mir, the children's goods leader in Russia, and MTS, a major mobile operator, which have developed a substantial online presence.

YANDEX MARKET GROUP OF COMPANIES:

THE EMERGING GIANT

LAST SECTION UPDATE: JUNE 2019

YANDEX MARKET GROUP OF COMPANIES: THE EMERGING GIANT

LAST SECTION UPDATE: JUNE 2019

Formed as a joint-venture by Yandex and Sberbank in 2018, the Yandex Market Group of Companies aims to occupy leading positions in Russian e-commerce.

The group comprises three entities: the Yandex.Market price comparison platform; Beru, a domestic marketplace; and Bringly, a cross-border marketplace. These marketplaces provide logistics solutions, delivery services and customer support.

On the picture: Beru's Moscow fulfilment center. By developing its own logistics network, Yandex Market Group of Companies will "open an access to Russia to hundreds of other retailers that didn't have it before." (Photo credit: Yandex)

TIMELINE

1997: Launch of Yandex, Russia's leading search engine

2000: Incorporation of Yandex as a stand-alone company

Nov. 2000: Launch of the price-comparison service Yandex.Market

YANDEX MARKET GROUP OF COMPANIES: THE EMERGING GIANT

LAST SECTION UPDATE: JUNE 2019

CATALOGUE (AS OF APRIL 2019)

Yandex.Market	Beru	Bringly
• 160 million items are published on the platform in 16 sections by 20,000 online-stores. • In Q1 2019, the platform attracted up to 3.7 million users.	• 100,000 items in 11 sections and 612 categories incl. food, health, electronics, children's goods, etc. • 1,200 sellers enroled • In Q1 2019, the platform attracted up to 500,000 users.	• 4 million items in 7 categories: electronics, clothes, beauty, home & garden, products for children, sport and auto.

SERVICE (AS OF APRIL 2019)

Yandex.Market	Beru	Bringly
• E-merchants are offered tools to communicate with clients (e.g. chats with verified vendors and online stores). • In-house UCG-rating of items and merchants.	• Beru takes all responsibility for the item after grabbing it from the partner`s warehouse. • Orders are processed and delivered from a Moscow-based fulfillment center. • Next-day delivery in Moscow, delivery enhancements in the regions	• Bringly will house the site's most popular goods in a Latvia-based warehouse facility prior to expedite shipping. • Shipping costs vary depending on the retailer's location.

BUINESS MODELS (AS OF APRIL 2019)

Yandex.Market	Beru	Bringly
• Price-comparison service • CPC-model	• Local marketplace • Logistics provided by partners; one own logistic center in Rostov-on-Don • Provides services for local stores and vendors (logistics, customer support, promotion)	• Cross-border marketplace • Items from different countries: Turkey, China, Korea, UK, etc. • Provides logistics, promotion and customer support • Logistic hubs in China, Korea, Singapore • 1 bonded warehouse in Latvia

2016:
Yandex.Market is transformed into a separate business unit owned by Yandex.

April 2018:
Yandex and Sberbank complete the formation of a JV based on the Yandex.Market platform. Sberbank injects $500m into the JV, which is valued post money at around $1bn.

May 2018:
Yandex.Market Group of Companies launches its domestic marketplace Beru in beta.

YANDEX MARKET GROUP OF COMPANIES: THE EMERGING GIANT

LAST SECTION UPDATE: JUNE 2019

LOGISTICS

Yandex Market Group of Companies has its own warehouses (in Riga, Rostov and Moscow), call centers, software infrastructure and carrier aggregation system Yandex.Delivery.

Even though some services are outsourced, the group manages them directly to keep control of the whole system. The group keeps investing in logistics, as exemplified by recent initiatives in the fields of warehousing ($8 million invested in a facility in Rostov-on-Don) and self-pickup points.

LEADERSHIP STRATEGY

While bullish on the development prospects of their platforms, Yandex.Market representatives have nuanced views on when it comes to competition and potential leadership, especially on the cross-border segment which is currently dominated by AliExpress Russia.

"Our goal is to see 1) Beru become the leading marketplace in Russia, 2) Bringly become a leading cross-border marketplace and 3) YandexMarket maintain its leadership among price comparison sites," says Chairman of the Board Gabriel Naouri (see interview).

Chief International officer Alex Vassiliev believes Bringly "can compete and perhaps even beat the China-to-Russia platforms" as well as such sites ad Lamoda and Wildberries (see interview).

FINANCIALS

- **Capital injection and valuation**

In 2018, Sberbank injected 30 billion rub. (approximately $500 million) in the company. Following this capital injection, the company was valued at 60 billion rubles (approximately $1 billion).

- **Financial results and further plans**

The revenue of Yandex.Market Group of Companies in 2018 has grown up by 59% compared with 2017. The revenue in Q4 2018 has grown up by 139% compared with Q4 2017.

Yandex.Market Group of Companies aims to generate 500 billion rubles (around $8 billion at the current exchange rate) in GMV within five years.

Company shareholders consider a possible IPO in around five years (https://bit.ly/2Lskz7w).

MANAGEMENT

CEO: Maxim Grishakov. There are seven directors in the board. The chairman is Gabriel Naouri, an independent director.

SHAREHOLDING STRUCTURE

Yandex and Sberbank hold an equal number of the outstanding shares in Yandex.Market, with up to 10% of outstanding shares allocated to the management and an equity incentive pool.

Oct. 2018:
Official launch of Beru with over 1,000 retailers and 600 shopping categories. Beru also launches its loyalty program, 'Beru Bonuses.'

Feb. 2019:
Bringly announces its first major Western seller, UK's Feelunique, after dealing with a variety of Chinese and Turkish partners

May 2019:
Bringly announces an extension to Turkey, selling to local online consumers in partnership with local player Hepsiburada

EVGENIY SCHEPELIN AND ALEX VASSILIEV: HOW YANDEX MARKET AIMS AT MARKET LEADERSHIP

Formed as a joint-venture by Yandex and Sberbank in 2018, the Yandex Market group of companies (further referred to as "the JV") comprises three entities: the Yandex.Market price comparison platform; Beru, a domestic marketplace; and Bringly, a cross-border marketplace. The marketplaces provide logistics solutions, delivery services and customer support.

In this exchange, two top executives of the joint venture, ***Business Development Director Evgeniy Schepelin*** *and* ***Chief International Officer Alex Vassiliev,*** *spoke about the JV's strategic goals[1] and practical steps, the competitive context and the value it offers to international e-merchants.*

The stated goal of Yandex Market JV is to generate 500 billion rubles (around $7.7 billion at the current exchange rate) in gross merchandise volume (GMV) by 2022. Is this realistic?

Evgeniy Schepelin – This goal is ambitious, but not unrealistic. Judging by the recent Morgan Stanley forecast, the Russian e-commerce market is expected to be worth around $42 billion by that time, so why wouldn't a market leader – perhaps even the leader – generate one sixth of this amount?

The objective also looks realistic if we look at AliExpress's current GMV – which is said to be around 330 billion rubles – and keep in mind that the market is set to double by 2022.

This being said, the forecast might possibly change. Market conditions can alter significantly in the next few years, influenced by factors such as the population's revenues, evolutions in offline retail, new initiatives from other players, etc.

1. In terms of market leadership, the JV pursues three goals: Beru to become the leading marketplace in Russia; Bringly to become a leading cross-border marketplace; and Yandex.Market to maintain its leadership among price comparison websites (see interview with Board chairman Gabriel Naouri)

Why launch three distinct platforms? What is the strategy in terms of positioning?

E.S. – Since Yandex launched the Yandex.Market price comparison engine in 2000, many different business models have been tested. By doing so, we understood that too many experiments or too much complexity may perturbate user experience, so we decided to support three separate platforms for three distinct user goals and experiences.

Yandex.Market as a price comparison engine is maintained for its great content, which gives an opportunity to browse, compare and choose. A rumor says that Beru is cannibalizing Yandex.Market, but this is not true.

Do you think Bringly could challenge AliExpress for market leadership?

Alex Vassiliev – We believe we can compete and perhaps even beat the China-to-Russia platforms. We are building a truly global platform, including both cheap goods from China and alternative supplies, particularly from Turkey and Western countries. We compete with the Chinese platforms on the one hand, and with such websites as Lamoda and Wildberries on the other. But our competitors tend to focus on relatively narrow geographies.

Another distinctive advantage is Bringly's M2M (marketplace-to-marketplace) model, as exemplified by our partnership with Turkish Hepsiburada. By onboarding large marketplaces and charging them commission per order, we immediately offer a super wide assortment to our customers.

Also, we're developing an M2C (manufacturer-to-consumer) model. For instance, by working directly with Xiaomi Bringly eliminates all unnecessary intermediaries and connect the manufacturer directly with the consumer on its platform. Therefore, we help to reduce the price and guarantee good quality, which are the most important factors for customers. None of the existing competitors do this.

Last but not least, unlike the competing marketplaces, the JV is building its own in-house logistics infrastructure to serve the needs of Beru and Bringly. This is an important factor for success. A well-known US cross-border marketplace failed in Russia partly due to the absence of such infrastructure.

How are the various Yandex services (search, marketing, taxi, food delivery...) articulated with the marketplace initiatives?

E.S. – Even though the JV became a separate legal entity in April 2018, it still is a part of the Sberbank and Yandex ecosystems and aims to make use of its various services. For example, we closely work with Yandex' search and advertising services, which provide most accurate targeting, massive reach and analytics tools. We also partner with Yandex.Taxi, which merged with Uber in 2017, Kinopoisk (movie search), Yandex.Zen (personal content feed) and are planning to partner with even more independent business units to reach different audiences.

Moreover, Bringly and Beru place campaigns and promos in Sberbank's mobile application 'Sberbank Online' which has more than 30 million active users. We also partner with Sberbank's dedicated project for youth, called 'Sberkot' (Sbercat), to appeal to young people.

What is the role of Sberbank? Why did Yandex feel such an alliance would be necessary/beneficial?

E.S. – Needless to remind the importance of Sberbank's investment in financial resources – as much as 30 billion rubles.[2] However, the biggest value of the deal lies in the opportunity to take advantage of the synergies between the leading IT company and the largest financial institution not only Russia but the whole region.

2. Roughly half a billion US dollars, more than any e-commerce single deal in Russia so far – editor's note

Can Beru and Bringly be considered as full-fledged marketplaces? Which kinds of in-house logistics and delivery services has the group made available, or could make available in the future, for e-commerce operations?

E.S. – We have our own warehouses (in Riga, Rostov and Moscow), call centers, software infrastructure and carrier aggregation system Yandex.Delivery. Even though some services are outsourced, we manage them directly to keep control of the whole system. And we invest considerable amounts in it. Less than a month ago we launched our own lockers network 'BoxBot.'

Do you plan to launch other e-commerce initiatives?

E.S. – Yes, we are looking at many options. We are launching an offline price comparison engine called 'SuperCheck' (https://bit.ly/2wUVBoO). We're also thinking about an advanced analytical platform for market data, and new facilities for operational activities.

We don't have short-term plans to launch or buy a vertical e-commerce site. We have enough commitments and plans with what we've launched already.

In January 2019 the authorities lowered the threshold for tax-free purchases on foreign sites – from €1000 to €500 per person and per month. Did it have an impact on cross-border flows?

A.V. – Practically not. There may be an impact when the threshold will be at €200 – but perhaps not that significant, because we'll be talking about €200 per package, not per month; and the tax will be lowered to 15% instead of 30% (see Part II, Section 5).

Currently the cross-border market is dominated by Chinese players -- first and foremost, by Aliexpress. What are the chances for Western players trying to sell to Russians?

A.V. – The Chinese will lose a part of their domination. In the low-price segment, Chinese products are becoming more expensive. Turkish ones, on the contrary, are now becoming better and cheaper! The Western players, mostly in other price segments, also have their chance: there was a setback in 2014-17 due to the ruble's fall and the political or 'psychological' context. However, many Western players have learned to work with Russia under the new conditions.

By offering an easy and risk-free solution, Bringly will make the Russian market accessible to an even wider range of players. So far, only few international brands and platforms were using our price comparison platform Yandex.Market (e.g. Asos, Farfetch etc) as only these brands / online retailers had their own logistics solution to Russia. By developing our logistics network, we will open an access to Russia to hundreds of other retailers that didn't have it before.

(June 2019)

EXECUTIVE INTERVIEWS

- Emre Ekmekci, President International at Hepsiburada: "We feel very attracted by Russia's fast-growing market and brand-savvy consumers"
- Yandex.Market Chairman of the Board Gabriel Naouri: "The Russian market offers huge opportunities and is very open to foreign players"
- Feelunique CEO Joël Palix: "Russian customers are very knowledgeable about beauty, the latest products and the new upcoming brands"
- Orhan Sentürk, E-Commerce International Expansion Manager at Ziylan Group: Entering the Russian market through marketplace partnerships and site localization
- Dmitry Sergeev, Mail.ru Group First Deputy CEO and AliExpress Russia Co-CEO: "Our e-commerce JV will actively develop social and domestic dimensions"

EMRE EKMEKCI, PRESIDENT INTERNATIONAL AT HEPSIBURADA: “WE FEEL VERY ATTRACTED BY RUSSIA’S FAST-GROWING MARKET AND BRAND-SAVVY CONSUMERS”

In Turkey, Hepsiburada is the largest e-commerce brand connecting customers, suppliers and entrepreneurs on a single platform. Established in 2001 with the aim of “making people’s lives easier,” Hepsiburada is now one of Europe’s and Middle East’s fastest growing e-commerce companies: its 32 million unique monthly users are provided an access to millions of products from 36 categories. Emre Ekmekci, President International, told us about Hepsiburada’s cross-border experience and its partnership with Bringly to enter the Russian market.

