AN INTERNATIONAL STUDY BY

East-West Digital News

E-COMMERCE IN RUSSIA

PART 2: A PRACTICAL GUIDE FOR INTERNATIONAL PLAYERS

WITH SUPPORT FROM

lamoda

OZON

Yandex Market

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MAIN RESEARCH PARTNERS

DATA insight

BORENIUS
crunchbase
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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 requested at no charge via https://www.ewdn.com/ecomreport

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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

FOREWORD

MARAT ARTUGANOV
CEO, BOXBERRY INTERNATIONAL

Russia is number one in Europe in terms of e-commerce growth rates. Among more than 140 million inhabitants, 90 million are Internet users and 57 million are online consumers – the others being potential e-shoppers.

Industry growth has favored deep changes in the logistics industry. For the last five years, large private shipping services have developed in the country, putting competitive pressure on the postal service. New delivery formats have emerged, such as self-pickup from pickup offices and lockers, enjoying more and more popularity among online shoppers.

Dozens of millions of Russians have tried cross-border online shopping – from the USA, Europe and China – and they liked it. Several years ago orders were delivered in weeks or months, or simply lost on the way; now customers know they will receive their orders quickly. While ready to pre-pay online, they appreciate to have the opportunity to return items if these don't fit – especially when it comes to clothes and shoes.

Offering deep insights about these and other aspects, this study will help international players understand Russian market specifics and take advantage of them. Boxberry, a leading shipping provider, is proud to have taken part in such a useful research project.

Let's build together a market without borders!

PARTICIPATING COMPANIES

lamoda   **OZON**   **Yandex Market**

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

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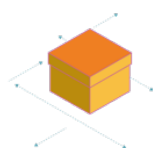- **Maria Zaikina,** PR Director at Ozon.

STUDY CONTENT / PART 2:
A PRACTICAL GUIDE FOR INTERNATIONAL PLAYERS

PART 1: MARKET TRENDS & PLAYERS' STRATEGIES

A detailed review of domestic and cross-border e-commerce trends
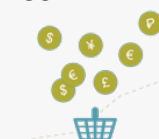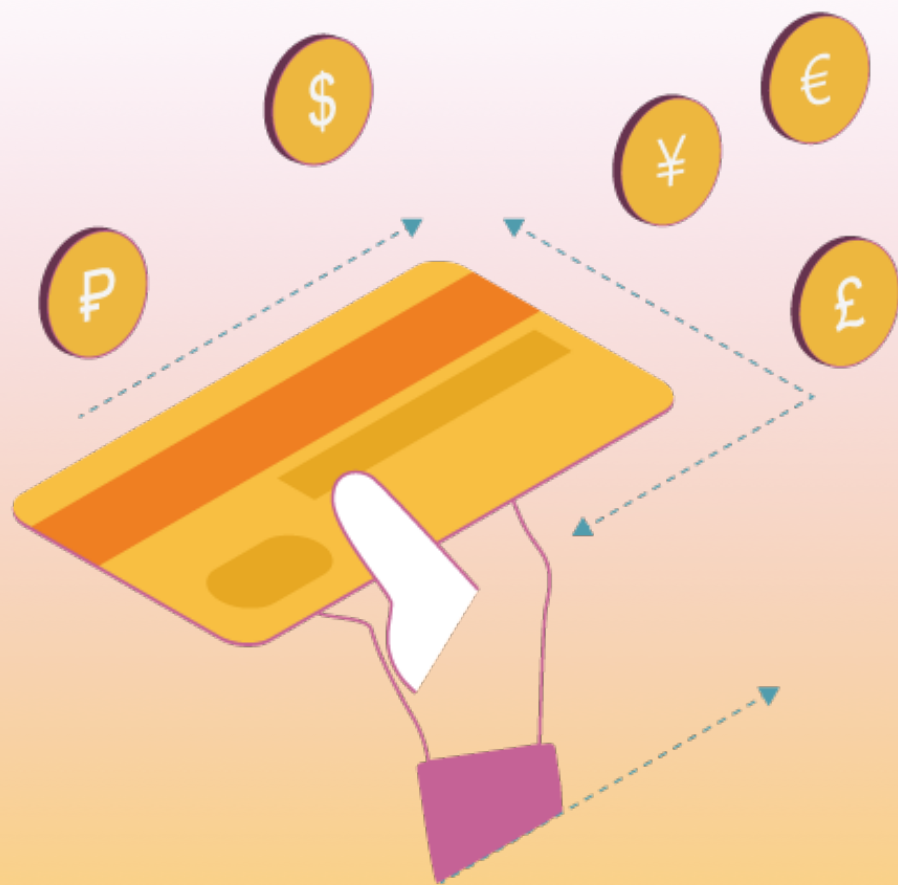
Online consumers: Key facts and trends

Local and international players on the Russian e-commerce scene

Investing in Russian e-commerce: private equity deals, joint ventures, M&A prospects

http://ewdn.com/files/russian_ecom_part1.pdf

SECTION 1:
PAYMENTS

IN THIS SECTION, YOU WILL LEARN:

✓ Which payment means are used in Russia, and which ones are specific to this country

✓ Whether or not it is worth offering payment-on-delivery options to Russian customers, and how to set them up

✓ How Russian personal data laws have an impact on payment operations, and how to manage it properly

✓ Why and how you should integrate Russia's specific payment means for your Russian customers

✓ What you should require from your PSP to serve Russian customers in optimal conditions

✓ How to ensure payment security when dealing with Russian customers

✓ Whether or not international sanctions could affect payment operations with Russia

WHICH PAYMENT MEANS ARE USED IN RUSSIA

In 2018, 81% of Russian online consumers used electronic means of payment for online purchases of goods or services; of them, 57% used bank cards, according to a survey by Data Insight and PayPal. E-wallets and mobile banking were used by 37% and 36% of respondents, respectively; then came Internet banking (29%) and SMS (25%) (https://bit.ly/2KRae4R).

When it comes to orders of physical goods specifically, the situation is different. In domestic purchases, payment on delivery (generally by cash) is still predominant. However, in cross-border sales, online pre-payment is the rule: Russian customers generally accept to use their bank cards or other electronic payment means when making purchases on Chinese or Western online stores and marketplaces.

Worthy of note are also a range of specifically Russian payment means: from the state-supported bank card MIR, to e-wallets such as Yandex.Money, WebMoney and QIWI, to name a few.

While these payment means are crucial for domestic purchases, some of them should also be considered by cross-border e-merchants.

▪ Cash payments

Cash is commonly used in domestic Russian e-commerce – cash-on-delivery accounts for some 70% of settlements on average, according to logistic and delivery service provider CDEK. Historically due to a lack of trust in online payments and e-merchants, this practice is, however, on the decline.

While virtually all domestic e-merchants still offer payment-on-delivery options, foreign e-merchants rarely offer them due to the issues they pose (see below) .

▪ Bank cards

Bank cards are used by nearly 90% of Russians for online purchases of goods or services, according to Mediascope (https://bit.ly/2FuIsYD). While **Visa** and **Mastercard** still dominate the Russian market (each one accounting for at least 40% of online purchase settlements), a national competitor has emerged recently: the **MIR** card.

Launched as part of Russia's effort to lessen its dependence on the international payment systems, these cards already account for up to 15% of online purchases in Russia, according to payment service provider Yandex.Checkout.

The use of MIR tends to grow, pushed by administrative measures (this card has been made mandatory for all state employees and military staff) as well as market-based factors. For example, MIR and QIWI, a popular e-payment service, have launched joint marketing programs in such fields as air ticket sales and online betting.

- ### E-wallets

No less than 78% of urban Russians aged 12-55 use e-wallets for online purchases of goods or services, according to a 2019 survey by Mediascope (https://bit.ly/2l1oCqt).

According to a previous study in 2018 (https://bit.ly/2FuIsYD), more than 37% of respondents (up from 26% in 2017) said they use e-wallets to settle purchases in Internet stores; 28% do this on Russian online stores specifically and approximately the same number on foreign sites.

Russia has a range of specific e-wallets. The most well-known are **Yandex.Money, WebMoney, Qiwi Wallet** and **MTS Dengi.** In 2018, according to the same survey, nearly half (48.5%) of Russians from large cities used Yandex.Money at least once every six months to purchase online goods or services. WebMoney and Qiwi also enjoy a big traction with 38.9% and 36.2%, respectively.

Some e-wallet are used in certain segments more than in others, notes a Chronopay expert. "Our data suggests that Qiwi processes nearly 40% of user payments in sport betting – which is a considerable market in Russia. WebMoney is widely used in Russia and some other countries, but more for interpersonal, freelance or micro-B2B payments, than in online retail."

International electronic payment means are popular, too. In 2018, **PayPal** was used by 38.6% of Russian online consumers.

- ### Contactless payments

Apple Pay, Samsung Pay and Google Pay entered the Russian market in 2016-2017 (https://bit.ly/2KrmKJ0, https://bit.ly/2IsVUOB) . In 2018, each of these payment methods were used by around 15% of online consumers, with almost 40% of smartphone owners in the Russian urban adult population using contactless payments in general (https://bit.ly/2FuIsYD).

The above-mentioned Mediascope study found that, in mid- 2019, contactless payments, were most popular among the 25 to 34 y.o. group (57.3%). As much as 44.8% of Russians used these payment means at least once in a year, up from 38.3% in 2018.

Google Pay is the leader among contactless payment systems, with the number of users growing from 19.6% in 2018 to 22.9% in 2019, according to this study. 18.9% of respondents made payments via Apple Pay and 15.5% via Samsung Pay. Garmin Pay was used by just about 2% of respondents.