What is your plan to sell outside of Turkey?

As an e-commerce platform, we have launched an easy-export model, involving our 17,000 business partners to export to international markets. At start, we will focus our marketing efforts on markets where there is cultural affinity with the Turkish culture. However, Hepsiburada now has the capability of selling and shipping millions of products anywhere around the world.

Why and when did you decide to start selling to Russian online consumers? What are the first results?

Russia is one of the top ten economies in the world,[1] and Russian e-commerce is expected to more than double by 2023.[2] In addition Russia has brand-savvy consumers; all this makes the country very attractive to Hepsiburada.

1, According to the IMF’s 2018 estimates, Russia ranks 12th in the world for GDP and 6th in purchasing power parity.

2. Mr. Ekmekci is referring to the Morgan Stanley report released in October 2018, which estimate Russian e-commerce market size (excluding services and digital goods) at some $17 billion in 2018 and $52 billion by 2023. https://bit.ly/2LC8mPu

EMRE EKMEKCI, PRESIDENT INTERNATIONAL AT HEPSIBURADA: “WE FEEL VERY ATTRACTED BY RUSSIA’S FAST-GROWING MARKET AND BRAND-SAVVY CONSUMERS”

We are excited to be part of Yandex’s project to introduce customers to a new, efficient shopping experience with secure payment and fast delivery. We truly hope that our partnership with them will enhance cross-border shopping for Russian consumers.

We launched sales via Bringly in November 2018 as a test and went live full for the new-year. We are very happy with the results, volume and the variety of products that are being ordered.

Has your offer been adapted specifically to the Russian market?

In general, the most important element of our strategy is localization with the right pricing and relevant marketing strategies developed for each country. We are continuously tracking our customers’ buying behavior to know their preferences better. In Russia as elsewhere, Hepsiburada’s goal is to provide customized service based on this buying behavior.

We know that Russian consumers give a great importance to brands and product quality as well as its lifespan for people with a modest income. The price is often only a secondary indicator in purchasing decisions. Referring to this, we offer a wide selection of products with good quality at a great value.

Why did you choose Bringly as a partner?

Obviously, Yandex is Russia's largest Internet company and strongly supports e-commerce development in Russia via its marketplaces, including Bringly. This hugely contributes to make the online shopping process better for users, and it perfectly fits with Hepsiburada’s vision.

Will you also market or sell your products via other channels?

Currently, we are selling only via Bringly in the Russian market, and we are extremely happy with the return of our partnership. We believe we’ll achieve even greater results together.

Bringly is doing a great job in creating awareness about our products. There is a huge potential in Russian market, and we are willing to implement marketing activities developed with Bringly to get more traffic. For the moment we are not considering doing marketing campaigns in Russia outside of our strategic partnership with Bringly.

How deeply did your logistics processes and compliance need to be adapted to Russian specifics?

Hepsiburada has a profound experience in all operations related to cross-border e-commerce. Logistics agreements, customs and tax legislation, payment methods, market-based pricing strategies, packaging in international standards, compliance with personal data protection, providing better customer service are our core activities, and should be overseen in full details.

We also understand that protecting our customers’ personal data all around the world is a very sensitive matter, and deal with it with utmost attention.

(March 2019)

YANDEX.MARKET CHAIRMAN OF THE BOARD GABRIEL NAOURI: "THE RUSSIAN MARKET OFFERS HUGE OPPORTUNITIES AND IS VERY OPEN TO FOREIGN PLAYERS"

What is your vision of the Russian e-commerce market and its prospects? How does it compare with that of France or other countries?

The Russian market offers huge opportunities. With a population of 150 million people and an Internet penetration of nearly 80%, the potential is unique. Now is the right time to build market share. As a comparison, the top four players account for 75-80% of the market in the US, China or France. In Russia it is less than 25%. This fragmentation offers a unique opportunity for Yandex.Market.

What are the main challenges for players to grow in this market?

Some of them are common with other markets. The main difference is territory size. In a country of over 17 million sq. km., given its current infrastructure, your logistic strategy cannot be identical in all regions. It is a differentiated and step-by-step process that requires to have a clear strategic vision; otherwise you could spend trillions of rubles building little-efficient logisitic capacities.

How open is Russia, in your view, to international players?

Very open. For players like Auchan or BlaBlacar, Russia is a key market.[1]

What is the long-term strategy of Yandex.Market? How do you envision its position in three to five years?

Our goal is to see 1) Beru become the leading marketplace in Russia, 2) Bringly become a leading cross-border marketplace and 3) YandexMarket maintain its leadership among price comparison sites.

1. Mr. Naouri refers to the huge success of these French companies on the Russian market, since 2002 and 2014, respectively, where they generate more revenues or activity than in any other market, including their home country in the case of Blablacar (https://bit.ly/2JSWozq)

YANDEX.MARKET CHAIRMAN OF THE BOARD GABRIEL NAOURI: "THE RUSSIAN MARKET OFFERS HUGE OPPORTUNITIES AND IS VERY OPEN TO FOREIGN PLAYERS"

What are the best assets of Yandex and Sberbank in this endeavor, and which could be the most challenging obstacles?

Our two main shareholders are providing strategic assets, including tangible and intangible ones. Experience, AI labs, talents, more than 14,000 banks locations, calculation capacity, capital, a global presence and the list goes on. Arkady Volozh *[Yandex's co-founder and CEO]* and Herman Gref *[Sberbank's CEO]* have given the management the means to fulfill our ambition.

The list of obstacles is long as well – but in business, this is part of the game.

What is the company's financial strategy? Could the joint venture be open to new investors? Are there plans to go public?

As you know we play in a very competitive market and therefore I'll keep these answers for myself for the moment.

How did you become a board member of Yandex.Market? How do you envision your role and contribution there?

Both shareholders [Yandex and Sberbank] suggested I joined the new venture, due to my experience in both retail and e-commerce in Europe, Asia and the US. At the board level, my role is to lead the board works and devise the strategy with the shareholders. At the management level, I try to be the best possible sparring partner to Max Grishakov, Yandex.Market's CEO, and help him with strategic recruitments and projects. My role here is to facilitate things.

You've invested in e-commerce company Boxed.com, medical apparel brand Jaanuu and health & wellness platform Tictrac. What are your investment criteria, and how do you work with entrepreneurs?

I've been working in retail and e-commerce for the last 15 years. More than investing, I help entrepreneurs build fast-growing companies with an international potential. I share with them my international experience, my operational expertise and my network. When I invest, I tend to partner with large international family offices or US and European VC funds. Usually I invest only in categories I know well e.g. apparel, food, e-commerce, marketplaces, retail tech. It would be great to see more Russian wealthy individuals invest in fast-growing companies.

(April 2019)

- A former top executive of Casino Group, a major French retail group, and advisor to the CEOof Æon Group, Japan's largest retailer, Gabriel Naouri is Chairman of the Board of Yandex.Market.

PickPoint

THE LARGEST LOCKER NETWORK IN RUSSIA

Send and return parcels

- Unwanted items
- Equipment repair
- Documents

Collect parcels

- 120 hours to pick up
- COD payments (cash, card, online)

Mobile app

- Delivery management
- Extra features

Secure delivery

- Internal locations
- Unique code to collect and return

Additional options:

- storage time extension
- readdressing to another location
- customer notification SMS, PUSH, e-mail

PICKPOINT NETWORK IS AVAILABLE FOR 100 MILLION PEOPLE IN RUSSIA

https://pickpoint.ru sales@pickpoint.ru

FEELUNIQUE CEO JOËL PALIX: "RUSSIAN CUSTOMERS ARE VERY KNOWLEDGEABLE ABOUT BEAUTY, THE LATEST PRODUCTS AND THE NEW UPCOMING BRANDS"

Founded in 2005, UK-registered Feelunique is now a leading international online retailer of premium beauty products. It has a range of over 35,000 products from more than 500 brands online as well as beauty stores, hair and beauty salons, a spa in the Channel Islands and near Paris.

Please tell us a bit about Feelunique's cross-border business -- and why you are so strong in China?

About a third of our worldwide business is done in cross-border by shipping products from UK to more than 100 countries in the word. China is our main cross-border destination because our Chinese customers have access to a large range of cruelty-free brands not otherwise found in China and because Chinese beauty customers are frustrated with the high level of counterfeit found on local e-commerce site and marketplaces.

What about your sales to Russian consumers?

Russian customers have been shopping for many years on our worldwide site. Parcels are prepared in our distribution center in Northampton and sent to customers across all of Russia.

Russian customers are very knowledgeable about beauty, the latest products and the new upcoming brands.They also like to find a better price for a beauty product abroad. Online shopping is getting quite popular and we expect a rapid surge in cross-border beauty sales in coming years.

FEELUNIQUE CEO JOËL PALIX: "RUSSIAN CUSTOMERS ARE VERY KNOWLEDGEABLE ABOUT BEAUTY, THE LATEST PRODUCTS AND THE NEW UPCOMING BRANDS"

What are Russian consumers most interested in? Is your offer and pricing differentiated?

Russian consumers are very keen on specialized skincare brands such as Elemis, Murad, Ren, Embryolisse and Bioderma. They also shop indie make-up brands including Anastasia, Charlotte Tilbury and By Terry. Haircare is also a large category and we sell well all the leading professional brands. Our pricing policy is aligned on UK prices.

You have chosen Yandex Bringly as a partner to develop your Russia sales. What were the reasons behind your choice?

Bringly is backed by Yandex and Sberbank, two strong companies that have an in-depth understanding of the Russian consumer. This gives us access to a large and promising market and we expect to recruit a lot of new customers. Bringly is a proven and well-designed cross-border platform where we can offer a selection of well-known and exclusive beauty brands. We also expect some good data sharing to make our business with Bringly even better over time.

Will Bringly be your only partner?

We are signing a strategic partnership with Bringly and will focus on this collaboration for Russia. We expect some increase in our overall Russian business, including direct demand on our worldwide site because of the increased media coverage and awareness on the Feelunique brand.

Do you plan to launch your own marketing to support sales to Russia, in addition to the marketing instruments offered by Bringly?

Not at this stage.

Did you adapt your business processes to Russia specifics?

We hope to benefit from Yandex, Sberbank and Bringly experience in terms of payments and delivery options. We would like also to consider specific content for Russian customers and content in Russian language once our business reaches a certain volume.

(March 2019)

- Feelunique's CEO Joël Palix – former president of Clarins Fragrance Group and marketing director Europe of Yves Saint Laurent Beauté – stayed five years at the helm of Feelunique until 2019.

ORHAN SENTÜRK: HOW ZIYLAN GROUP IS ENTERING THE RUSSIAN MARKET THROUGH MARKETPLACE PARTNERSHIPS AND SITE LOCALIZATION

Established in Istanbul, Turkey since 1960 Ziylan Group manufactures and sells footwear through dealers, footwear stores as well as online. As part of its international expansion plan, the group began selling online to Russian customers in November 2018. Orhan Sentürk, E-Commerce International Expansion Manager, kindly answered our questions about the group's Russia strategy.

How important is the Russian market in your eyes?

We believe in Russia in general, but we still need to investigate the market around some key questions. Should we continue just with cross border, or have an e-commerce warehouse in Russia? What should be our offline sales strategy? How could we best integrate the offline and online strategies?

Do you expect Russian consumers to have similar, or different expectations, behaviour, etc?

Russian consumers have different expectations regarding our Turkish product range. The key differences lie in product seasonality and their fashion appeal. While we do have suitable brands and product groups to address these needs, we need to concentrate on such issues to fully correspond to local specifics.

As for our pricing, it is compatible with Russian market conditions; however, we'll have to increase the prices due to the logistics costs.

How do you solve specific shoes issues (fitting, returns) in a cross-border context?

Assistance on how to measure feet and find the right size is offered in a very detailed way on our websites.

HOW ZIYLAN GROUP IS ENTERING THE RUSSIAN MARKET THROUGH MARKETPLACE PARTNERSHIPS AND SITE LOCALIZATION

Who are your e-commerce partners in Russia?

Our first one is Bringly, which we chose because of the power of Yandex on the local market. There was also a personal factor: we knew and trusted Mr. Vassiliev [Bringly's Chief International Officer] as a great professional.

Meanwhile, because of the high expectations of Russian consumers in the field of fashion, we also want to develop partnerships with fashion-focused marketplaces like Lamoda. We're also planning to enter the market with our own site, and launch marketing campaigns with local agencies.

However, before launching our own site we need to study a variety of parameters and adapt our business process correspondingly. The picture is not fully clear to us yet.

(April 2019)

- Orhan Senturk is E-Commerce International Expansion Manager at FLO Mağazacılık, part of Ziylan Group

DMITRY SERGEEV, MAIL.RU GROUP FIRST DEPUTY CEO AND ALIEXPRESS RUSSIA CO-CEO: “OUR E-COMMERCE JV WILL ACTIVELY DEVELOP SOCIAL AND DOMESTIC DIMENSIONS”

On June 11 Dmitry Sergeev, First Deputy CEO of Mail.ru Group, was appointed[1] as co-CEO of the social commerce joint venture launched by Alibaba Group, Mail.ru Group, MegaFon and the RDIF (https://bit.ly/2K7lZo8). He shared with East-West Digital News his vision of the market and insights about the JV's future developments

What is your vision of the Russian e-commerce market and its prospects?