In the 18-24 y. o. age group specifically, however, Apple Pay takes the first place (29%). Google Pay is more popular in elder age groups, with Samsung Pay taking the second place ahead of Apple Pay in the 35-44 y. o. age group.

- ### Other electronic payment means

Only 10% to 15% of payments are done by "other payment means," such as direct debit, Internet banking, cash-in kiosks, mobile payments, etc.

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(1) The study was conducted in June and July 2019, involving 3,500 inhabitants from 12 to 55 years of age from large Russian cities (over 600,000 inhabitants).

PENETRATION RATES OF ELECTRONIC PAYMENT MEANS AMONG AGE GROUPS IN RUSSIA (2019)

	Average 12-55	12-17	18-24	25-34	35-44	45-55
E-wallets	77.6%	65.7%	79.3%	82.2%	77.8%	74.4%
Online banking	89.7%	66.3%	90%	93.9%	91.3%	90.2%
Bank cards	90.5%	66.6%	91%	93.4%	94.4%	90.4%
Contactless payments	44.8%	32%	53.2%	57.3%	41.1%	31.8%

SURVEY BY MEDIASCOPE AMONG ONLINE CONSUMERS OF GOODS AND SERVICES AGED BETWEEN 12 AND 55 FROM RUSSIAN CITIES OF 600,000 INHABITANTS OR MORE (HTTPS://BIT.LY/2L10CGT)

MOST USED E-WALLET AND CONTACTLESS PAYMENT METHODS IN RUSSIA

	2017	2018					
	18–55	18–55	12–17	18–24	25–34	35–44	45–55
Yandex.Money	33%	48.5%	32.7%	49.7%	53%	46.9%	43.1%
WebMoney	28.4%	38.9%	23.8%	35.3%	40%	42.2%	35.3%
QIWI	24.1%	36.2%	37.3%	44.3%	38.8%	37.3%	26.5%
PayPal	28.1%	38.6%	20.4%	32.6%	40.5%	41%	36.4%
MTS Dengi	N/A	12.1%	7.1%	9.9%	12.1%	13.2%	12.1%
Apple Pay	N/A	16.5%	15.1%	22.5%	20.7%	15.5%	8.3%
Samsung Pay	N/A	12.3%	7.9%	11.1%	15.9%	12.4	7.6%
Google Pay	N/A	18.7%	11.3%	23.5%	23.1%	18%	10.3%

SURVEY BY MEDIASCOPE AMONG ONLINE CONSUMERS OF GOODS AND SERVICES AGED BETWEEN 18 AND 55 FROM RUSSIAN CITIES OF 600,000 INHABITANTS OR MORE (HTTPS://BIT.LY/2FUISYD)

MOST USED PAYMENT METHODS BY TYPE OF PURCHASE

	Purchases on Internet stores		Digital content, mobile app and social network services		Air and train tickets	
	2017	2018	2017	2018	2017	2018
E-wallets	26%	**37%**	11%	**21%**	6%	**13%**
Internet banking	40%	**52%**	13%	**21%**	19%	**29%**
Bank cards	42%	**53%**	12%	**20%**	21%	**29%**

SURVEY BY MEDIASCOPE AMONG ONLINE CONSUMERS OF GOODS AND SERVICES AGED BETWEEN 18 AND 55 FROM RUSSIAN CITIES OF 600,000 INHABITANTS OR MORE (HTTPS://BIT.LY/2FUISYD)

PAYMENT ON DELIVERY

■ **Is it worth offering payment-on-delivery options to Russian customers?**

According to CDEK, around 70% of online purchases of physical goods products in the domestic segment are settled on delivery by cash or electronic payment methods. However, payment on delivery is on the decline:

- At **Ozon,** a leading domestic site, the share of payment-on-delivery fell from nearly 80% five years ago to 60% in 2017, 48% in 2018 and just 26% in Q1 2019. This came as a result of strong marketing and economic incentives.
- **Two large fashion online retailers** consider introducing a user rating system based on return frequency. Payment-on-delivery options will no longer be offered to those who return goods too often.
- At **Tmall,** the domestic marketplace of AliExpress Russia, the payment-on-delivery option has not been made available so far, and the company has no immediate plans to introduce it.

Most foreign online stores do not offer payment-on-delivery options as Russian e-shoppers generally accept to pre-pay their orders from abroad.

The reason is that – even though making this option available may increase the number of orders – payment on delivery is very difficult to implement in cross-border e-commerce. It also substantially increases delivery costs and the number of returns.

Payment on delivery also involves such risks as fluctuations in the ruble exchange rate.

Thus, we would certainly not recommend offering payment-on-delivery options when starting operations with Russian e-shoppers: you would obviously create more headaches for yourself than get immediate benefits.

Once your cross-border sales in Russia are up and running and if they account for significant volumes, you may study such options to boost your sales, under certain conditions.

■ **How to set-up payment-on-delivery options?**

On the Russian market, several service companies can manage payment on delivery operations, including money transfers to foreign online stores. These companies include **PSK, Shiptor** and some others. (However, the majority of big players, as well as Russian Post, do not offer this service.)

PSK GmbH (Germany) has been providing this service to such global brands as Tommy Hilfiger, Calvin Klein, and some niche European online retailers like, for instance, cybermart.de. Collecting money from a customer in Russia and transfering promptly to Europe are now possible thanks to the presence of a subsidiary of this German company in Russia.

As an alternative to COD, you may wish to consider the option of offering free returns. This is how ASOS operates, for example.

■ **How are money transfers organized?**

There are two schemes for transferring the money in case of payment on delivery. If the seller has a Russian legal entity (a subsidiary) registered, they will sign a contract with a shipping company, and the money will be transferred to this entity's banking account. If there is no subsidiary registered, the money will be transferred from a Russian legal entity to a foreign legal entity specified by the client.

This second option is, therefore, more expensive. In that event, depending on how well an online store is present in Russia and its business model, the goods can either be formally owned by the seller themselves or the right to take the payment for the goods can be assigned to the seller's shipping partner. From a legal point of view, the online store will remain the seller.

■ **What are the fees associated with payment-on-delivery?**

Fees usually varies as follows:

- **For Russian online retailers:** from 1.5% to 2.5% of the order value for cash payment and up to 2.9% for payments by bank card.
- **For foreign online retailers:** from 1.5% to 5% of the order value (for example, Shiptor's fees range from 1.5% to 3.5%.)

INTEGRATING RUSSIAN E-PAYMENT MEANS

▪ Why should I integrate Russian payment means?

Russian e-merchants do not ask themselves this question: they usually provide their customers with a choice of many payment options. The most successful foreign sites do the same (e.g. AliExpress, ASOS, Blizzard, Electronic Arts and iHerb), even though most Russian cross-border shoppers generally accept to use international payment means.

Here are the benefits that can be expected from using Russian specific payment means:

1. LOCAL PAYMENT MEANS MAY INCREASE YOUR SALES

The fact that many foreign online retailers sell to Russia without offering specific payment methods does not tell anything about the customers they could attract by integrating them. This is particularly true for MIR cards: since a fraction of Russian consumers have no other bank card, it may be a good idea to make their purchases just possible on your site. This card may account for 10% of a site's transactions, according to Chronopay.

In certain segments, in particular, digital and games sales, users are so accustomed to paying with alternative payment methods that you can increase your sales multifold by just enabling them. Last but not least: by enabling alternative payment methods, an e-merchant can cover not only Russia but also its neigboring countries. In particular, WebMoney now operates in several national currencies, such Belarusian rubles, Kazakhstani tenge, and Moldovan lei. Yandex.Money offers its customers no fewer than 10 currencies to pay with.

2. THEY MAY BOOST YOUR MARKETING

Alternative payment methods can create additional opportunities for marketing purposes and help increase conversion. Such e-wallet providers as Yandex.Money or Qiwi will be happy to arrange for a promotion together with your company to reach out to their audience.

3. AN ALTERNATIVE IN CASE OF FAILED TRANSACTIONS

Alternative payment methods can be useful in case of failed bank card transactions. For instance, Yandex.Checkout uses a special scenario that allows a user to choose a payment method directly on their payment platform. In case there is not enough credit on the user's bank card, or if an SMS confirmation code does not arrive for some reason, the user can choose an alternative payment method without having to go back to the cart.

▪ How to integrate Russian payment means?

The good news is that integration is rather simple: you don't have to agree with each Russian e-wallet company. A variety of PSPs can do it for you, making it easier to offer a variety of familiar payment options to your Russian customers. Russian e-merchants themselves, in their wide majority, use such payment aggregation services (https://bit.ly/2WQpsJA).

Perhaps the global PSP you're used to work with integrates Russian payment systems. Check that the main ones, as mentioned above, are covered.[1] Also check your PSP's compliance with Russian legislation. In particular, a law requires that Russian citizens' personal data be stored on servers physically located on Russian soil (see Section 3).

"This law has not been applied systematically so far in the field of cross-border e-commerce, but the authorities could adopt a firmer stance in the near future," warns a Chronopay insider.

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(1) MIR, for example, is covered by all Russian banks and payment aggregators, but just by a few international ones (https://bit.ly/2KpzRKC).

If your global PSP does not support local payment methods, or does not comply with Russian laws, or if you feel it might not do that in optimal conditions, you should consider handling Russian payments over to another provider.

"You need guidance to navigate such a specific market as Russia. If you try to use the same approach as in other European markets, you might fail without even understanding why," says a Yandex.Money expert.

Generally, opening a legal entity in Russia is not necessary. You may partner with a local partner, preferably a PSP that has a foreign branch to sign international contracts. Many major Russian PSPs have got such branches.

Yandex.Checkout (operated by Yandex.Money) is the leading PSP in Russia, used by 31.7% of Russian sites as of late 2017.

Among other ones are **Chronopay, EcommPay, Interkassa, PayAnyWay, PayMaster, PayOnline, Platron, Payeer, RBK Money, Robokassa, Uniteller, UnitPay** and **Wallet One.** **PayU,** a subsidiary of Naspers, is not widely used in Russia, but is an example of an international PSP fully covering Russia's payment diversity.

A FEW THINGS YOU SHOULD REQUIRE FROM YOUR PSP FOR ACCEPTING PAYMENTS FROM RUSSIAN CUSTOMERS

1	**Integrate local payment means** (Russian e-wallets, MIR cards…)
2	**Comply with Russian personal data storage legislation** – which usually requires to store Russian customers' personal data in servers located on Russian territory.
3	**Offer round-the-clock support** to serve customers from across Russia's 9 time zones
4	**Serve international clients through a branch in a Western country**

SECURITY ISSUES

Any online payment, regardless of the recipient, will involve a certain set of risks related to payments on the Web. There are no "Russian pecularities" there.

It is recommended to work with 3D Secure. At present, 3D Secure is used in 90% of online transactions. This helps minimize the risks for e-merchants.

From the very beginning, 3D Secure in Russia was similar to 3D Secure 2.0 specification. This security system has never been something frightening in the eyes of Russian e-shoppers. Rather the opposite, if the first payment on an unfamiliar site was done without 3D Secure, the consumer will have more grounds to be worried than happy. All in all, 3D Secure is viewed at as a security measure and not as an obstacle to online shopping.

INTERNATIONAL SANCTIONS

Following what they considered to be the illegal annexation of Crimea in 2014, Western powers have imposed a variety sanctions against Russia. Some of these sanctions have targeted the country's financial system, affecting certain banks, including Sberbank.

These sanctions typically aim at limiting the ability of these banks to raise debt on Western capital markets. They have affected neither the functioning of the bank cards[2] they issue nor the operations of their PSP subsidiaries. Neither have the MIR cards – a Russian government creature – been targeted either for the moment.

The activities of Yandex.Money, a subsidiary of Sberbank, are not affected either. "Our B2B service Yandex.Checkout serves numerous foreign clients – including dozens of US businesses," says Oksana Sherr, Head of Foreign PR & Communications.

(2) Excepted during a short moment in 2014 (https://bit.ly/2FkhNxu)

YANDEX.MONEY CEO IVAN GLAZACHEV: "RUSSIAN E-COMMERCE IS FAR FROM SATURATION AND FOREIGN BRANDS HAVE EVERY CHANCE TO SUCCEED"

With its PSP offer Yandex.Checkout, your company has been active in Russia's cross-border e-commerce market practically since the very beginning. How do you see the current developments and future prospects?

The Russian e-commerce market is even more promising than it can seem at first glance. Russian Internet population is the sixth-largest in the world, and Russian consumers crave foreign goods. According to Mediascope (2018), 95.8% of Internet users in Russia buy goods or services online, and the percentage of those who buy at foreign websites is growing.

Historically, cross-border sales grew fast, driven by foreign marketplaces, in particular AliExpress. Today cross-border accounts for approximately a third of the Russian e-commerce, and there is still room for foreign players to expand. The Russian central bank has reported that Russian consumers spent $9.7 billion (610 billion rubles) in foreign online purchases in 2018.[1]

On the ground, we at Yandex.Checkout, the leading PSP on the market, see how fast e-commerce is growing, and this rate is by more than 20% annually, in line with analysts' estimates – and growth may even be higher in cross-border.

Another trend is the localization of foreign online stores on Russian ground: some of them can no longer be called just "cross-border." The key motives for localizing are speed and costs of operations. I see the future of the market in this transfer from cross-border to domestic activity in particular through JVs of foreign and Russian companies. Meanwhile, local market players are acquiring the experience of a marketplace business models.

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(1) According to market analysts, cross-border purchases of physical goods accounted for around $5 billion (see Part I, Section 1.2). The remaining part of the cited $9.7 billion seem to correspond essentially to purchases of digital goods and services.

IVAN GLAZACHEV: "RUSSIAN E-COMMERCE IS FAR FROM SATURATION AND FOREIGN BRANDS HAVE EVERY CHANCE TO SUCCEED"

The market is currently dominated by Chinese players. Do Western players have a chance?

Asian companies are firmly established on the Russian soil, but now Western brands are making their coming back. They have understood there are in Russia many solvent consumers eager to buy a variety of quality goods online. Chinese marketplaces and AliExpress in particular have enhanced confidence of Russian customers in buying abroad. It was an important and positive shift in local consumer habits, which now benefits to both Asian and Western e-merchants.

Currently, we are witnessing an unprecedented demand for digital goods and content from Western (US & EU) providers. Electronic Arts, Blizzard, Nintendo, Sony PlayStation, Steam, Xbox Live (Microsoft) have gained a very strong traction in Russia and neighboring countries – to such an extent that they have adapted integrated payment systems to the needs of consumers from this region. Western marketplaces (Amazon and eBay), fashion and luxury brands (Farfetch and ASOS) also found a solid audience. However, these successes are far from matching that of AliExpress.

Where do foreign players come from geographically?

According to a Knight Frank survey (https://bit.ly/31L7T1h), over the past decade most retail brands came from Italy (19%) and the USA (17%). Great Britain (9%), France (9%) and Germany (5%) are following. The top categories were footwear and apparel (45%), food and restaurants (17%), accessorizes (8%), cosmetics (7%), and goods for kids (6%).

How do foreign brands and online merchants succeed on the Russian market?

Russian e-commerce is far from saturation, and foreign brands have every chance to succeed. With the right technologies, e-merchants can precisely reach their target audience and meet its demand.

Another key to success, as shown by the experience of many brands, is to cooperate with local agencies and services providers. For example, Yandex.Checkout provides its foreign partners with expert advice on the market, helps them localize and promote their products in Russia and neighboring countries.

A lot depends on a merchant's own efforts as well. We highly recommend to develop a strong customer experience and keep control of every aspect of client service – including the last mile, which is critical to introduce a product to consumers.

How specific is the Russian market in terms of payments?

The payment landscape of Russia is diverse with two main fields: bank cards and alternative payment methods. The latter include direct debit, P2P transfers and e-wallets. We at Yandex.Checkout see that bank cards, direct debit and e-wallets are the most popular methods for cross-border payments.

We strongly recommend foreign merchants to integrate the largest possible set of payment options. Some already do it. For example, as Turkish online platforms are in great demand to Russian customers, Turkish Isbank partnered with Yandex.Checkout to provide more than 10,000 of its business customers with access to specific Russian payment means.

Do you believe foreign e-merchants should offer a COD option in order to increase their sales?

Cash-on-delivery may be useful for merchants offering expensive tangible goods. Customers prefer to have a close look to such products before confirming the purchase. In other cases, the COD option doesn't increase sales volumes and conversion rates very significantly. Many foreign retailers have already withdrawn the COD option from their websites.

IVAN GLAZACHEV: "RUSSIAN E-COMMERCE IS FAR FROM SATURATION AND FOREIGN BRANDS HAVE EVERY CHANCE TO SUCCEED"

According to Yandex.Checkout data, a considerable number of merchants achieve a conversion rate of 95% or more after their customers click the 'submit' button. We also see that cashless payments are embracing more and more industries and have already become convenient to Russian customers. The COD practice slowly decreases and I believe this trend will continue or accelerate in the future. Merchants should focus on increasing conversion rates and controlling product quality rather than create for themselves COD headaches.

Is Yandex.Checkout's offer to international e-merchants different from other PSPs?

Yandex.Checkout is more than a PSP: we aim to become a back-end business partner for each merchant, allowing it to focus on brand development. Yandex.Checkout partners with major companies in Russia and the former Soviet Union, the EU, the USA, China, South Korea, Turkey and other countries – in total, 106,000 merchants around the globe. With our payment solution, merchants offer Russian consumers all popular payment methods.

Through machine learning and AI, our platform provides a remarkable level of personalization. Merchants can adjust the individual package of payment options in their profile, and find tools to increase sales through individualized offers and deals.

Yandex.Checkout also offers its clients multipurpose fraud protection tailored to Russia's specifics. It detects both behavioral and payment fraud, scam attempts and abnormal patterns while reducing merchants' financial risks and maintaining payment conversion. This antifraud mechanism is also based on AI and machine learning. It increases conversion rates while lowering chargeback risks and losses related to stolen cards.

Yandex.Checkout facilitates fund disbursement to customers: prizes, cashback, micro-loans, etc. Mass payouts can be made to holders of e-wallets, bank cards, mobile phones or bank accounts. Other features are payment installments and online purchase on-credit. It is a fully online process with pre-scoring and scoring completed during purchasing. The customer pays later but the merchant gets the money now.

Last but not least, Yandex.Checkout is also about marketing. Our clients can reach out to the vast audience of Yandex.Money account holders – these are 46 million online customers.

Do you have an offer for B2B payments?

In 2018, we introduced in Russia a major online B2B service in cooperation with Sberbank. These fast B2B payments reduce the duration of the payment transfer: from 1–3 days to 1–3 minutes. Businesses get an instant online notification about the completed transaction. This solution has every chance to revolutionize Russia's B2B payment experience getting it close to B2C scenario that is rather developed now.

(June 2019)

o Ivan Glazachev has been working in the industry of merchant acquiring and payments for more than 15 years. Before joining Yandex.Money as a CEO he spent 10 years at Russian Standard Bank as a board member and executive director, where he was responsible for acquiring and transactional businesses. With his active participation, Russian Standard Bank became Russia's third largest acquirer in Russia and launched one of the largest white label card-to-card money transfer platform. The bank also relaunched its mobile and online banking solution. Mr. Glazachev holds an MBA in investment and corporate finance from Toronto's Schulich School of Business at York University as well as a bachelor's degree in international economics from Moscow State University of Commerce.