Russia is on the brink of an e-commerce boom, with market analysts expecting the market more than doubling in the next few years (Morgan Stanley https://bit.ly/2LC8mPu) This trend is fueled by high Internet penetration exceeding 75% (GfK https://bit.ly/2X3Jqoq), combined with a massive and increasing use of smartphones, which have put dozens of millions of Russians just a few clicks from purchasing online, with 79% of Russians making purchases via mobile phones today (PWC https://bit.ly/2KbEPL6). Improvements in the logistics infrastructure and in payments are playing their role, too.

A virtuous circle is being created. Big growth rates attract big investments, which allows for even higher growth, which benefits all players and consumers. And when you see that e-commerce penetration remains below 5% in Russia compared with 12% global average (PWC) you can be confident that this growth isn’t likely to end soon.

Surely, average purchasing power is modest in Russia. But even this may have a favorable impact on e-commerce, since online retailers often sell cheaper than offline retailers, and contribute to diversity of consumer choice. Affordable inventory is one of the drivers behind the latest growth acceleration, we believe.

1. This appointment is to take effect in August 2019.

MAIL.RU GROUP'S DMITRY SERGEEV: "OUR E-COMMERCE JV WILL ACTIVELY DEVELOP SOCIAL AND DOMESTIC DIMENSIONS"

The market remains very fragmented...

There is a clear leader: AliExpress. Wildberries is a very strong player on the domestic market. Yet, the market is still fragmented overall and we see big consolidation ahead.

What are the main challenges for players to grow on this market?

Investments are costly, especially in the field of logistics: Russia is the largest country in the world in terms of territory, while a significant part of current infrastructure is outdated and customer has increasingly high demands around service, including delivery time. Addressing these challenges requires deep pockets.

Another challenge is high share of cash-on-delivery. This means of payment, which is not very friendly to online retailers, still reigns when purchasing online domestically. However, this practice is almost unknown in cross-border e-commerce and given rising credit card penetration and multiple new payment solutions, we expect upfront payment share to increase for domestic e-commerce as well.

What are your group's own goals and strategy, taking into account your alliance with Alibaba?

The first key point in this strategy is that the JV will not focus exclusively on cross-border, but will actively develop a domestic dimension. By localizing the operations and by integrating into social, not only the user base but also the local merchant base of the combined business will grow. Meanwhile cross-border flows on AliExpress will originate from a larger range of countries than just China, including from Europe and Turkey. At the same time, Russian businesses will be able to sell their goods locally and abroad.

Social commerce is a very important part. We believe the process of discovering products is increasingly social: with or for friends and family, through opinion leaders, feedback, etc. So we'll develop a lot of use cases to deeply integrate this social dimension in e-commerce, including around communities and businesses located within Mail.ru Group's social ecosystem.

What about Mail.ru Group's existing e-commerce platform Pandao, which you launched in late 2017?

We launched Pandao before making the alliance with Alibaba. The initial idea was to leverage the group's social networks with a cross-border marketplace that is adapted to our users. Decisions on its strategy will now be taken by the JV, not by Mail.ru Group.

Which are your challenges in building the JV, and when do you think it will become operational?

Naturally, such partnerships cannot be launched instantly, especially in case of such deep integration and many parties involved. Since the alliance was agreed in principle in late 2018, we have had to go deep into strategic and operational details, start integrating each side's capacities, address legal aspects, etc. As all this has now been done and commercial terms and other aspects agreed upon. The definitive agreements have been signed, the JV will be operational later this year, when the legal entity is set up, board and management put in place and cash transfers by the partners made.

MAIL.RU GROUP'S DMITRY SERGEEV: "OUR E-COMMERCE JV WILL ACTIVELY DEVELOP SOCIAL AND DOMESTIC DIMENSIONS"

Is Mail.ru Group's strategy focused on this JV, of which it will own just a 15% share?[2]

We strongly believe in partnerships, especially those which can bring more than just capital. The percentage of ownership is less important than the nature of the partner, and which kinds of use cases can be created together. In evaluating the deal, we have also taken into account the fact that our social network assets[3] will greatly benefit from this JV given the target integrations as well as active marketing. Partnership could also be further broadened, including to payment solutions.

Why did you stop (https://bit.ly/2X8MFuK) the price comparison portal Tovary@Mail.ru in late 2018?

This was a small, experimental service in the Mail.ru Group's ecosystem, which suggested that the price comparison model is a bit outdated and we would rather focus on other products within our portfolio at this stage.

(June 2019)

2. Alibaba, mobile operator MegaFon and sovereign fund RDIF being the other shareholders with 47.8%, 24.3% and 12.9% economic shares, respectively

3. VK (Vkontakte) and OK (Odnoklassniki) are the largest social networks in Russia, far ahead of Facebook

EVGENY YAKUSHKIN OF ALIEXPRESS RUSSIA: "TMALL IS OUR FASTEST GROWING BUSINESS IN RUSSIA"

Evgeny Yakushkin is Director of Operations and Strategy at AliExpress Russia. Discussing with EWDN the company's activity, he provided insights about Tmall, the "small brother" of the cross-border marketplace AliExpress, which focuses on domestic transactions.

AliExpress has conquered and maintained a predominant position in the cross-border segment. Why is the other Alibaba property in Russia, the domestic platform Tmall, less developed?

True, Tmall isn't yet the market leader like AliExpress is, but its traction is often underestimated. In 2018, the platform more than doubled its GMV thanks to the two business models it operates in Russia – 1P[1] and local marketplace. In the latter model, we help other sellers (like Procter and Gamble, Crocs, Bosch and others) sell using the Tmall / AliExpress platform in Russia. This year, we expect to at least double the local business, just like the previous year, leveraging the power of the marketplace platform.

Whom do you see as your main competitors on the domestic scene?

The local e-commerce market is still underdeveloped compared with other countries. Its penetration in total retail is still below 5%. We are bullish on the market growth. This growth will be partly delivered by consolidation of the largest players as this business has huge economies of scale in terms of traffic and operations costs. The current top 10 e-commerce players are positioned to benefit the most from this growth. These are Wildberries, the big electronics sellers (M.Video, DNS-Shop, Citilink), Ozon. Also Beru, which is likely to rise, and specialized mother and kids sellers like Detsky Mir.

1. 1P ("first party") selling model: vendors sell products to Tmall in a traditional wholesale relationship; then Tmall sells them to online consumers.

EVGENY YAKUSHKIN OF ALIEXPRESS RUSSIA: "TMALL IS OUR FASTEST GROWING BUSINESS IN RUSSIA"

It is worth mentioning is that Tmall is open to any seller. Running offline and/or online sales successfully is not a blocker to selling via Tmall: on the contrary, Tmall offers brands, including B2C retailers, visibility on the platform (each seller has its own virtual store. Thus, sellers with a strong reputation and service levels will benefit from additional traffic when they develop their presence on Tmall Russia.

Consider Tmall as a large shopping mall – all sellers benefit if the mall is doing great, and the mall is interested in the success of its sellers.

How do you intend to make a difference?

Tmall has two main distinctive advantages. Being part of AliExpress, it can benefit from this platform's huge traction in Russia: these are more than 20 million active clients on a yearly basis! The other very strong points are in customer service, in particular delivery services (such as same/next to door delivery in Moscow) and the client guarantees (similar to AliExpress, Tmall customers enjoy quick resolution of their incidents and can get a partial or full refund if the item is not up to their expectations).

In terms of marketing, we're oriented towards big sales events – "3/28", Outlet promo, "8/28", "1111" and alike. We'll develop even more such events: some sellers generate tens of thousands of orders per day during such events.

We're also actively developing the Tmall catalogue – in particular through marketplace sellers – across such categories as clothes, items for the home, children's goods, accessories and others. Local merchants are willing to become part of the platform as many of them see in it an opportunity to develop an online sales channel leveraging AliExpress Russia's promo capacities and traffic – without significant investments. This may apply to both large multinational companies and small local businesses.

This type of business is Alibaba's core competence in China (Taobao, Tmall) and abroad (Lazada in SEA, Plaza in Spain, etc.).

Tmall does not offer a payment-on-delivery option while this is still the predominant practice in domestic e-commerce. Don't you feel you'll repel a significant fraction of Russian online consumers?

Indeed, Tmall customers pre-pay all their orders (unless they purchase on credit or by installment) – and we consider continuing to do so in the future. The customer guarantees are our secret weapon here: these guarantees are so strong that most clients don't hesitate to pre-pay.

Generally speaking, cash-on-delivery is on the decline in Russia – slowly but surely. The share of pre-payments increases by around five percentage points in the market every year, and some sites witness an even stronger shift in their customers' payment behavior.

How do you organize logistics?

Since 2017 (https://bit.ly/2X1brh9), Alibaba has developed its Cainiao logistics system in Russia. This is an aggregator of existing warehousing and last-mile services, including pick-up point services. Among our partners are DPD, CSE, Russian Post, PickPoint, to name a few.

This 4PL system allow us to cover the entire territory of Russia in the best possible conditions. AliExpress has significantly reduced delivery time (on average it takes 10-15 days to deliver goods from China to Moscow for AliExpress Standard shipping; same- or next-day 'flash delivery' is common for most Tmall's items in Moscow). Our local Tmall marketplace sellers can benefit from Cainiao's solutions as an alternative to their own logistics and delivery solution.

Is relying on third parties always efficient?

Many big market players believe it's necessary to develop in-house capacities for at least part of the operations. True, the capacities available on the market were insufficient in the past. But these services have developed considerably for the past years, so 3PL or 4PL strategies have become possible.

YU-SHIK KIM OF N11.COM: "WE FOUND OUT THAT RUSSIANS LIKE TURKISH PRODUCTS AND BRANDS AND BELIEVE IT WILL CREATE AN IMPORTANT BUSINESS FLOW FOR US."

Founded in 2013 by Doguş Group (Turkey) and SK Group (South Korea), N11 has become the leading e-commerce marketplace in Turkey – and the 51st most popular e-commerce site globally by traffic. It claims more than 15 million individual registered members and more than 133,000 sellers as of June 2019. Yu-Shik Kim, Chief Strategy and Planning Officer, has shared with us insights on his company's international strategy and its plans for the Russian market.

Why and when did you decide to enter the Russian market?

Due to our heritage, we had some cross-border operations with SK's in Korea (https://bit.ly/1d11rkr), but the main focus will be Russia and adjacent CIS countries for the near future.

It took us a long time to analyze all the countries and decide where to start cross-border activities. After all the studies, in 2018 we decided to start with Russia: this choice was motivated by this country's market potential and competitive landscape, as well as the close relationship between Turkey and Russia in the fields of commerce and culture.

In our research, we found out that Russians like Turkish products and brands. We believe that globally popular Turkish products at affordable price ranges will create an important business flow for us.

Do you expect Russian consumers to have similar, or different expectations, behavior, etc?

We don't expect much difference with Turkish consumers: don't people want to get an access to a variety of quality products at the best prices in the most convenient way? Any retailer should aim to provide these benefits to consumers. But we also anticipate that there might be some local flavors in Russia. Offline vs. online behaviors, in particular, might be slightly different. To manage such differences and mitigate any risks or hurdles, we will work closely with our partner Yandex Bringly.

YU-SHIK KIM OF N11.COM: “WE FOUND OUT THAT RUSSIANS LIKE TURKISH PRODUCTS AND BRANDS AND BELIEVE IT WILL CREATE AN IMPORTANT BUSINESS FLOW FOR US.”

When is your launch planned?

We are still testing the whole process, there might be are some discrepancies. We did a test launch in May. We are discussing with Bringly the right timing for a full-fledged/official launch.

Why did you opt for Bringly as a partner?

The have a strong brand in Russia and offer well-developed end-to-end solutions for cross-border sales. While looking at potential local partners in each region, we found Bringly and [its mother companies] Yandex and Sberbank to be the obvious choice.

What about other channels?

Several marketplaces in Russia have approached us to work with them. We continue to have discussions with them in order to diversify the channels and complement each other. One of them is almost close for a final contract. But we prefer to work with local partners and don’t have any intention to enter greenfield.

What about the other operational sides: marketing, payments, delivery, legal compliance?

In terms of marketing, we will rely mostly on Bringly to bring the consumers to our products since they are the local player with local knowledge. But as time goes by and we see how the situation evolves, we might be open to discuss any issues that could increase the performance.

The payment solution, too, will be provided by Bringly; but for delivery and custom clearance, we are working with a third party.

Russian users’ personal data will be collected, stored and managed by Bringly and this party in accordance with Russian law.

(June 2019)

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IN THE NEWS

- 22 May 2019: Tinkoff Bank positions itself on Russia's $15 billion online travel market
- 27 June 2019: Marketplace project 'Sputnik' aims to bring cheap Asian goods to Russian regions
- 7 September 2018: Xiaomi launches e-commerce site in Russia
- 25 September 2018: A wiss-made shopping app comes to Russia
- 3 October 2018: German retailers leave Russia
- 20 June 2018: Russian beauty brands to test US e-commerce waters

AS PUBLISHED IN

East-West Digital News

TINKOFF BANK POSITIONS ITSELF ON RUSSIA'S $15 BILLION ONLINE TRAVEL MARKET

East-West Digital News, 22 May 2019

Tinkoff Bank, a tech-friendly Russian bank, has launched an own-branded online travel agency (https://travel.tinkoff.ru). The offer includes air and railway tickets, packaged tours, hotels and car rentals.