CHRONOPAY FOUNDER PAVEL VRUBLEVSKY: "E-GLOBALIZATION AND THE ECONOMY OF DEMAND ARE REDEFINING THE GLOBAL PAYMENT INDUSTRY"

Where is the global electronic payment market heading to in your view?

Deep changes are in process. Some trends might not be fully apparent at first glance, but the record M&A and investment deals we're witnessing are a symptom.

In May, Global Payments announced a $21.5 billion all-stock deal for Total System Services Inc. This merger followed Fiserv Inc.'s acquisition of First Data Corp. in January and Fidelity National Information Services Inc.'s merger with Worldpay in March.

According to Dealogic, there were 102 M&A transactions in the payment industry, entailing a value of $46 billion in the first half of 2018 alone – up from $32.9 billion in full-year 2017. Investment activity in the payments sector was also notable in public markets, with Dutch PayPal competitor Adyen reaching a valuation of $22 billion in Q4 2018 – a 175% jump since its IPO last June.

Another striking example is Wirecard. Neither the investigative media reports about this company's fraudulent accounting practices nor the German regulator's complaint against it prevented Wirecard from attracting $1 billion in new investment from SoftBank.

The Adyen IPO had a ripple effect across the European payments sector, raising the valuation of German competitor Wirecard AG near the $20-billion mark as well. The capitalization of Ayden and Wirecard combined now exceed – by more than $10 billion! – those of Germany's Deutsche Bank and CommerzBank put together.

Meanwhile, earlier this year, British payment startup Checkout raised $230 million at a $2 billion valuation. And this is not even counting American investors' moves in the Indian payments industry: last summer, Walmart acquired e-commerce giant Flipkart Online Services Pvt for $16 billion while Berkshire Hathaway took a $300-million stake in Paytm.

PAVEL VRUBLEVSKY: "E-GLOBALIZATION AND THE ECONOMY OF DEMAND ARE REDEFINING THE GLOBAL PAYMENT INDUSTRY"

What does this frenzy mean?

The industry is being redefined by the convergence of two trends: e-globalization and the economy of demand. E-globalization is a characteristic of today's e-commerce, where an exclusive cluster of firms – namely Facebook, Google, Apple, AliExpress, Steam, BattleNet, PokerStars and a few others – process 30% of global transactions.

E-globalization significantly affects M&A activity in the payment industry because roughly half of the fees paid to by e-merchants to payment companies constitute their revenue (the other half goes to banks and such operators as Visa and MasterCard). Therefore, 1-2% of the extra cost the merchant pays can be kept if the owner of the e-commerce company is also the owner of the payment company. Thus, for the shareholders of large e-commerce companies, it makes perfect sense to buy out payment companies.

The introduction of national personal data legislations in many countries has contributed to this trend, since these laws have attracted e-globalization players' attention to local payment companies.

Meanwhile, a second trend is much less noticeable, more difficult to understand yet perhaps even more important: the rise of the demand economy. Traditionally, in an offer-led economy, marketers measure how many people can buy their products. Further, they determine market size, followed by their own market share, and then calculate how much advertising is needed to increase this market share.

The widespread development of e-commerce, e-payments and digital retail has led to the emergence of a new approach. Instead of counting the market and market share, you can analyze customer purchasing behavior in real time, enabling enterprises to adjust their marketing strategy accordingly. Before the rise of e-commerce and e-payments, such an approach was impossible, because real-time sales data didn't exist.

This real-time, demand-tracking capability gives a serious edge to shareholders, since it instantly reflects the changing demand dynamics of a product. Investments and resources are immediately allocated to the most promising products. This is why Facebook and PayPal are exploring new payment technologies, which enable them to measure demand in real time.

As real-time sales data empower investors with greater insight into customer demand, these new metrics enable a more certain path for economic value creation. Ultimately growth and investment in the payments sector creates a virtuous cycle, stimulating online commerce and scaling prosperity through consumer, vendor and investor ecosystems.

Are such trends also visible in Russia? Are local e-payment companies courted by investors and acquirers?

Not really. Russia is a bit dead in this respect. The payment industry traditionally is linked to banks and larger Russian lbanks are more or less under fire. I was surprised was when I learned that it's literally impossible to find investors for a bank in Russia. The market is in my view very undervalued because investors fear the Russian Central Bank sometimes unexplainable policies.

On the other hand, I have never heard that the Russian central bank would have attacked any Russian bank with reputable international investors.

Which other trends do you see in the Russian payment market?

This market will soon be cleaned up with a stricter application of Russian personal data laws. Almost four years after the personal data storage law became applicable [in Sept. 2015], a range of international companies are still not in compliance. The regulator Roskomnadzor has checked a relatively small number of sites so far – which, however, has led to blocking access to LinkedIn (https://bit.ly/2F1q9tG) and threatening Facebook and Twitter with small fines (https://bit.ly/2Xd1NYV).

PAVEL VRUBLEVSKY: "E-GLOBALIZATION AND THE ECONOMY OF DEMAND ARE REDEFINING THE GLOBAL PAYMENT INDUSTRY"

But Roskomnadzor hasn't gone far in this direction, being too busy with other things like the illegal gambling industry. This is likely to change soon, and the authorities have given signals about it (see Section 3). Particular attention will be brought to the e-commerce sector. We will ask the State Duma [lower house of parliament] to request the regulator to check the actual compliance of a range of international players with this law – not just their statements or commitments about it.

Has a list of such players been made public?

This is the list of international resources that generate the biggest payment volumes from Russia. It includes Aerobilet.com, Airbnb, AliExpress, Amazon, ASOS, Elama.com, Eshopworld.com, Facebook, Booking.com, Farfetch.com, Google, Hotels.com, iHerb, iTunes, Microsoft.com, Moneta.trade, Netflix, Olymptrade.com, PayPal, Playstationnetwork.com, Rentalcars.com, Steamgames.com, Terminal-5, Tiburon.com, Uber, Yoox.com, 7pm.com – as well as such airlines as Air France, Finnair, KLM, Pegasus and Turkish Airlines. I'm not saying these companies violate the law, but that the authorities should check up on them due to the massive payment volumes they generate.

Are payment service providers also concerned by this law?

Absolutely, since any transaction is necessarily related to a person's name and surname. This is personal data in essence, so PSPs fall under this legislation. Needless to say, a range of international PSPs are not compliance. They will have to make big changes in the way they handle and store Russian users' personal data. Otherwise, these PSPs will lose online retailers that are serious about working with Russia.

Does your company Chronopay fully comply?

It definitely does – and this will soon become an obvious competitive advantage.

Not too many PSPs offer simultaneously offer the two key benefits of full compliance with data laws and a legal presence both within and outside Russia. Having a branch outside Russia is not a legal obligation, but it makes things easier for international clients.

What are your plans for Chronopay?

Once the geopolitical context stabilizes, we will seek to develop in three directions. First, we'll set out to obtain a specific type of banking license in Russia – called an NKO – to launch an e-wallet just like PayPal or Yandex.Money. This goal may be attained via the acquisition of an existing licensed organization.

Second, we are preparing a new PSP offer and sales strategy both for Europe and Russia. We will target small and mid-sized business, aiming to win over PayPal and Yandex Money in Russia. We're also in the process of restructuring our business in the Netherlands.

Third, ChronoPay has a top-secret crypto project called 'Pandora.' We designed it two years ago but postponed its introduction until we can fund it properly and determine an adequate jurisdiction. Pandora is an exchange for investing in real-time sales of e-commerce companies. This will be an entirely new way of investing in business.

(June 2019)

○ A renowned, internationally-connected entrepreneur, Pavel Vrublevsky is the founder and CEO of Chronopay, a major payment service provider. He also has backed several Russian Internet projects such as Habrahabr.ru, Russia's #1 high-tech guru community; Rospravosudie.ru, the largest legal database in Russia; and Russia's Financial Newspaper, the oldest Russian business publication. Mr. Vrublevsky graduated from the Maurice Thorez Institute for Foreign Languages and holds a Master's Degree in Sociology from Moscow State University. He is a member of Russian billing software think tanks and holds a column in Forbes Russia about electronic payments and cryptocurrencies.

THE | PAYPERS

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Once a year, The Paypers releases large-scale industry overviews covering the latest trends, developments, disruptive innovations and challenges that define the global online/mobile payments, e-invoicing, B2B payments, ecommerce and web fraud prevention & digital identity space. Industry consultants, policy makers, service providers, merchants from all over the world share their views and expertise on different key topics within the industry. Listings and advertorial options are also part of the Guides for the purpose of ensuring effective company exposure at a global level.

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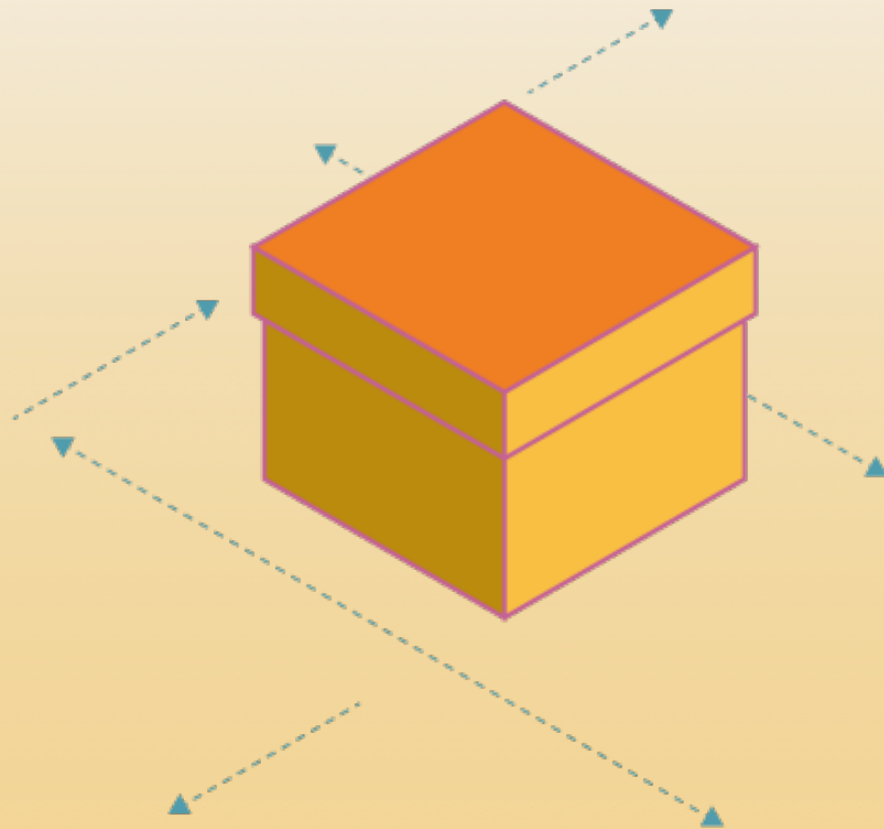
SECTION 2: LOGISTICS & DELIVERY

IN THIS SECTION, YOU WILL LEARN:

✓ What are Russian online consumers' main expectations in terms of delivery fees, delivery times, and returns

✓ How and why combine several delivery channels and delivery providers

✓ How to choose service providers

✓ How to organize shipping operations, including postal and express shipping, all across Russian territory

✓ Why and how returns can be organized even in cross-border e-commerce

✓ How to organize customs clearance with your service provider minimizing the hassle for you and your clients

CUSTOMER EXPECTATIONS

▪ Delivery fees are sensitive

In the context of low population income, delivery fees are an important, sometimes decisive factor to trigger, or not, online purchasing decisions (see Part 1, Section 2).

Delivery fee is also the primary thing considered by Russian consumers when choosing an express delivery provider. This factor was cited by 58% of respondents who participated in a joint 2018 survey by Data Insight and Dostavista.[1]

▪ Delivery time expectations

In the same survey, the delivery time factor was mentioned by 55% of the respondents. Almost one third (32%) of the e-shoppers surveyed by DPD cited too long shipping time to be among the primary reasons for them for not placing orders online (https://bit.ly/2JqdstY).

E-shoppers in Russia are used to having a choice of three delivery options: self-pickup points (lockers), delivery by courier, and delivery to Russian Post offices. 89% of those polled in the DPD E-shopper Barometer 2018 study said the availability of several delivery options raised the chances that they would place their orders.

According to another survey by GfK-Yandex Market, 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 (see graph below).

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(1) The survey, "Express Delivery in Russia," was conducted in March 2018 among 1,500 online consumers aged 18 to 64 were polled.

Customer expectations on returns

Russian customers are used to having their consumer rights observed; therefore, they will refuse to make a purchase without the possibility for a purchase return.

According to the DPD E-shopper Barometer 2018, 29% of customers shopping on foreign online stores cited a complicated returns procedure to be among the reasons for their refusal to make a purchase. On the contrary; when one of BoxBerry's largest customers offered free returns on purchases, it saw its direct traffic increas by more than 30% and achieved a monthly sales growth of about 5%.

In 2018, 4% of the goods purchased online in Russia were later returned. The share of returns among active buyers reached 7% (according to E-shopper Barometer 2018), and up to 30% in the fashion category (Boxberry data).

ACCEPTABLE DELIVERY TIMES
IN RUSSIAN E-SHOPPERS' OPINION (2018)

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

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

COMBINING DELIVERY CHANNELS AND SERVICE PROVIDERS

Combining several delivery channels – from postal delivery, to express courier services, to pick-up points, self-pickup lockers – is a good idea. Each channel is adapted to certain situations and certain consumer groups, and you could lose customers if you will try to impose them just one delivery option.

Offering several delivery channels often implies to work with several providers – with in itself is a good thing. In addition to competitive considerations, a reason to combine several providers is the fact that, in peak seasons, one single company might not be able to fulfill all incoming orders. In this case, it is good to have a delivery partner on standby.

Since private delivery providers are interested in working with foreign online retailers, they will usually be flexible enough to arrange the shipping process as conveniently as possible for the retailer. They may also help you attract new customers, since many of them have their own marketing instruments.

CHOOSING SERVICE PROVIDERS

What are my options to be provided with quality service from first to last mile?

There are no companies capable of delivering an item from a warehouse in, let's say, Spain to every little village in Siberia. And there is no need for this as almost all of Russia's largest delivery providers have contracts signed with international delivery operators, which allows them to offer seamless shipping from first to last mile.

A few operators work using their own infrastructure on both sides of the Russian border at the same time. These include Boxberry (UK), DPD (international), PSK (Germany) and Shiptor (USA, UAE, China and Germany). They all work under the B2B2C format.[2] Boxberry is the leader in this segment, serving iHerb for example. Russian delivery provider CDEK has been testing delivery from the EU to Russia. It has started developing its infrastructure in Germany and the Baltic states by means of franchises. Arvato and BetaPro are among those to be mentioned in Russia.

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(2) B2B2C shipping: Batches of products are delivered to a Russian warehouse before the items are sold individually to local online consumers.

PickPoint — THE LARGEST LOCKER NETWORK IN RUSSIA

ПОСТАМАТ PickPoint

ЗАКАЗЫВАЙТЕ В ИНТЕРНЕТ-МАГАЗИНАХ

ЗАБИРАЙТЕ ЗДЕСЬ

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

Postal operators of European countries work in the B2C format.[3] In particular, Russian Post has its own infrastructure in Germany and Finland. They ship orders only as postal items. Express shipping providers also operate in this very segment, with DHL being the largest (the other few are UPS, TNT, and FedEx.)

▪ Can foreign companies work with Russian operators?

There are no legal restrictions or any technical issues. A variety of Russian shipping operators work with foreign companies, some of them have a vast experience in this field. Usually, no personal meeting is required to enter into such a relationship.   The exchange of data regarding the status of shipments can be arranged for in any way suitable for an online store: via an IT platform, a user account, API, or data exporting.

▪ What are the advantages and drawbacks of working with Russian Post?

In the past, the quality of the Russian postal delivery service left a lot to be desired. It took weeks, if not months, to have a parcel delivered, and a significant number of parcels often ended up damaged or simply lost. In the past few years, however, Russian Post has reformed its processes and invested considerable amounts of money in improving its capabilities.

Nowadays, the quality of shipping services, tracking procedures, and shipping speeds offered by Russian Post are comparable to other logistics companies operating in the market. Nevertheless, along with advantages to be enjoyed, working with the Russian postal service also has its own drawbacks.

RUSSIAN POST'S ADVANTAGES

- **Area of operations.** Up to 30% of Russia's territory and up to 15-20% of the people living in Russia are not covered by other shipping operators. Also, a significant share of the population (73% according to the data presented in the DPD E-shopper Barometer 2018 report on Russia) has traditionally preferred to receive their purchases through Russian Post in the first place. Russian Post has lots of postal offices; therefore, for many recipients, it is more worthwhile and comfortable to visit the nearest one instead of looking for a self-pickup point of other companies elsewhere.

- When **determining shipping fees,** almost all the shipping companies in Russia speak in terms of cubic weight instead of gross weight of goods. This is the weight calculated by measuring and multiplying the length, height and width of a carton box, in which a purchase travels. Instead, Russian Post's rates are based on gross weight of shipments.

- At the **customs,** Russian Post is free from following many procedures. It is much easier for them to get the paperwork done.

- The Russian Post's **rates** are considered to be the lowest. This is only partly true: these lower rates are partially offset by insurance fees (please, refer to the What about insurance section below.) Clients who prefer to get their purchases through Russian Post are usually less demanding. The average waiting times for such shipments (both for Russian domestic and cross-border purchases combined) is 14 days.[4]

RUSSIAN POST'S DRAWBACKS

- Specific rates determining payment on delivery and insurance service charges.

- **Extremely complicated system of refund** following claims about goods being lost or stolen – and no system in place yet for returning purchases in cross-border shipments.

- **Poor customer service,** including when it comes to handling clients' complaints. Considering Russian Post's huge amount of business, this operator is not always interested in retaining every client.

- There are several **issues with automating the entry of new clients** into Russian Post's system. The company offers no API for handling cross-border shipments; therefore, it is difficult to get connected to them. All the work is done through the Universal Postal Union (UPU.) A foreign online store has to communicate with the national postal operator of the sending country. These problems are not posed inside Russia, though.

- Russian Post does not provide custom clearance services when dealing with B2B shipments. They only work with B2C shipments.

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(3) B2B shipping: An individual parcels or small package is shipped to Russia and delivered to the customer following an online purchase.

(4) According to the Express Delivery Market survey by Dostavista and Data Insight

- **What are the advantages and drawbacks of Russian private operators compared with global companies?**

It is certainly simpler for an international online retailer to work with one and the same provider serving all, or the largest number of countries. However, large international shipping companies like DHL, UPS, TNT, and FedEx do not always easily operate B2C shipment flows to Russia. This is due to a number of legislative and procedural difficulties.

Also, when working inside Russia, large international companies can only arrange for delivery themselves in some of the largest cities and will have to hire other contractors to deliver shipments on their behalf across the regions of Russia.