Since April 2018, the bank has put around $2 million to develop this travel service platform, the press service told us. However, the platform worked so far "as a white-label technology" to commercialize air tickets. From now on these services will be made available to all under the brand 'Tinkoff Travel.'

Tinkoff Travel has partnered with several global distribution systems (GDSs) to bypass middlemen and sell air tickets directly to customers. Major aggregators such as Aviasales.ru now feature the offers. "More will follow," says the bank.

Answering a question on Tinkoff Travel's competitive advantages, the bank's press service told us: "Tinkoff Travel is unique because, in addition to attractive prices, it offers an up to 5% cashback for all purchases within the Tinkoff ecosystem, and up to 10% on hotel bookings and car rentals."

AIMING FOR HIGH CUSTOMER SERVICE STANDARDS

Another focus is the customer service: "The standards of Tinkoff Travel's technical support have been set at the same superior level as those of the bank. These have been fine-tuned based on an experience which has involved 8.5 million customers."

Under plans, the service will integrate the in-house voice assistant 'Oleg,' which is already available in the Tinkoff mobile app. Oleg will assist users in choosing and booking the best tickets and tourist packages.

Tinkoff claims to be the first Russian bank to launch an online travel agency with such public access. However, Tinkoff Travel operates on a very competitive market. Among Russia's main OTAs are Biletix, Tutu, Kupibilet, OneTwoTrip and Ozon.Travel.

"We plan to capture 10% of the online market for air tickets," Tinkoff Bank told EWDN.

OTAs are expected to generate more than 1 trillion rubles (around $15 billion at the current exchange rate) in sales this year in Russia, according to Data Insight.

MARKETPLACE PROJECT 'SPUTNIK' AIMS TO BRING CHEAP ASIAN GOODS TO RUSSIAN REGIONS

East-West Digital News, 27 June 2019

A new marketplace could emerge soon on the Russian cross-border e-commerce scene, offering Russian online consumers goods from China and Southeast Asia. Dubbed 'Sputnik,' the project is backed by Evgeniy Sobolev and Vladimir Stupnikov, co-owners of the iMars communications group, who own 66.7% and 33.3% shares of the company respectively, Kommersant business daily reported (https://bit.ly/2REIH81).

The founders did not disclose the amount of their investments; however, according to a source familiar with the details of the project it will take no less than 150 million rubles (about $2.4 million at the current exchange rate) to develop the platform, do the marketing, and hire the personnel.

Sputnik will seek to appeal to the consumers living in the regions who "do not trust foreign platforms," the company says. It will feature unexpensive FMCGs, household appliances, clothes, shoes, etc. The platform aims to work initially with retailers from China and Southeast Asia, then with companies from the EU and Russia.

NEW PLAYERS HAVE A CHANCE

In the Russian market, Chinese manufacturers sell large amounts of goods through such companies as AliExpress, Joom, and Pandao, which belongs to Mail.ru Group. However, the audience is not sticking to specific marketplaces yet, Stupnikov believes – perhaps underestimating the traction of such brands as AliExpress and Joom among Russian cross-border e-shoppers.

"Any marketplace can only have a chance to be successful if it offers merchandise on competitive terms. This means either more attractive prices or a unique assortment of goods," said Ilya Kretov, General Manager Russia and Emerging Europe at eBay.

The lowest prices are most often offered by big suppliers that, as far as Sputnik geographic focus is concerned, most likely have already been placing their merchandise on other platforms, he noted. "It is not the case that a unique assortment goes to a marketplace immediately; rather, it is the so-called long tail. This entails merchants with one-of-a-kind offerings who may come to the marketplace as soon as it generates enough hype; however, it will take a lot of time," added Kretov.

Another condition for success is logistics. To have this task solved, it takes even big players a few years, he said, adding that it may take no less than three to five years for such a project to break even.

Another expert approached by Kommersant at one of the largest Russian e-retailers cannot see how Sputnik can gain its audience quickly. According to him, the existing marketplaces have already got loyal buyers. At the same time, even though Pandao and Yandex.Market's Beru marketplace have managed to gain some shares of the market, they have not be able to increase them to any significant volumes despite the resources available to their owners, he noted.

Yandex.Market and Russian state banking giant Sberbank launched the Beru marketplace in November 2018. Mail.ru Group launched a platform named Pandao, selling Chinese products to Russian online consumers, in 2017. The group's cross-border activities are in the process of being merged with those of AliExpress Russia in the framework of a joint venture formed just weeks ago.

The Russian cross-border sales market (foreign sites selling physical goods to Russian online consumers) reached around 348 billion rubles ($5.55 billion) in 2018, according to Data Insight estimates. The number of orders reached 300 million, up 34% from 2017.

XIAOMI LAUNCHES E-COMMERCE SITE IN RUSSIA

East-West Digital News, 7 September 2018

In late August Xiaomi, a leading Chinese electronics corporation, launched Mi.com, its official e-commerce site in Russia.

The brand's new Android-powered models — Mi A2 and Mi A2 Lite — will be presented in Russia on the occasion of the launch. The company is planning to continue enlarging its assortment aimed at Russian customers.

Besides Xiaomi smartphones, its wearable gadgets are popular in Russia. In Q1 2018, the sales of smartwatches and other wearables doubled in units and tripled in terms of money. According to a study by retailer M.Video, the sales of smartwatches and fitness trackers reached 400,000 items and 2.9 billion rubles (roughly $42 million at the current exchange rate) in January-March. The market is dominated by Xiaomi, which accounts for a third of the market in units.

Other two Chinese brands — Huawei and Jet — have seen their sales surge, while pushing Samsung aside. Apple retains the leading position in the market in terms of money accounting for over half of sales in rubles.

A SWISS-MADE SHOPPING APP COMES TO RUSSIA

East-West Digital News, 24 September 2018

Earlier this month Bring!, a popular grocery shopping list app in Europe and America, released a new version of its app in six new languages including Russian.

"Russia is an enormous market and thus a big opportunity for us, especially when it comes to user growth", said Marco Cerqui, CEO of Bring! Labs AG, in an exchange with East-West Digital News.

Localization in Russian was not a simple undertaking, Cerqui admits. "We neither have a team in Russia yet nor does anyone on our team speak the language, so rewriting the whole app in Russian was a challenge for the whole team. We did have an interpreter and a Russian ambassador at our service, though, which helped us immensely", he said.

Further development of the Russian version of Bring! could be co-operations with Russian recipe platforms as well as the addition of locally important advertising leaflets in the app.

Asked about its main competitor, Cerqui said: "It's the paper list." He listed the advantages for shoppers to go digital: "With their shopping list on a digital device, people are of course less likely to forget or lose it, since we all have our smartphones with us most of the time. On top of that, a paper list can't offer a list-sharing function that shows changes in real time.

"Bring! also provides its users with additional features — such as machine learning support, recipes, and latest offers, — and is compatible with voice assistants Siri, Alexa and the Google Assistant.

Made in Switzerland, the app was already available in German, English, French, Italian, Spanish, Portuguese and Dutch languages.

GERMAN RETAILERS LEAVE RUSSIA

East-West Digital News, 3 October 2018

Westwing, a German online store of furniture and designer home accessories, is leaving Russia after six years of operations in the market. The company is also selling its affiliates in Kazakhstan and Brazil, reports DW (https://bit.ly/2IyFvXG).

"Westwing has made a strategic decision to focus on its main business in Europe," the company representative told DW, while declining to disclose the details of the ongoing sales negotiations.

Even though Westwing's decision is coming as the company is preparing for its IPO, the company's spokesperson assured DW that there was no connection between the events.

The list of German companies which have fully or partially stopped their operations in Russia in 2018 is increasing. This past spring, Otto Group, the German e-commerce giant, announced the shutdown of its Russian online stores Otto.ru and Quelle.ru, which mostly sold apparel.

Meanwhile, Adidas significantly reduced the number of its trademark shops in Russia and neighboring countries.

This past summer Ceconomy, which owns Europe's major household appliances megastores network, sold all of its Russian Media Markt stores. Simultaneously, ECE Projektmanagement, the European leader in shopping mall management companies, left Russia. The company had offices in the Moscow region, including the city itself (Lubianka), Yaroslavl and Surgut.

DECLINING PURCHASING POWER

German retailers came to Russia amidst consumer boom hoping for its continuation. However, since 2014 the purchasing power of the Russian population has decreased significantly due to the ruble's sharp depreciation and the economic crisis. In this situation, many of the imported goods – in particular, those made in Europe – have become too expensive for the majority of Russians.

At the same time, foreign businesses saw their revenues go down after converting profit in rubles into euros. Thus, in most cases, operations in Russia began generating losses.

The macroeconomic issues were followed by strategic and management errors of the companies themselves, as well as growing competition on the Russian market.

Not all German retailers are following the trend. Metro Cash & Carry, which has invested billions of euros in its Russian hypermarkets, shows no intention of leaving Russia.

RUSSIAN BEAUTY BRANDS TO TEST US E-COMMERCE WATERS

NATURA SIBERICA
COSMETICS OF WILD HARVESTED SIBERIAN HERBS AND FLOWERS

East-West Digital News, 20 June 2018

Andrey Trubnikov, the owner of two successful Russian organic beauty brands, Natura Siberica and Old Agafya's Recipes, intends to launch an e-commerce activity on the US market, he said in an interview published last week by Russian business daily Vedomosti.

The sales are planned to kick off in 2018 with a local sales manager hired by the company. Local FDA-approved companies will manufacture the products based on the ingredients brought from Russia after approval from the US Foreign Agricultural Service.

Due to shipment costs, the US-produced cosmetics will cost by 5-10% more than in Russia, with no difference between online and offline pricing.

Western customers are more used to buying beauty products online than their Russian counterparts, who are willing "to smell" them before purchase, Trubnikov told Vedomosti. Thus the company expects its US online store to generate good sales, even though its online sales in Russia have not been successful.

Launched in 2008, Natura Siberica is one of the rare Russian consumer goods brand to be successful internationally. Its products are commercialized in 60 countries, including Russia, Poland, England, Germany, France, Austria, Canada, Singapore, China and, most recently, Saudi Arabia. The company operates branded stores in Copenhagen, Tokyo and Hong Kong.

SECTION 4:

INVESTING IN RUSSIAN E-COMMERCE

RESEARCH PARTNERS:

crunchbase DSIGHT

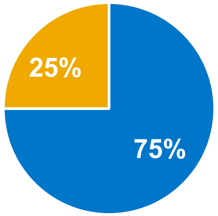
KEY FINDINGS

- In 2018, VC/PE/JV investment in Russian e-commerce exceeded $755 million – the highest level ever reached in this industry.
- The year was marked by Sberbank's $500 million capital injection into an e-commerce joint venture with Yandex. This deal preceded the formation of a competing JV – combining Alibaba, Mail.ru Group, MegaFon and the sovereign fund RDIF – which is to receive a $400-million capital injection. Other large deals involved Ozon, in which existing shareholders Sistema and Baring Vostok invested several hundred millions in 2018-2019.
- These moves reflect renewed investor interest in an industry which is entering a new development cycle. Russian e-commerce is expected to double or triple in the next 4-5 years, attract even larger investments and ultimately consolidate.
- Should one of the current contenders for leadership establish, in a few years, its domination on the market (like Amazon in the West or Alibaba in China), such player could be valued at some $10 billion, Morgan Stanley calculated.
- By international standards, however, investment volumes in Russian e-commerce remain very tiny. They account for around 1% of global VC/PE e-commerce investment. This is more than Russias' share in the global VC market (less than 0.5%) but less than the country's share in global GDP (around 2%).

GLOBAL E-COMMERCE INVESTMENT TRENDS

In 2019, international startup development platform Hexagon Generation released a research (https://bit.ly/2Iy9RdL) on global e-commerce startup investment over five years, from 2014 to 2018. The scope of the research includes e-commerce as such as well as a variety of e-commerce enablers, from PSPs to logistics to e-commerce software. Below are some of the key findings.

- From 2014 to 2018, investments in ecommerce-related startups **grew at a compounded annual rate of 28.5%.**
- E-commerce startups raised an average of $23.1 million per round in the last five years. They witnessed a 54.7% growth in the average investment amount per round in the period between 2014 and 2018. Thus, **in 2018, ecommerce-related startups raised $66.3 million on average per round.**
- From 2014 to October 2018, 17,209 deals were signed for investments in different stages of funding. While investment amounts climbed up, the period saw a **decrease in the annual number of deals** (-15.6% y-o-y on average). The trends indicate an increased focus on value based investing by investors rather than the option of taking a mass approach.
- **Multi-product e-commerce ventures accounted for almost 35% of the total number of deals** on an average, year over year. Their share of total investment volume exceeded one third in 2018.
- **The highest-growth regions were East-Asia (China, HK, Japan, SK), South-East Asia, South Asia and East Africa.** Meanwhile, e-commerce investment declined Western Asia Eastern Europe Southern Europe



GLOBAL INVESTMENT IN E-COMMERCE STARTUPS: SPLIT OF INVESTMENT BY TYPE OF VENTURE

BASE: TOTAL INVESTMENT AMOUNT FROM 2014 TO 2018

- Online retail & marketplaces
- E-commerce enabling ventures

SOURCE: HEXGN (HTTPS://BIT.LY/2IY9RDL)

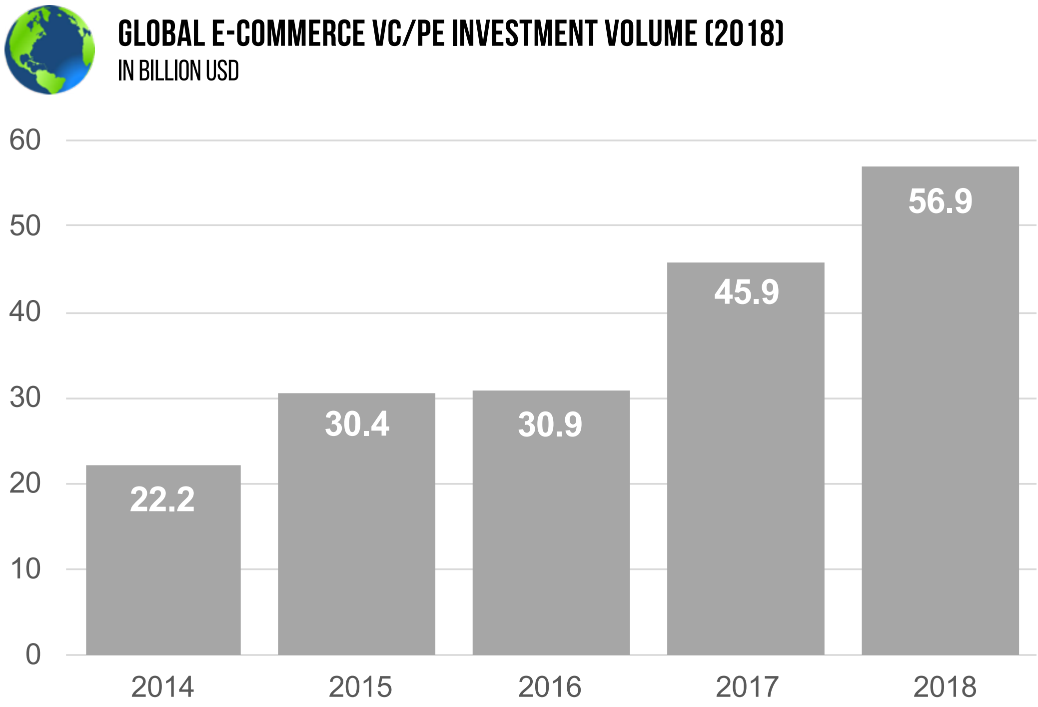
GLOBAL INVESTMENT IN E-COMMERCE: SPLIT BY SEGMENT

Segment	Annual growth rate 2014-2018	Share of total investment volume in 2018
Multiproduct retail	38,4%	33,6%
Fintech (PSPs)	28,4%	21,3%
Transportation & logistics	24,4%	15,7%
Food & beverage	35,1%	8,2%
Education services	10,0%	N/A
Clothes & apparels	1,0%	N/A
Real estate & home décor	32,6%	3,5%
Health & MedTech	14,4%	N/A
Sports & recreation	26,1%	N/A
Travel & Tourism	30,5%	N/A
Consumer electronics & hardware	9,0%	2,1%
Agricultural e-commerce	N/A	1,6%
Home needs	15,2%	N/A
Software & SaaS	N/A	N/A

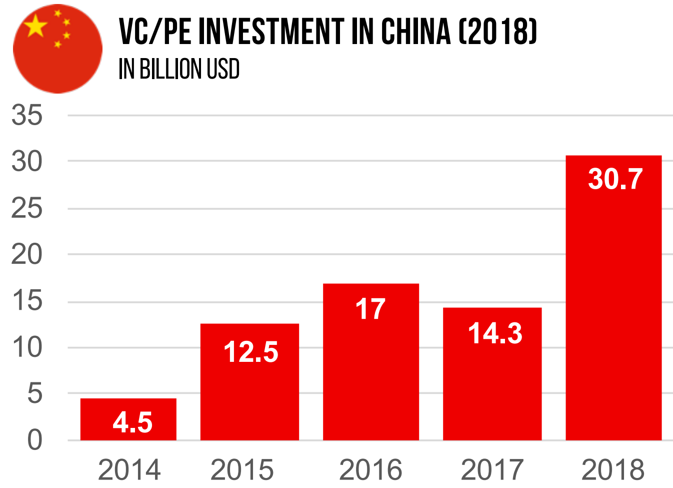
SOURCE: HEXGN (HTTPS://BIT.LY/2IY9RDL)

GLOBAL E-COMMERCE INVESTMENT ESTIMATES

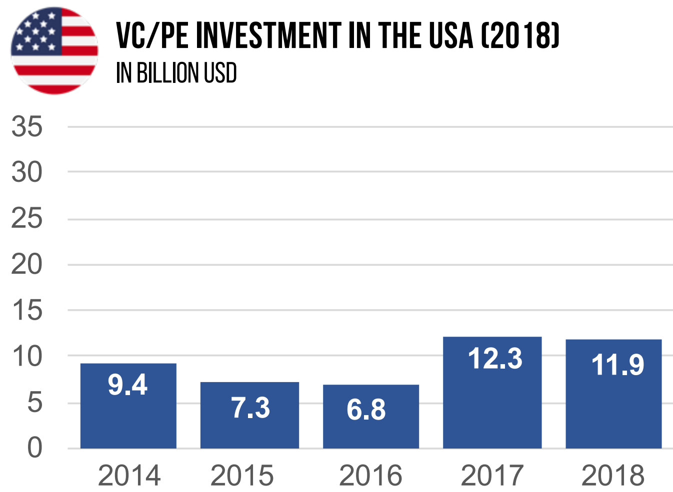
crunchbase



SOURCE: CRUNCHBASE SPECIAL TO EWDN



SOURCE: CRUNCHBASE SPECIAL TO EWDN

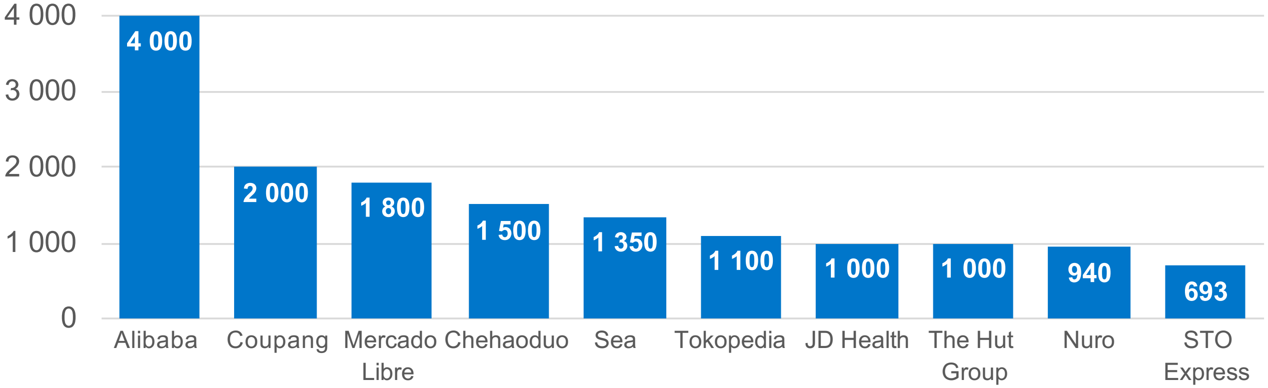


SOURCE: CRUNCHBASE SPECIAL TO EWDN

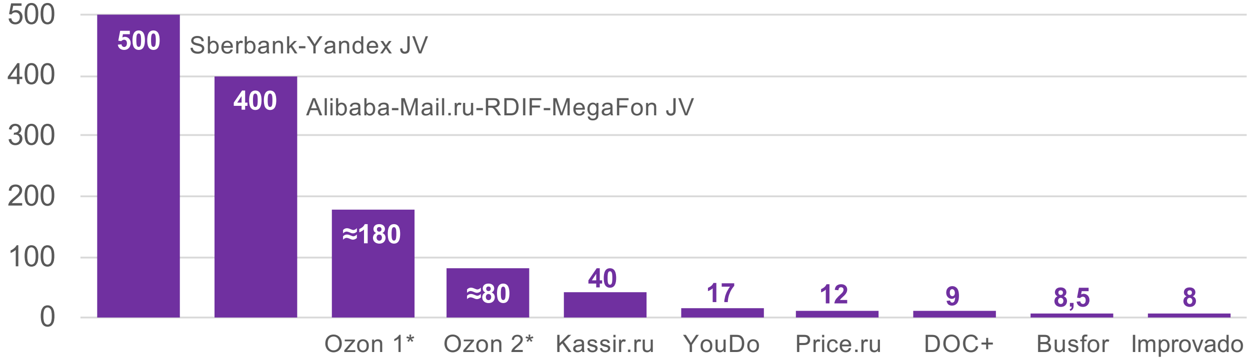
RUSSIA ON THE GLOBAL E-COMMERCE INVESTMENT SCENE

DSIGHT crunchbase

TOP 10 E-COMMERCE VC/PE DEALS GLOBALLY, JUNE 2018-JUNE 2019 IN BILLION USD



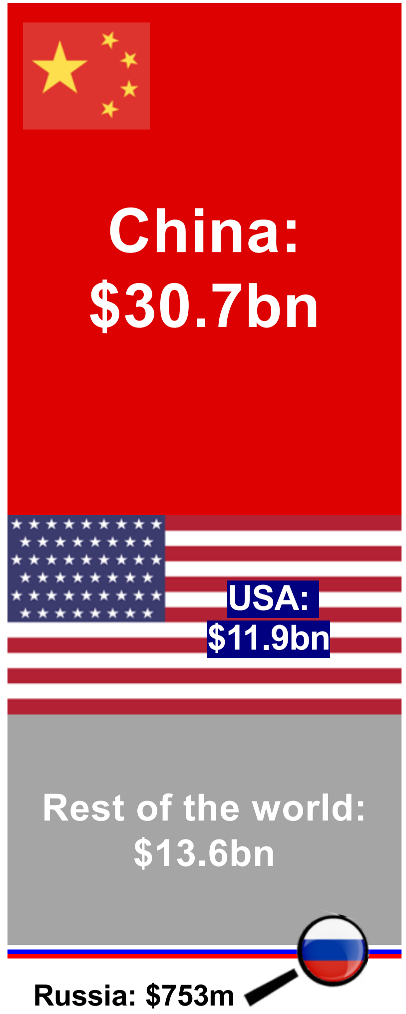
TOP 10 E-COMMERCE VC/PE DEALS IN RUSSIA, JUNE 2018-JUNE 2019 IN BILLION USD



SOURCES: CRUNCHBASE (GLOBAL), DSIGHT & EWDN (RUSSIA)

* **Ozon 1:** Fraction of the $84m funding agreed in Q1 2018, injected in Q4 2018 + $154m convertible loan received in H1 2019 (source: Ozon) – **Ozon 2:** In late 2018, two major shareholders agreed to buy Ozon shares from minority shareholders (source: EWDN from source close to one of the parties involved)

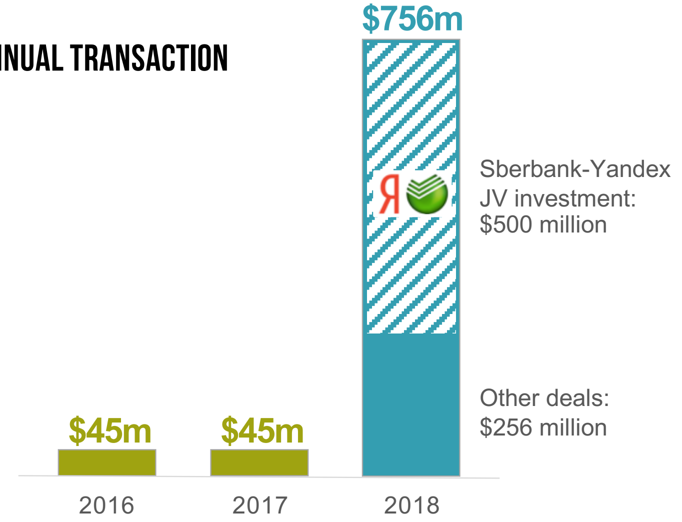
GLOBAL E-COMMERCE INVESTMENT IN 2018



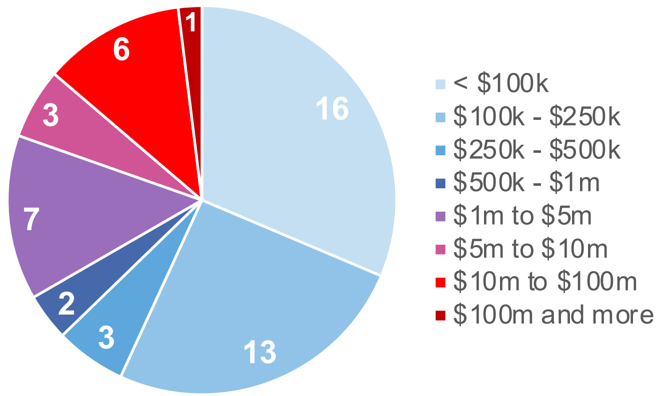
SOURCES: CRUNCHBASE (GLOBAL), DSIGHT & EWDN (RUSSIA)