Russian shipping companies know their own market better. They are likely to be quicker in responding to changes in market conditions and are, in general, more flexible when it comes to partnerships.

The Russian logistics infrastructure is built in such a way that the last mile delivery is done by Russian domestic shipping companies. All the required integration solutions like API, a user account, etc. are now offered by almost every shipping company in Russia; therefore, connecting to their networks is fast and easy.

- **Does it make sense to work through a delivery aggregator instead of a shipping company?**

The choice between working with delivery aggregators or directly with a shipping operator will depend on your volumes. If you have large shipment volumes and have arranged for a direct integration with a shipping company, you can benefit from better commercial terms and agree on customer-specific options with additional control of your KPI.

If your online store's shipment volume is under the one specified as the minimum threshold for customer-specific terms offered by a shipping company, it will be easier to work through a delivery aggregator.
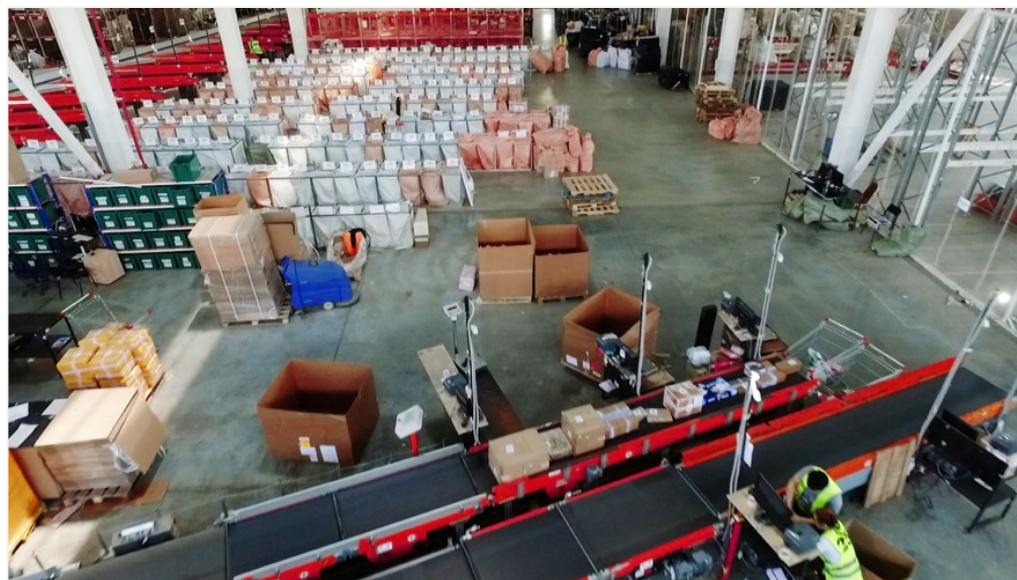
Scanning and sortng operations in Boxberry's new Moscow warehouse. Photo credit: Boxberry

Very few shipping companies handle all the operations in the delivery chain entirely on their own. Such companies do have contracts with their partners and they do hire intermediaries. One of the advantages of a delivery aggregator is that they have a detailed knowledge of the options available on the market. On the other hand, a single shipping company may better picture the entire chain in full.

- **Will marketplaces (AliExpress, Bringly, eBay…) organize shipping support for me? How does integration look like?**

Such marketplaces can effectively organize the logistics for you: if you sell to Russia only through them, you will not need to take care of agreements with shipping service providers.

Orders placed by Russian e-shoppers on AliExpress are delivered to Russia by authorized shipping partners of Cainiao, the logistics service aggregator of Alibaba Group. At present, integration is done at the IT level: when in need to send a sample, sellers can select a company with which they will be sending their order. Russian Post, DPD, and KSE are among the largest authorized partners of AliExpress. These companies work with tracking services and have integrated AliExpress's logistics systems on their side in full.

Bringly, the new cross-border marketplace of the Yandex Market Group of Companies, also offers logistics support to make the Russian market accessible to a wide range of players. "We offer an easy and risk-free solution," says Chief International Officer Alex Vassiliev.

"So far, just 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," he explains (see interview in Part 1, Secton 3).

For e-merchants selling goods domestically and abroad, eBay has simplified the parcel shipment process. In 2018, eBay and Russian Post formed the first partnership in Russia that provides for the integration of Russian Post's system otpravka.pochta.ru into a single seller's account on eBay. Among other things, it allows for tracking of goods by Russian exporters. Since last year, express shipments have also been made easier thanks to the integration of DHL Express logistics services into a single seller's account on eBaymag.com. As a result, Russian e-merchants can benefit from special shipment rates to 220 countries. UPS also offers special rates to e-merchants selling on eBay.

ORGANIZING OPERATIONS

- **How do the B2B2C and B2C shipping and customs processes look like?**

B2B2C SHIPPING

First, the goods are subject to import duties and VAT, then they are delivered to a warehouse or a fulfillment center in Russia. Finally, they are shipped to the e-shoppers who ordered them. For instance, iHerb works in Russia with the help of Boxberry, using this particular scheme.

B2C SHIPPING

The goods whose value does not exceed the threshold of duty-free entry are imported free of charge. Those above the threshold are subject to an import duty, which is imposed on the amount exceeding the threshold. In this case, orders are collected and fulfilled when still abroad, and they are cleared through the customs into the name and address of a particular buyer.

- **How do Russian Post and express shipping operators organize operations?**

POSTAL SHIPPING

Goods can be shipped to Russia by either a local national postal operator to whom these items are handed over, or a special unit of Russian Post, which operates in Europe. In particular, here we are talking about the Berlin branch of Russian Post.

For items to be accepted for postal shipping, the following special packages of documents are required: customs and customs ones and postal ones – in particular, customs forms CN23 or E1. They contain information about the contents of the parcela parcel, its customs value, codes of goods and so on. The postal item arrives at the international postal exchange office (IEO). Based on the documents provided, customs officers at the IEO take the decision whether to let the goods into the country or not.

If some documents are missing, the customs officers have the right to open up the parcels in the presence of experts.

EXPRESS SHIPPING

Parcels can also be sent via express shipping by other private postal operators. This shipping method is very similar to regular postal shipping, but has a number of restrictions. In particular, if you send a parcel via Russian Post, it is enough just to specify the recipient's name and delivery address and let their passport details be collected at the time of delivery of the parcel to the customer.

On the other hand, if you opt for express delivery, it is good to know that express delivery operators are required by the Russian customs to provide a customer's full passport details, delivery address, and TIN even before the parcel will be approved for import into Russia. There are two solutions: either the seller has to place a special window on their website, where filling out of these data will be mandatory for the buyer, or collect these data separately by making a phone call or sending a letter. This option is not very welcomed by the customers.

Next, a special e-register is compiled, which, among other things, contains information about the sender, the purchase price, information about the recipient and the express shipping company, and a detailed description of the purchased goods.

Also, according to Russian regulations, the recipient has to instruct the express shipping company to carry out some customs procedures on their behalf. As a rule, this is done on the website through the acceptance of an offer. Once shipments arrive in Russian territory, they have to undergo customs clearance procedures in accordance with the data stated in the shipping documents.

Important to know: as part of a new pilot procedure, the main flow of express shipments now comes under a simplified customs clearance procedure if they are addressed to individuals "for personal use" (that is, B2C). If they are addressed to legal entities (B2B), they cannot follow this procedure.

▪ **How should I organize shipment across Russia's regions if I work with several shipment providers?**

Working with different shipping companies is not enough: it is equally important to manage them through a quality control system and to be able to distribute your volumes depending on their operations, current loads and regions covered. This creates competition, which is a factor of service improvement .

Russian fulfillment companies usually divide all their logistics operations into two parts: the capital cities of Moscow and St. Petersburg, and the rest of Russia. This is due to the more stringent requirements of customers in Moscow, where they are used to receiving their purchases from Russian online stores on the next day, and, on average, are ready to wait for the goods purchased abroad for no more than a week.

• **For delivery to Moscow and St. Petersburg**, it is advisable to deal with shipping companies focusing on these two key cities.

• **When delivering to the rest of Russia,** you will have to negotiate with the companies that guarantee greater coverage, albeit with a slower shipping speeds. These include Boxberry, CDEK, DPD, Pony Express, PickPoint, CSE, Delovye Linii (Dellin.ru), and PEK (pecom.ru). Customers in Russian regions are much less demanding. Anyway, Russians prefer more affordable regular delivery, and express delivery is still rare, when, for example, you need to deliver a gift for a birthday.

• **If you plan to work in neighboring countries (CIS),** it may make sense to select separate shipping companies for particular countries. For instance, CDEK is doing good in Kazakhstan and Belarus.

• **Is it worth offering payment-on-delivery options to Russian customers, and how to manage this at the logistics level?**

▪ How do I prepare the parcels for shipment to Russia?

To send a parcel, you have to:

- Pack the purchase properly, each in a separate parcel.
- Attach a consignment note issued by your shipping partner.
- Prepare a register of parcels and a shipping manifest in accordance with Russian law.
- Prepare an airfreight bill as required by a Russian express shipping operator.
- Consolidate the parcels for shipment and have them shipped to Russia.

As seen above, take into account the specifications of working through the postal channel and through express shipping operators; as well, each express shipping operator may have its own specific requirements on certain points.

▪ What about insurance?

Russian Post charges an insurance fee of 4% of the declared insurance value of a parcel. This being said, the insurance value of a parcel cannot be lower than the amount paid by the customer for their order.