RUSSIAN E-COMMERCE VC/PE/JV DEALS 2017-2018

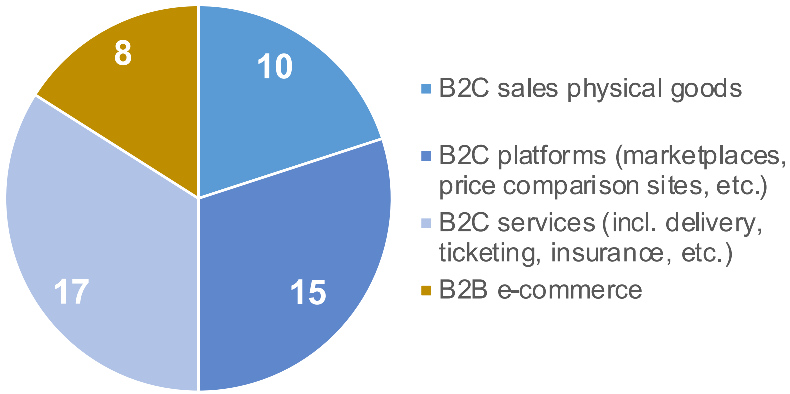
TOTAL ANNUAL TRANSACTION VOLUME:



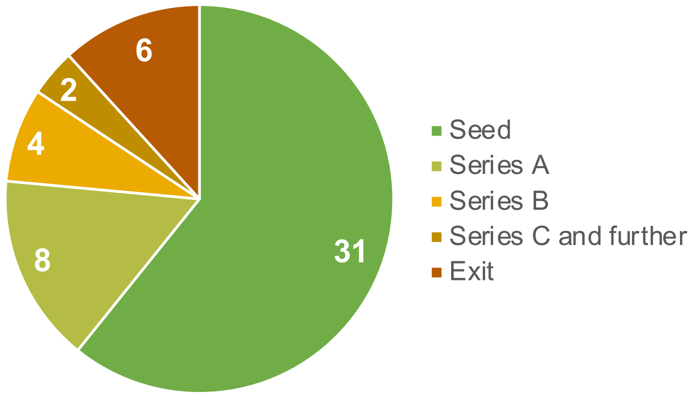
NUMBER OF DEALS BY AMOUNT:



NUMBER OF DEALS BY TYPE OF VENTURE:



NUMBER OF DEALS BY TYPE :



INCLUDING: B2C PHYSICAL GOODS, B2C PLATFORMS (MARKETPLACES…), B2C SERVICES (DELIVERY, TICKETING…), B2B E-COMMERCE – **EXCLUDING:** B2C DIGITAL CONTENT, E-COMMERCE ENABLERS (SOFTWARE, LOGISTICS, MARKETING…)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RUSSIAN E-COMMERCE VC/PE/JV DEALS 2017-2018

DSIGHT

Date	Target	Investor	Investor type	Deal type	Deal value	Company maturity stage	Type of round	Sector
Jan-17	**OneTwoTrip**	Vostok New Ventures	Fund	VC	**$5,800,000**	Expansion	Exit	B2C services
Jan-17	**AVA EVA**	Alexandr Rumyantsev	Angel	VC	**$10,000**	Seed	Seed	B2C sales of physical goods
Jan-17	**Golod**	Mikhail Sokolov	Angel	VC	**$900,000**	Startup	A	B2C services
Jan-17	**Getlooky**	IIDF	Fund	VC	**$40,000**	Seed	Seed	B2C services
Jan-17	**Tehocenka**	IIDF	Fund	VC	**$40,000**	Seed	Seed	B2B e-commerce
Mar-17	**Shelly**	AltaIR Capital	Fund	VC	**$1,200,000**	Growth	Seed	B2C services
Mar-17	**Instamart**	Gazprom-Media	Fund	VC	**$300,000**	Startup	A	B2B e-commerce
Mar-17	**Darenta**	Alexandr Rumyantsev	Angel	VC	**$20,000**	Growth	Seed	B2C platforms
Mar-17	**Babadu**	Bank Saint Petersburg	Corporate	VC	**$3,200,000**	Growth	B	B2C sales of physical goods
Mar-17	**KidsWay**	IIDF	Fund	VC	**$250,000**	Startup	A	B2C services
May-17	**Am.ru**	Mail.ru Group	Corporate	VC	**$10,000,000**	Expansion	Exit	B2C platforms
May-17	**Exist.ru**	Evgeniya Nazarova	Angel	VC	**$12,500,000**	Expansion	Exit	B2C sales of physical goods
May-17	**Prod.Center**	AltaIR Capital	Fund	VC	**N/A**	Seed	A	B2C platforms
Jun-17	**DOC+**	Baring Vostok, Yandex	Fund	VC	**$5,000,000**	Growth	B	B2C services
Jun-17	**Sdelano**	Cabra.vc	Fund	VC	**$750,000**	Startup	A	B2C services
Jun-17	**Foodfox**	Target Global, Alexandr Chernyak	Fund	VC	**$5,000,000**	Growth	A	B2C services
Jun-17	**2work.co**	Alexandr Rumyantsev	Angel	VC	**$20,000**	Startup	Seed	B2C services
Jun-17	**DandyBox**	Igor Rybakov	Angel	VC	**$40,000**	Seed	Seed	B2C sales of physical goods
Jun-17	**Aveeva.ru**	IIDF	Fund	VC	**$40,000**	Seed	Seed	B2C sales of physical goods
Jan-18	**Prod.Center**	AltaIR Capital	Fund	VC	**$5,000,000**	Seed	Seed	B2C platforms
Feb-18	**Little Gentrys**	IDEA+	Fund	VC	**$120,000**	Seed	Seed	B2C sales of physical goods
Feb-18	**Wardrobe In Your Mobile**	NUMA	Fund	VC	**$20,000**	Seed	Seed	B2C sales of physical goods
Feb-18	**Swaper**	Emin Agalarov	Angel	VC	**$200,000**	Seed	Seed	B2C platforms
Feb-18	**Kidkin**	Igor Rybakov	Angel	VC	**$160,000**	Seed	Seed	B2C platforms
Mar-18	**Ozon**	Baring Vostok, MTS	Fund	VC	**$61,000,000**	Mature	C+	B2C sales of physical goods
Mar-18	**Autosince.ru**	Alexandr Rumyantsev	Angel	VC	**$40,000**	Seed	Seed	B2C services

INCLUDING: B2C PHYSICAL GOODS, B2C PLATFORMS (MARKETPLACES…), B2C SERVICES (DELIVERY, TICKETING…), B2B E-COMMERCE – **EXCLUDING:** B2C DIGITAL CONTENT, E-COMMERCE ENABLERS (SOFTWARE, LOGISTICS, MARKETING…)

RUSSIAN E-COMMERCE VC/PE/JV DEALS 2017-2018

DSIGHT

Date	Target	Investor	Investor type	Deal type	Deal value	Company maturity stage	Type of round	Sector
Apr-18	**Yorso**	Pulsar Venture Capital	Fund	VC	**$120,000**	Seed	Seed	B2B e-commerce
Jul-18	**Kassir.ru**	Tinkoff Bank	Corporate	PE	**$40,000,000**	Mature	Exit	B2C services
Aug-18	**NWP Solution**	Starta Capital	Fund	VC	**$130,000**	Seed	Seed	B2C services
Aug-18	**Mflowers**	Yellow Rokets	Fund	VC	**$30,000**	Startup	Seed	B2B e-commerce
Aug-18	**StilusBot**	Sberbank accelerator	Corporate	VC	**$80,000**	Startup	Seed	B2C services
Aug-18	**DOC+**	Vostok New Ventures, Baring Vostok, Yandex	Fund	VC	**$9,000,000**	Expansion	B	B2C services
Aug-18	**Prod.Center**	Fosun International	Corporate	VC	**$500,000**	Startup	A	B2C platforms
Sep-18	**Surprize Me**	Alexandr Rumyantsev	Angel	VC	**$20,000**	Seed	Seed	B2C services
Sep-18	**Autospot**	Mitsubishi Corp., Mail.ru Group	Corporate	VC	**$4,100,000**	Growth	A	B2C platforms
Sep-18	**YouDo**	MTS	Corporate	VC	**$17,000,000**	Mature	B	B2C platforms
Oct-18	**Roomberry**	IIDF	Fund	VC	**$40,000**	Seed	Seed	B2C platforms
Oct-18	**Techget**	IIDF	Fund	VC	**$40,000**	Seed	Seed	B2B e-commerce
Oct-18	**Umnyi Polis**	IIDF	Fund	VC	**$40,000**	Seed	Seed	B2B e-commerce
Oct-18	**Salery**	Admitad Invest	Corporate	VC	**$350,000**	Startup	Seed	B2C platforms
Oct-18	**Ozon**	Baring Vostok, MTS	Fund	VC	**$23,000,000**	Mature	C+	B2C sales of physical goods
Nov-18	**Price.ru**	S8 Capital	Corporate	PE	**$12,000,000**	Mature	Exit	B2C platforms
Nov-18	**Aizel.ru**	Genome Venture	Fund	VC	**$2,000,000**	Growth	Exit	B2C sales of physical goods
Nov-18	**KamaTara**	KAMAZ	Corporate	VC	**$120,000**	Seed	Seed	N/A
Nov-18	**Promagregator**	KAMAZ	Corporate	VC	**$120,000**	Seed	Seed	B2b e-commerce
Nov-18	**Fish.Travel**	Sberbank-500	Fund	VC	**$150,000**	Startup	Seed	B2C platforms
Nov-18	**Rentmania**	Sberbank-500	Fund	VC	**$150,000**	Startup	Seed	B2C platforms
Nov-18	**Sputnik8**	Sberbank-500	Fund	VC	**$150,000**	Startup	Seed	B2C services
Nov-18	**Yorso**	Sberbank-500	Fund	VC	**$150,000**	Startup	Seed	B2B e-commerce
Nov-18	**Zenome**	Sberbank-500	Fund	VC	**$150,000**	Startup	Seed	B2C services
Dec-18	**Ozon** *	N/A	Corporate	VC	**≈ $80,000,00**	Mature	C+	B2C sales of physical goods
2018	**Yandex Market group**	Sberbank	Corporate	JV	**$500,000,00**	Mature	Seed	B2C platforms

* In late 2018, two major shareholders agreed to buy OZON shares from minority shareholders. The transactions, totaling around $80 million, were completed in late 2018-early 2019, a source close to one of the parties involved told EWDN.

INCLUDING: B2C PHYSICAL GOODS, B2C PLATFORMS (MARKETPLACES…), B2C SERVICES (DELIVERY, TICKETING…), B2B E-COMMERCE – **EXCLUDING:** B2C DIGITAL CONTENT, E-COMMERCE ENABLERS (SOFTWARE, LOGISTICS, MARKETING…)

RUSSIAN E-COMMERCE INVESTMENT TREND ANALYSIS

BY ARSENIY DABBAKH, CO-FOUNDER OF INVESTMENT ANALYTICS PLATFORM DSIGHT

AN INVESTOR FAVORITE

For almost a decade, e-commerce has almost always been the most well-funded segment in Russian venture investment statistics. Thus, in 2018 this industry accounted for the better part of Russian VC investment: nearly $730 million out of $1.2 billion, if including Sberbank's $500 million injection in the Yandex Market JV.

In classic e-commerce (physical goods), investors are attracted by the fast growth and important potential of a market still at its early stages, if judging by the level reached in most Western and Asian countries. Among e-commerce growth drivers is Russia over the past decade have been the spectacular expansion of Internet and mobile communications, which now involve a very large of the population, as well as the emergence of new technologies and new consumer patterns.

Last but not least is the considerable development of the infrastructure, from fulfilment and logistics to software and hardware solutions. Thus, e-commerce accounts for up to 26% – depending on the years – of the demand for warehouse surface in the Moscow region, according to Knight Frank. And these trends are here to stay.

Investment activity in digital goods and service e-commerce – companies selling online event tickets or taxi services, for example – have been significant, too, by Russian standards.

Mail.ru Group and Yandex are competing in food delivery, taxi, tickets, car-sharing and other segments. They both invest through M&A and R&D activities.

VTB, Sberbank and Tinkoff are struggling to build an ecosystem for their banking clients, providing additional lifestyle services.

Telcos such as MTS, Tele2, Beeling and MegaFon are following the same path as banks and increase tech scouting and investments. They, too, aim to build all-around services for client base. These players inject hundreds of millions of dollars of investments in the hi-tech ecosystem.

RUSSIAN E-COMMERCE INVESTMENT TREND ANALYSIS

A DECADE OF HIGHS AND LOWS

Investors have not always been evenly active during this decade. The first wave of e-commerce investment took place in 2010-2014. Ozon.ru raised (https://bit.ly/2MNmxlp) a record $100 million in 2011, then $150 million in 2014. Rocket Internet's creature Lamoda secured $130 million from Western funds in 2013, soon after getting $60 million from JP Morgan. KupiVip (https://bit.ly/2KS7owr), Wikimart and a few others also raised considerable amounts.

These were golden years, involving both domestic and foreign investors. Many successful business models, like Gilt or Zappos, had not been applied yet to Russia and competition was still relatively low.

The next years were harder. In 2015, volume of investment fell 65% year-on-year, reaching a mere $137 million. (However, that year also saw Russia's first unicorn exit with Naspers buying classifieds platform Avito at a $2.7 billion valuation https://bit.ly/2KamSfV)

While successful western business models had already been copied or adapted, young e-commerce companies had to put up with unstable market conditions as the ruble fell sharply in 2014-15. Investors got a better understanding of the concrete operational and financial challenges of such ventures. Meanwhile, the lack of immediate exit prospects appeared more and more obviously.

The international tensions, which have bubbled since the Ukrainian crisis started in 2014, did not raise Russia's appeal to international investors (https://bit.ly/2XHvL3y). None of the Western funds which had been active in 2010-2014 – such as Bessemer Ventures, eVentures, Mangrove Capital Partners, Tiger Global Management, or Ventech – have made any significant deals since then.

These years also saw the agony of two major web sites, which had been mostly funded by Western investors: Wikimart (https://bit.ly/2uoTLO6) launched in 2008 as "the Russian eBay," and Oktogo, an online travel agency. The latter could have been salvaged should its Russian, state-controlled investor have shown a bit more flexibility.

At the same time, however, traditional players showed renewed interest in developing online sales. This was an impressive new wave involving such players as Perekrestok (X5 Group), Magnit, Okey and a range of Western retailers.

Since 2017-2018, Russian e-commerce seems to be entering a new investment cycle. Sberbank invested $500 million (https://bit.ly/2vUu7PY) in its e-commerce joint-venture with Yandex (2017-2018), Alibaba and Mail.ru Group stroke an ambitious alliance (https://bit.ly/2K7lZo8), while Ozon secured two rounds of investment, the latest one in Q1 2019 amounting to $150 million (https://bit.ly/2Xkc5m7).

The recent years also saw important deals in the field of digital services. These deals included Tinkoff's investment in Kassir.ru ($40 million https://bit.ly/2wOJXMm) and UFG's $100 million investment in RuTaxi. Gett, which has some Russian origins, received $80 million from a consortium that includes Access Industries, Baring Vostok, MCI and Volkswagen Group.

The positive trends of the past few years are expected to continue, involving corporations as well as both PE/VC investors. These may equally be domestic and foreign investors – from Asia, the Middle-East and the EU.

However, even in the best years, e-commerce investment numbers looked modest by global standards – or simply compared with investment in the Russian retail industry. As noted by Morgan Stanley in their recent report on Russian e-commerce (https://bit.ly/2LC8mPu) investment in "classic" e-commerce (excluding services) amounted to just around $800 million over the past decade, which is no more than 1% of total investment in retail.

RUSSIAN E-COMMERCE INVESTMENT TREND ANALYSIS

SUCCESS STORIES AND FAILURES

Among the successes – if taking e-commerce in the largest sense of the term –is iTech Capital's investment in Ticketland: the fund exited when MTS for $53 million in 2018. Other successful exits are Avito, which was sold to Naspers at a $2.7 billion-$3.85 billion valuation (https://bit.ly/2WIqDz2) and HeadHunter, which raised $220 million on the NASDAQ in spring 2019 (https://bit.ly/2Rg44wx).

In classic e-commerce, a few spectacular failures took place: these include Wikimart and Oktogo as well as Enter and Ulmart. These are two original online-offline hybrids: the former went bankrupt in late 2017, the latter might survive but its activity has been severely affected by a shareholder dispute.

Another cause for disappointment for financial investors is that no major VC-backed e-commerce company – from Ozon, to KupiVIP, to Lamoda – have managed to exit so far.

WHY STILL INVEST IN RUSSIAN E-COMMERCE?

Investors can be motivated by the fact that company valuations are significantly lower in Russia that in the EU, the USA or Asia. However, the sector is attractive only to a limited number of strategic investors like Sberbank, Severstal or Mail.ru Group. And those look at late-stage companies that could make significantly impact on their business in a relatively short period. Thus, the investment market lacks early-stage investors that can close the gap between seed and late-stage startups.

Nevertheless, I expect newcomers to invest in e-commerce more and more actively – from in-house innovation to startup investment or acquisition, – triggering VCs to make early investments with hope to get fast exits. These newcomers are numerous in such fields as banks (such as Tinkoff, Alfabank, Sovcombank, VTB, Otkrytie, Qiwi...), telcos (including Megafon and Beeline) and large IT companies like IBS, Lanit, or Croc.

Among ecommerce-friendly financial investors are Baring Vostok, Elbrus, RDIF, UFG as well as several family offices affiliated with large industrial or financial groups. These investors usually target fintech services, ride-hailing startups, e-commerce enabling solutions, the sharing economy (YouDo, HeadHunter) and logistics solution providers.

(June 2019)

- Arseniy Dabbakh is one of the most active members of the Russian PE/VC community. He co-founded investment analytics platform Dsight (http://dsight.ru) and is a board member of the NAIMA investment association (http://naima-russia.org).

IN THE NEWS

- 9 August 2017: Yandex and Sberbank agree $500 million JV plan to create "leading e-commerce ecosystem" in Russia
- 6 June 2019: Alibaba, Mail.ru Group, MegaFon and RDIF commit to invest nearly $400 million in Russian social commerce joint venture
- 6 May 2019: Baring Vostok and Sistema provide $150 million convertible loan to Ozon
- 19 November 2018: S8 Capital acquires Price.ru, Rambler & Co seeks new focus
- 2 April 2019: Food delivery startup attracts $7.6 million from Mail.ru Group and top businessmen
- 22 November 2018: German Westwing sells Russian e-commerce business to Elbrus Capital
- 15 September 2018: Mitsubishi Corp. and Mail.ru Group invest in car selling site Autospot

AS PUBLISHED IN

East-West Digital News

YANDEX AND SBERBANK AGREE $500 MILLION JV PLAN TO CREATE "LEADING E-COMMERCE ECOSYSTEM" IN RUSSIA

East-West Digital News, 9 August 2017

Yandex, the NASDAQ-listed Russian search giant, and Sberbank, Russia's state-owned national savings bank, announced today their plans to join forces and create "a leading e-commerce ecosystem" based on the Yandex.Market e-commerce marketplace. The deal, if confirmed, would mark the biggest e-commerce investment in Russia's history.

According to a non-binding term sheet — which will ultimately be subject to regulatory approval in Russia —, Sberbank would invest 30 billion rubles (approximately $500 million at the current exchange rate) in the joint venture. The investment would value Yandex.Market at 60 billion rubles ($1 billion) post money. The two partners would own equal stakes in the JV, with up to 10% of the shares allocated to a stock option plan for Yandex.Market's management and employees.

FIERCE COMPETITION

Currently, the platform attracts more than 19 million desktop and laptop users each month (source: TNS Global), giving them access to over 20,000 domestic and international merchants and 150 million product offerings. Yandex.market used to dominate the Russian e-commerce marketplace realm but now struggles with two very strong competitors.

Not only is Alibaba's B2C subsidiary AliExpress by far number one in the Russian cross-border e-commerce flows, but it has opened its marketplace to local sellers too, and its traffic (23 million monthly visits according to SimilarWeb) matches that of Yandex.Market.

Another competitor is Avito.ru, the country's first classifieds site, which allows businesses to operate on its site, and attracts more than 21 million desktop and laptop users every month (source: TNS Global). The company's total revenue reached $192.5 million in 2016, up 75% y-o-y. In October 2015 Naspers announced a $1.2 billion transaction to become the largest shareholder in Avito.ru. The deal valued the classifieds site at some $2.7 billion.

LATEST EVOLUTIONS

In this context, Yandex.Market has evolved significantly over the past few years. Inspired by the Amazon model, it has significantly increased its control of fulfilment and delivery processes. Thus two years ago the platform launched the Yandex.Delivery service, aggregating offers from several e-commerce shipment service providers.

Now Yandex.Market intends to go even further: "We will build [our own] logistics and delivery system to aggregate goods in warehouses and offer the best delivery price conditions to our customers," said Maxim Grishakov, the CEO of Yandex.Market, in a recent media interview (https://bit.ly/2L9hFEB).

The marketplace intends to use Sberbank's funding to improve these logistics capabilities as well as to implement a checkout function on the site at a large scale, and "enhance its value proposition to domestic and international merchants."

In addition, Yandex.Market would like to leverage Sberbank's banking and payments infrastructure to "develop simple and secure payment solutions on the Yandex.Market platform and introduce new features, such as consumer lending," Grishakov stated this morning.

YANDEX AND SBERBANK AGREE $500 MILLION JV PLAN TO CREATE "LEADING E-COMMERCE ECOSYSTEM" IN RUSSIA

GOOD OLD PARTNERS

This is not the first partnership between Yandex and Sberbank. Back in 2009 the state-owned bank acquired a golden share in Yandex – a privileged stake that gives significant control over the Yandex shareholder structure.

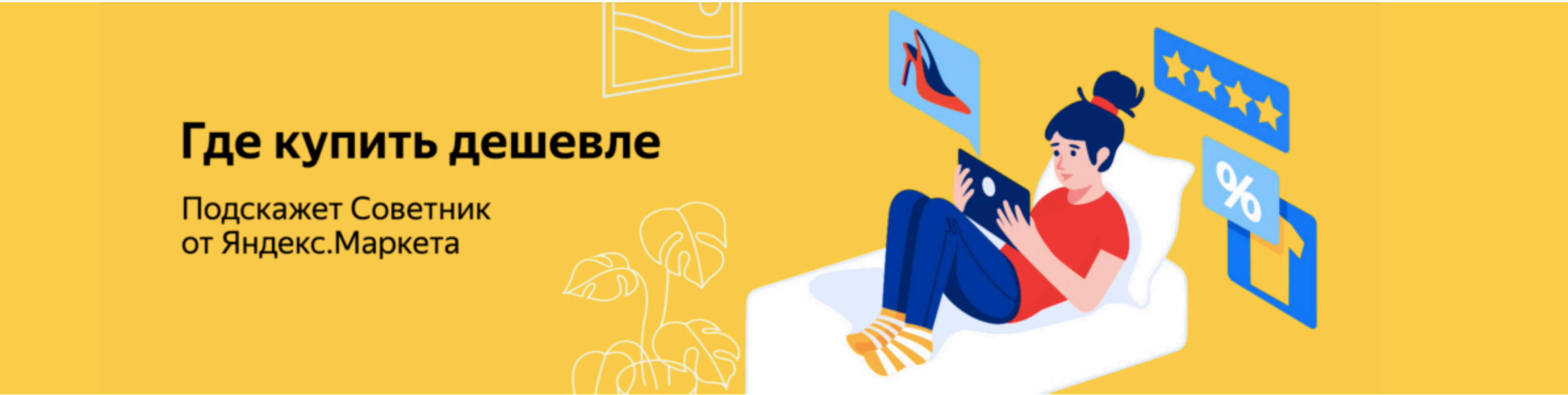
In 2013 Sberbank acquired a 75% interest in Yandex.Money, the e-wallet and payment service developed by Yandex.

In 2013 Sberbank acquired a 75% interest in Yandex.Money, the e-wallet and payment service developed by Yandex. Sberbank has been considering several options to get more involvement in Russian e-commerce. In late 2016, the bank was already reported to be working on a project to launch a national e-commerce ecosystem (https://bit.ly/2LaHd4r).

In addition to using its own resources, the state-owned bank considered gathering a variety of organizations around a common technological platform to build a comprehensive B2C and B2B offer. The plan was inspired by the ecosystems which Google, Amazon and Facebook as well as Tencent and Alibaba have set up in their respective countries.

Sberbank initially considered an alliance with Alibaba, or Mail.ru Group, or an even exclusively in-house development strategy. Today's announcement of a JV with Yandex, if confirmed, could help the bank realize its e-commerce ambitions.

This story was republished or adapted by EWDN syndication partners VentureBeat, Internet Retailer (Digital Commerce 360), and Russian Search Marketing.



ALIBABA, MAIL.RU GROUP, MEGAFON AND RDIF COMMIT TO INVEST NEARLY $400 MILLION IN RUSSIAN SOCIAL COMMERCE JOINT VENTURE

East-West Digital News, 6 June 2019

Yesterday Alibaba, Mail.ru Group, Russian telco MegaFon and sovereign fund Russian Direct Investment Fund (RDIF) announced they received approval from Russia's antimonopoly authorities for their "social commerce joint venture."

The JV will leverage on the existing businesses of AliExpress Russia, the B2C marketplace owned by Alibaba which controls a large part of the e-commerce flows between China and Russia. The partners will pour their "capital, strategic assets, leadership, resources and expertise" in the JV.

Keeping the name of 'AliExpress Russia,' the JV will "operate across all e-commerce segments, including cross-border and local marketplaces and first-party retail," as announced in September 2018 (https://bit.ly/2IztqkJ). This will "create an unmatched value proposition for merchants, consumers and Internet users" across Russia and some other post-Soviet republics.

The JV will aim to leverage Mail.ru Group's leading positions in Russia's social media (via the group's properties VK and OK, whose audience far exceed that of Facebook in Russia), as well as online gaming (100 million registered users worldwide), email services (100 million user accounts) and online communications.

VK will be a key component of this ecosystem. In February 2019, just a couple of months after their partnership was announced, VK and AliExpress announced the start of a social e-commerce project in Russia. A source from VK told East-West Digital News that Integration will begin over the next few months as the first version of AliExpress app will be launched on the VK Apps platform. Such apps launch instantly on VK with no install required.