When sending a purchase with a total value of, let's say, 3,000 rubles to be paid upon delivery, the amount of the insurance fee will be about 120 rubles. The average service cost for sending parcels via Russian Post within Russia is about 300-350 rubles. Thus, with formally low rates, the real cost of sending a parcel is more than a third higher because of the insurance fee. When sending parcels over short distances, this increase is even more significant. Fortunately, in 2019, Russian Post plans to reduce the insurance fee for the declared value of parcels by eight times to 0.5%.

Other companies charge from 0.3% to 0.8% for this.

When working in B2B2C format, there is no insurance dispute. It is the cargo which is insured, and the insurance fee depends on the type of goods being shipped.

▪ Are there other miscellaneous or hidden costs?

Many companies charge a separate fee for "additional services" – in particular, for opening the parcel at the time of delivery in the presence of the recipient, for providing an opportunity to try on apparel, for the courier waiting at the recipient's place longer than the standard 15 to 20 minutes, for returning the documents after they are signed by customers, and so forth.

All such details must be discussed with every particular company beforehand. Also, take care of getting all the data from your clients; otherwise, your shipping company will have to contact them on their own to get all the required information – and they will charge fees for doing this, sometimes imposing non negligible rates. According to the Russian E-Commerce Association, customs clearance agents charge from $0.4 to $0.7 for calling one client to obtain the necessary information.

MANAGING RETURNS

■ How to organize cross-border returns?

In addition to being a strong customer expectation as seen above, returns are also a legal obligation even for foreign merchants. The main requirements for returns are the preservation of the original product packaging, the original invoice, and compliance with deadlines.

Several providers manage cross-border returns, but this procedure is pretty complicated and expensive. Even processing them in an entirely legal way is not always easy – but such established operators as Boxberry, CDEK, DPD, PSK and Shiptor do have the know-how.

Some shipping companies, including large ones, involve partners in the process. For instance, PickPoint has launched a returns service via its vast self pickup point network across the country. A dissatisfied customer can place the item to be returned in one of these lockers; PickPoint will pick it up and pass it to one of its logistics partners. In turn, this partner will manage the customs procedure and and take care of sending back the merchandise to the foreign merchant.

Depending on the company, the return can be made both at the customs (if the customer refuses the order before its receipt) and after delivery to the customer.

The returns procedure is as follows:

• The customer (himself or the store with his permission) provides his passport details and tax identification number;

• The store provides links to pages featuring purchase details (these include the information on which product exactly was purchased, when, and at which price; if the price included a discount, this info is provided there, too.)

• The return is registered and the return shipment is carried out by customs brokers and/or shipping operators providing this kind of service. The seller compensates the customer in accordance with their own rules and procedures.

Some operators collect all the returned goods from different companies in Russia in a single warehouse. The goods are then loaded on pallets and sent to Europe as a consignment. This methods is much cheaper and requires much fewer documents when processing. However, the goods get "frozen" in the warehouse as operator will wait until a sufficient volume of shipments is reached before shipping them back abroad.

According to CDEK, it usually takes two to four weeks for an online store to receives their goods back.

There is no need to open a Russian legal entity for such a service.

• What are the fees involved?

There are considerable price variations. Returns are more expensive due to the complexity of procedures relating to the registration of goods to be exported: the passport details of the sender have to be collected, the insides of the parcels have to be checked, and export limitations have to be observed.

CUSTOMS

- ### What documents are required for customs clearance?

For customs clearance, the sender is required to present all the data:
- about the item(s) contained in the parcel: the names of the items enclosed, their SKUs, weight, price and quantity;
- about the recipient: full name, contact details, TIN and passport details.

- ### Which problems may occur in the customs process?

SOME DATA MISSING

Like a TIN, passport details, or a privacy policy agreement. According to Russian E-Commerce Association, in cross-border shipping, some data is missing in 85% of cases, and a shipping company's officer can do nothing but call their clients to be able to collect it.

INCORRECT SELECTION OF AN HS CODE

This code has to be specified by the party willing to clear the goods through the customs: it can either be the online retailer itself or the shipping company.

INCORRECT CUSTOMS VALUATION

For instance, you will have to confirm a discounted price for the customs. It is quite possible that the customs authorities can compare the real price of an item on the seller's website at the time of the goods going through the customs against its promotional price and impose additional duties.

What is the customs taxation regime?

As of Jan. 2020, online cross-border B2C purchases are exempt from any customs taxes if their value (per package) does not exceed €200 and their weight (per package) does not exceed 31 kg.

Purchases above this threshold are subject to a 15% customs fee (applied to their fractional value above the threshold), with a minimum of €2 per 1 kg of weight exceeding the threshold.

Before January 1, 2020, the threshold was higher €500 – but per month, not per package; and the tax rate was higher, too, at 30%.[1]

There is a special customs body that monitors compliance with the threshold regulations. If the threshold is exceeded, an SMS will be sent to the recipient's phone number with a requirement to pay the duty.

All of such goods must be described as "for personal use." In case an individual orders several identical items, the customs will consider it to be a commercial transaction which cannot legally be made by an individual customer. If this is the case, the foreign merchant will have to follow the general customs procedures by submitting a customs declaration. Otherwise, the batch of identical items will draw the attention of customs officers who will definitely inquire about the purpose of the purchase.

There is also a number of limitations on certain types of goods – for instance, mobile phones.

- ### Will my customers have to get involved in the customs procedure?

- **In case of a postal item,** a customs payment order (CPO) will be issued. With the CPO attached, the parcel will travel to the recipient; however, he or she will not get it until the CPO is paid in full. Payment can be made through a money order in a post office or through the Russian Post's mobile app. A direct online settlement procedure (with no involvement from the Russian Post) is currently being tested.

- **In case of an express shipment,** the goods will not be allowed to leave the customs controlled zone until the duties are paid. The shipping company will have to get in touch with the client, explain the situation to them and provide the details on how to make the payment. Once the client pays the customs duties (which is usually possible online with a bank card), the customs authorities will provide the shipment to the express shipping company for delivery to the client.

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1. Some officials aired plans to lower the tax-free threshold even further – down to €20 by 2022. However, as of early 2020, such measure was not supported by the concerned government bodies, and industry analysts did not expect it to be adopted in the near future.

- **For B2B2C shipping, am I responsible for the customs procedures, or will the postal or shipping operator fully take care of them?**

According to Russian law, goods can be cleared through the customs only by a resident of the country. If you are bringing batches of goods to Russia without having registered any Russian legal entity, you will have to approach a special customs broker or a representative of a shipping company to have them cleared through the customs.

For customs clearance, you can use a scheme under which the goods are purchased from your company by a customs broker.

This broker will get them cleared through the customs and then sells those goods to a foreign national. This process is formalized as two purchase and sale contracts, though with different timestamps.

Shipping service providers usually work with customs brokers themselves: you will not need to spend much time approaching them or dealing with them. The service fee taken by a broker is different from contracts with a company and/or operator. According to Russian E-Commerce Association, the average fee ranges from $1 to $1.5 per parcel. Q. What documentation is required? For customs clearance, the sender is required to present all the data about the contents of a parcel: the names of items enclosed, their SKUs, weight, price, and quantity; and about the recipient: their full name, contact details, TIN, and passport details.

IN PART 1 OF THIS REPORT:

MARKET TRENDS & PLAYERS' STRATEGIES

- **A detailed review of domestic and cross-border e-commerce trends**

- **Online consumers: Key facts and trends**

- **Local and international players on the Russian e-commerce scene**

- **From offline to omnichannel**

- **Investing in Russian e-commerce: private equity deals, joint ventures, M&A prospects**
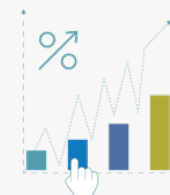
http://ewdn.com/files/russian_ecom_part1.pdf

BOXBERRY DELIVERY SERVICE, LEADER OF RUSSIAN CROSS-BORDER E-COMMERCE

boxberry.ru/en

- **57 000 000 POTENTIAL CUSTOMERS**
  Enter the fast-developing e-commerce
  markets of Russia, Kazakhstan and Ukraine

- **7 000+ PARCEL OFFICES AND LOCKERS**
  Exceptional outreach through the largest network
  of pickup points and parcel lockers

- **100% OF TERRITORY COVERAGE**
  by courier delivery

- **TRANSIT TIME STARTS FROM 5 DAYS**
  Including consolidation, freight, customs clearance,
  the last mile

- **SMOOTH RETURN EXPERIENCE
  FOR YOUR RUSSIAN CUSTOMERS**
  International returns accepted in 2 500+
  Boxberry parcel offices

- **12 000 GLOBAL PARTNERS ENTRUST
  THEIR PARCELS WITH BOXBERRY**
  Including industry leaders, such as ASOS,
  iHerb, ReBOUND etc.

boxberry

ALEX KRASNOV, COMMERCIAL DIRECTOR AT BOXBERRY INTERNATIONAL:
"WHEN A SHIPMENT COMES FROM A WESTERN COUNTRY, IT IS PERCEIVED AS A GUARANTEE OF QUALITY."

What do you observe in local consumer trends and expectations as a private shipping provider?

Russian e-commerce market is growing fast: according to expert estimates, its volume to reach or exceed $30 billion by 2020, including both the domestic and the cross-border segment [see trend analysis and forecasts in Part 1, Section1].

We believe cross-border purchases will grow especially fast, and here is why. The most popular categories of goods among the Russian e-shoppers are electronics, clothing and accessories, cosmetics, dietary supplements and vitamins. The product range for all these categories is far wider in western online stores [see Part 1, Section1]. So far domestic Russian sites haven't been able to offer such a variety of goods, as well as promotion and discounts. So Russian consumers greatly benefit from cross-border opportunities and will increasingly do so in the future.