LEADERSHIP AMBITIONS

"[Through] this partnership, we will offer customers richer social experience and provide entrepreneurs with a platform for growth. This is a major milestone for the Russian e-commerce market, and we believe it will promote the development of the digital economy," stated Boris Dobrodeev, CEO of Mail.ru Group.

"AliExpress Russia JV will become an undisputed leader in Russian e-commerce and create an unparalleled social commerce offering for our users," he added.

The shareholders' contributions to the AliExpress Russia JV have been announced as follows:

- Alibaba Group will invest $100 million and contribute AliExpress Russia into the joint venture;
- MegaFon will sell its 9.97% economic stake in Mail.ru Group (https://bit.ly/2kKEQYm) to Alibaba Group in exchange for a 24.3% stake in the AliExpress Russia JV with 30.2% voting rights;
- Mail.ru Group will contribute its Pandao e-commerce business as well as cash investments of $182 million in exchange for a 15% stake in the AliExpress Russia JV with 18.7% voting rights;
- The RDIF will invest $100 million in the JV and may further acquire additional shares of the JV from Alibaba Group for $194 million. Should it exercise this option, the sovereign fund will own economic and voting stakes in the joint venture of 12.9% and 9.6%, respectively.

ALIBABA, MAIL.RU GROUP, MEGAFON AND RDIF COMMIT TO INVEST NEARLY $400 MILLION IN RUSSIAN SOCIAL COMMERCE JOINT VENTURE

ECONOMIC AND VOTING INTERESTS OF ALIEXPRESS RUSSIA JV SHAREHOLDERS

JV participant	At closing		With RDIF call option exercised	
	Economic rights	Voting rights	Economic rights	Voting rights
Alibaba Group	55.7%	49.9%	47.8%	47.6%
MegaFon	24.3%	30.2%	24.3%	26.4%
Mail.ru Group	15.0%	18.7%	15.0%	16.3%
RDIF	5.0%	1.2%	12.9%	9.6%
Total	**100%**	**100%**	**100%**	**100%**

SOURCE: MAIL.RU GROUP

ACCELERATED E-COMMERCE DEVELOPMENT

Russian e-commerce is entering a promising development cycle: although the size of this market reached just around $23 billion last year (taking into account only orders of physical goods), including some $5 billion for cross-border sales, growth in this sector is accelerating.

In October last year Morgan Stanley predicted that market size could exceed $50 billion by 2023 (https://bit.ly/2LC8mPu). But Data Insight analyst Boris Ovchinnikov believes online retailers could do even better.

"Over the past year or two, the performance of many players, including both large and medium-sized sites, has been so impressive that forecasts may have to be revised upwards," he told East-West Digital News.

The AliExpress Russia JV partners are not the only major players to invest in the sector. Sberbank, the state-controlled financial giant, has put half a billion US dollars in an e-commerce joint venture with Yandex (https://bit.ly/2vUu7PY), while Ozon, one of the most established industry players, has just raised $150 million (https://bit.ly/2Xkc5m7) from its existing shareholders.

Meanwhile, Global Fashion Group, the international entity which controls Russian fashion platform Lamoda, has just announced plans (https://tcrn.ch/2JT1k7p) to raise €300 million in a Frankfurt IPO.

BARING VOSTOK AND SISTEMA PROVIDE $150 MILLION CONVERTIBLE LOAN TO OZON

East-West Digital News, 6 May 2019

Baring Vostok, a major Moscow-based international PE firm, and Sistema, a large Russian conglomerate, have provided a 10 billion ruble (roughly $150 million) convertible loan to online retailer Ozon.

The funds will help the company "maintain its current growth rate and to develop its warehouse infrastructure, IT-platfrom, marketplace and financial services offerings," according to a Baring Vostok statement.

Ozon also needs financial means to "aggressively grow its market share." The company is number one among multi-category online retailers in Russia, but only number four in Data Insight's general e-commerce ranking (see Section 3.2). It has to measure itself against Wildberries, the current e-commerce leader, which is switching from its initial focus on fashion items to a more diversified assortment.

Other strong contenders for market leadership are LSE-listed Mail.ru Group, which has made an alliance with Alibaba, and Yandex Market, which is backed by Sberbank.

With big capital injections in 2011 (https://bit.ly/2MNmxlp), 2014 (https://bit.ly/2L9h71v) and 2018 (https://bit.ly/2tqmQbY), Ozon is one of the most well-funded Russian e-commerce companies. The company's valuation in the 2018 round amounted to $814.2 million, according to media reports.

Baring Vostok and Sistema are Ozon's largest shareholders. They provided 4.3 billion rubles and 5.7 billion rubles, respectively, of the agreed convertible loan.

S8 CAPITAL ACQUIRES PRICE.RU, RAMBLER & CO SEEKS NEW FOCUS

East-West Digital News, 19 November 2018

S8 Capital, a diversified Russian holding, is to acquire Price.ru, a property of Rambler & Co. In an exchange with East-West Digital News, S8 Capital confirmed that it will fully acquire Price.ru in a transaction that will be completed next year.

The amount of the deal has not been disclosed, but business daily Kommersant cited (https://bit.ly/2SkKIFH) "a source close to one of the parties" who estimated it at "nearly $12 million."

Founded by Russian lottery magnate Armen Sarkisyan, S8 Capital focuses on "creating and developing high-tech solutions and services." It claims to manage "more than 100 projects" in the retail, financial and telecom industries, as well as in e-commerce and digital media.

"Our companies have gained unique industry-specific competences," which have made S8 Capital "a truly multi-profile holding," a representative of S8 Capital told EWDN.

"Our strategic goal is to create an ecosystem or digital platform that will combine a set of solutions and services to meet or exceed customers' needs and expectations," said the representative.

Thus, "the acquisition of Price.ru, the navigator for bargains in the Russian-language Internet, is a strategic move: It will help us generate a large-scale synergetic effect with other businesses.

"Earlier this year, S8 Capital launched Sport24.ru, an online media outlet which quickly became one of the most quoted sources among sports media in Russia (https://bit.ly/2ZiUICQ). Among S8 Capital's other properties, as noted by Kommersant, are online bookmaker 888.ru, car leasing service Next.Car, and Strakhovka.ru, an aggregator of insurance offers.

S8 Capital aims to have all its services complement each other, said the company representative: "The competencies and data from one business helping develop and improve other ones with customers provided with guaranteed security and high-quality service."

OLD RESOURCE, MODEST VALUATIONS

Launched in 1997 by IT entrepreneur Arkady Moreinis, Price.ru is one of the oldest e-commerce resources on the Russian Internet scene. As reported by Kommersant, Rambler bought a majority stake in the company in 2006, and fully acquired the site two years later.

The amount of the deal was comprised between $5 million and $10 million, Moreinis said in a previous media interview.

Rambler & Co now concentrates more on media and entertainment, said Rafael Abramyan, a member of the group's managing committee, in an exchange with Kommersant, to explain the sale of Price.ru.

This new focus has been illustrated, over the past years, by the acquisition of online video site Okko as well as theater networks Cinema Park and Formula Kino.

However, Rambler & Co still owns a variety of other online resources, including web portal Rambler.ru, several online news and content services, and an online travel service.

Just weeks ago, the group joined forces with Sberbank and UCS (https://bit.ly/31AFBXs) to create a multifunction food service platform.

FOOD DELIVERY STARTUP ATTRACTS $7.6 MILLION FROM MAIL.RU GROUP AND TOP BUSINESSMEN

East-West Digital News, 2 April 2019

Instamart, a Moscow-based startup that organizes food deliveries from offline retail outlets, raised 500 million rubles (approximately $7.6 million at the current exchange rate).

As reported by VC.RU, the deal, which took place last month, valued the company at 1.8 billion rubles (around $27.5 million). The money was brought in by Mail.ru Group, Sberbank top executive Lev Khasis and Transcontinental Media Company President Alexander Mitroshenkov.

Mail.ru Group and Khasis had already invested in the company in December (https://bit.ly/2MFmMPv) 2016 and February 2018 (https://bit.ly/2F2KHSK), respectively.

The other previous investors in Instamart are Ilya Yakubson, a figure of the Russian grocery retail industry; Albert Sagiryan, a former Sberbank top executive; Sergey Solonin, one of Qiwi's co-founders; and Gazprom Media Partners, an investment vehicle created by Gazprom Media.

Business daily Vedomosti reports that Mail.ru Group, following its investments in 2016 and 2019, now owns "less than 20%" of the company.

"Investing in foodtech companies is part of our strategy" said Alexey Milevskiy, director of Mail.ru Group's M&A department in an exchange with VC.RU, underlining the "important synergy potential" of such companies with the group's other services.

SERVING 50,000 FRESH FOOD AFICIONADOS ACROSS RUSSIA

Inspired by the success of Californian unicorn Instacart, the Russian startup launched in 2013. Instamart now serves Moscow customers through partnerships with Auchan, Lenta, Metro Cash & Carry and VkusVill.

The company claims "more than 50,000 active users" in Moscow, Saint Petersburg, Ekaterinburg, Kazan and Nizhny Novgorod. The service is to be launched in such other cities as Rostov-upon-Don, Ufa and Krasnodar.

Instamart says it generated 1 billion rubles ($16 million) in turnover or 200 million rubles ($3.2 million) in revenues last year. Its average order value amounts to 5,000 rubles (around $15) with nearly 25,000 orders processed per month.

GERMAN WESTWING SELLS RUSSIAN E-COMMERCE BUSINESS TO ELBRUS CAPITAL

East-West Digital News, 22 November 2018

Westwing, a German e-commerce company selling furniture and designer home accessories, has sold to one of the funds of Elbrus Capital its subsidiary covering Russia and Kazakhstan. This full acquisition was closed in mid November, Elbrus Capital Senior Partner Dmitry Kryukov told Russian business daily Kommersant (https://bit.ly/2MGG5YG).

The amount of the transaction has not been disclosed, but in an exchange with Kommersant, market analyst Mikhail Burmistrov assumed it might have equalled at least the subsidiary's annual turnover, or 1-1.2 billion rubles ($15-18 million at the current exchange rate).

Westwing launched operations in Russia in 2011, Kommersant notes. The online store has several thousands of suppliers from Russia and abroad, and claims no less than 5 million club members in Russia and Kazakhstan. Last year, its sales revenues reached around 1 billion rubles (around $16.5 million at the average exchange rate), according to official accounts, and could amount to 800 million rubles (around $13 million) this year, according to company forecasts cited by Kommersant.

Westwing's exit from Russia and Kazakhstan, as well as from Brazil, has been presented as "a strategic decision to focus on its main business in Europe." (https://bit.ly/2WwfXzd)

The move, however, may seem paradoxical as the company, backed by Rocket Internet, just raised €114 million euros in its Frankfurt IPO (https://reut.rs/2ZplIQ9).

While the Russian e-commerce market is expected to almost triple in volume in the next five years (see Section 1), local market experts consider the furniture segment as particularly promising. E-commerce penetration in this segment is around 4% vs. around 10% in more advanced markets, Kryukov told Kommersant.

Elbrus Capital intends to invest further in the company to help it reach its potential, Kryukov added.

MASSIVE INVESTMENTS FROM RUSSIAN AND CHINESE PLAYERS

Westwing is not the only German retail company having fully or partially stopped operations in Russia, as reported (https://bit.ly/2WwfXzd) last month by East-West Digital News.

In the course of this year Otto Group, the German e-commerce giant, announced the shutdown of its Russian online stores Otto.ru and Quelle.ru; Adidas significantly reduced the number of its trademark shops in Russia and neighboring countries; Ceconomy sold all of its Russian Media Markt stores; and ECE Projektmanagement, the European leader in shopping mall management companies, left Russia.

Among the reasons for the decreased appeal of the Russian market in the eyes of German retailers are the ruble's depreciation since 2014-15 and growing local competition.

Also leaving the Russian market (as well as Spain and Portugal) is Castorama (https://reut.rs/2UF0FbA), whose owner Kingfisher aims to focus on markets "where we have, or can reach, a market leading position," as reported by Reuters.

While making losses with its 20 Russian stores, Castorama has a small, but fast growing e-commerce business in the country. "They used to have quite a poor service to online customers, but began improving things about a year ago. Starting from almost nothing, this online business is now growing by 150% per year," e-commerce expert Boris Ovchinnikov told East-West Digital News.

Meanwhile, major local players such as Mail.ru Group (which has made an alliance with Alibaba, Yandex (in partnership with Sberbank) and Ozon (backed by MTS and Baring Vostok), have launched massive investment plans in Russion e-commerce.

MITSUBISHI CORP. AND MAIL.RU GROUP INVEST IN CAR SELLING SITE AUTOSPOT

East-West Digital News, 15 September 2018

Mitsubishi Corp. and Mail.ru Group have invested $4.1 million in car selling site Autospot, in exchange for a 21% stake in the company – setting the company's post-money valuation at $19.1 million.

The news was reported by the business daily Vedomosti (https://bit.ly/2xavfPm) based on exchanges with Autospot's General Manager Dmitry Andreev.

Autospot allows its users to buy a car with a discount from a network of authorized dealers in Russia. After launch in 2013, the startup secured several rounds of funding from such investors as Fastlane Ventures, SOL Ventures, and individual investors.

More than 30,000 cars are currently available for sale on the site, with discounts of up to 4.8 million rubles (around $70,000).

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