Another important thing for foreign e-tailers to know is that, according to surveys, Russians value higher quality products. When the shipment comes from a Western country, it is perceived as a guarantee of quality while there is still a lack of trust in domestic e-merchants.

To illustrate this point, let me cite the example of a renowned UK fashion site, which, after years selling to Russia in cross-border mode, switched to in-country operations. Everything was supposed to be simpler, but they faced suspicion from consumers: these showed much less trust in a parcel coming from Russian than in the same one coming from the UK! The UK site had to explain all the time that the products weren't not fake – and ultimately moved back to the cross-border selling mode.

Another notable characteristic of Russian consumers is that, when it comes to choosing a delivery option, they tend to choose pickup offices and parcel lockers rather than courier delivery as is the case in most Western countries.

ALEX KRASNOV: "WHEN A SHIPMENT COMES FROM A WESTERN COUNTRY, IT IS PERCEIVED AS A GUARANTEE OF QUALITY."

Why such a preference?

In Russia, if you're not home, the courier usually has nowhere to leave the parcel. Mailboxes are not adapted to this, and any parcel left in front of the door is likely to disappear in a mere few hours if not minutes.

In addition, a substantial share of the packages, up to 60-70%, are usually delivered to the two largest cities – Moscow and St. Petersburg. The pace of life in these two major cities is very fast, people work until late. So it is difficult for e-shoppers to know in advance when he or she will get home and will be able to meet the courier.

Pick-up offices, in contrast, have several advantages. At Boxberry we store packages for 14 days for free. We have developed a large network of pick-up offices: almost 3,000 across Russia, plus thousands of self-pickup points through our partner PickPoint. These developments have allowed us to reduce the proportion of couriers in the delivery mix.

Note that the average delivery cost to a parcel office or locker is lower, since courier delivery is more expensive to run than pick-up points.

This preference for pick-up office is noticeable not only in Russia, but also in Armenia, Georgia and Ukraine. In Kazakhstan, however, online customers more often opt for courier delivery.

Do Western online retailers, which are used to courier delivery, easily integrate this pick-up delivery option?

Not always, I must say. Sometimes we have to explain to them how different is consumer behavior in Russia, including the importance of pick-up points. If they're reluctant, we need to make tests first, which demonstrates that more delivery options just mean more sales.

The difference can be substantial. For example, the sales volumes of another renowned UK fashion site grew by 200% on a yearly basis after they offered different delivery options and returns to their buyers through Boxberry. (Their previous yearly growth rate was around 30%.) Thus, even though most retailers are initially reluctant to integrate self-pickup as a delivery option, they do it once they see it's an opportunity to increase sales. Plus, we offer API integration, so these changes are easily achieved.

Do these different delivery options correspond to specific consumer types?

They correspond to both consumer types and item price. Since a substantial part of cross-border e-commerce in Russia are inexpensive goods purchased from Chinese online retailers, it doesn't make much sense to opt for expensive delivery. So, for this type of goods, customers usually choose postal delivery. Delivery time is unpredictable, from one week to more than a month. Sometimes the package may even get lost, but this is a risk that customers seem ready to take.

Another type of goods are good quality brands in the middle price segment. Such goods are purchased mostly by consumers from the middle class. These consumers normally want their order to be delivered from abroad in a few days – which is typically what Boxberry does. Our standard transit time from Europe and the USA is 5-6 and 6-7 days respectively.

The wealthiest consumers (those who buy Gucci at Farfetch, for example) have high expectations in terms of speed and service. Those will probably choose DHL.

ALEX KRASNOV: "WHEN A SHIPMENT COMES FROM A WESTERN COUNTRY, IT IS PERCEIVED AS A GUARANTEE OF QUALITY."

What is the actual difference between Boxberry and DHL in terms of delivery time?

We are slower than DHL because they have a permanent and intensive flow of air freight to Russia. However, the difference does not exceed one or two days from Europe, or three from the USA.

Many international e-merchants fear Russian customs procedures. How do you manage them?

There's nothing that frightening there. The process can be started even before the package leaves the country of origin.

To prepare the necessary documentation, we get information on the customer, including his or her passport details and tax payer ID. Since the retailer collects such information in less than 10% of cases, it is usually our part of the job.

We store customer data in our own database, being legally entitled to do so. It means that every e-shopper served by Boxberry has his or her passport details stored in our system – which allows us to retrieve information about him or her in more than 70% of delivery cases.

In the case of first-time customers, we contact them to get the necessary information. And, in 80% of these cases, we collect all the information required for the customs clearance in the first 24 hours after we receive the information on the order from the retailer.

Do customers like to provide their passport details?

Two years ago, 15-20% were reluctant to do so; now it is less than 1%. We achieved this result by evangelizing customers. Plus, everyone who purchases from foreign online retailers is already used to providing passport details. It does not make sense not to do it – in that case the order you've already paid for simply won't be released from customs.

A Boxberry pickup point in Krasnoyarsk. Photo credit: Boxberry

ALEX KRASNOV: "WHEN A SHIPMENT COMES FROM A WESTERN COUNTRY, IT IS PERCEIVED AS A GUARANTEE OF QUALITY."

What about returns?

Boxberry was the first carrier in the Russian market to offer international returns – we realized that returns can give a big boost to sales, especially if it is free. Needless to say, returns are crucial in the fashion segment. From our experience, the growth of sales after offering returns can reach 200% on a yearly basis!

Today, customer loyalty is everything. That's why Boxberry makes this process simple and smooth – you simply need to make a return request on the website and then drop the package in one of our parcel offices accepting returns. Boxberry will take care of the rest.

Please tell us a bit about Boxberry

The service was founded in 2010 as a division of the Ural-Press group, which had been delivering periodicals for over 25 years. This group's experience, together with an optimized logistics scheme, were among the factors of our success. Since the very beginning, one of the main advantages of Boxberry has been its network of parcel offices and its wide geographic coverage. Now Boxberry has almost 3,000 offices in almost 500 Russian cities, and their number is growing weekly. We also cover 100% of Russian territory by courier delivery.

Boxberry offers B2C and C2C services as well, delivering goods from Russian and foreign online stores, advertising and auction websites, parcels and letters from individuals.

The number of shipments grows by 64-68% annually; this year we expect it to reach 77%. We have plans to extend operations to serve retailers from Latin America and South-East Europe; we're also preparing to provide last-mile delivery services in new Eastern European countries.

What objectively distinguishes Boxberry from other providers?

Our network of parcel offices is particularly strong, and we are still developing it actively. We select locations in the most passable areas in various cities and make sure that opening hours are convenient to customers with a range of additional services. The process of issuing and dropping off parcels is very simple and fast, so there are no queues at the offices.

Another strong point is the way we have simplified the delivery procedure for foreign online retailers.

We can also assist our partners with promotion in Russia – which is very important especially for foreign players that are still little-known in Russia We're a reliable partner for any online retailer, regardless of its size and geography.

(July 2019)

PICKPOINT FOUNDER AND CEO NADEZHDA ROMANOVA: "WHETHER YOU'RE A DOMESTIC OR FOREIGN PLAYER, YOU CAN'T OVERLOOK SELF-PICKUP IN RUSSIAN E-COMMERCE"

What is your vision of the Russian self-pickup point market?

Self-pickup as an e-commerce delivery method appeared in Russia later than courier and postal delivery: it became an important channel only around 2013 – even though PickPoint pioneered the market in 2010. Initially, online retailers tried to build their own logistics, but their resources were not sufficient to reach all their customers, so third-party operators emerged to address the new market needs.

Self-pickup points have been deployed mostly in cities with an active online consumer population. (PickPoint, the market leader, has 540 cities covered.) Today, the average distance between two self-pickup points in Moscow and the surrounding area does not exceed 1.2 km. In other large Russian cities (one million inhabitants or more), the distance is around 2 km, and 3 km in other cities. Therefore, more than a half of the population can use parcel lockers to pick up their orders from online stores.

There are several types of lockers currently being used or tested in Russia. The cell size – 60x60x60 for PickPoint's largest type of locker – poses a physical limit: not all goods can be delivered in that way. For example, we won't deliver large equipment and furniture. Fresh food is also problematic, we don't deliver it either.

Are lockers all of the same type?

There are variations. PickPoint's lockers offer a complete functional range, from delivery to return, and all types of payment including cash, bank cards, and online payment means. The lockers of our partner, QIWI, have a more limited functional range and accept only cash payments. The OZON smart boxes deliver only pre-paid parcels. Recently, Yandex Market launched technologically-advanced lockers. Users can manage them via a mobile app – instead of a screen on the locker.

NADEZHDA ROMANOVA: "WHETHER YOU'RE A DOMESTIC OR FOREIGN PLAYER, YOU CAN'T OVERLOOK SELF-PICKUP IN RUSSIAN E-COMMERCE"

Do self-pickup points work in Russia in the same way as in other countries?

Unlike those in most other European countries, Russian lockers are generally installed inside buildings – typically a store or a public transport venue. This is to protect them from vandalism and extreme temperatures.

Self-pickup is not yet as widespread in Russia as it is in certain other countries. In Germany, Poland and Spain, 30%-35% of e-shoppers use lockers. The proportion reaches 20%-25% in the Baltic States and 35%-40% in the US, while just around 14% of Russian e-shoppers use them.

Should foreign players retailers consider self-pickup points as a delivery channel in cross-border e-commerce?

Whether you're a domestic or foreign e-commerce company doesn't really make a difference: you cannot overlook lockers in Russian e-commerce, they have become so familiar to online consumers! Online stores often come to work with us because their customers ask to be delivered through a self-pickup point. Some may give up on making their purchase if there is no such pickup location nearby.

The success of this type of delivery reflects certain changes in online consumers' behavior. These lockers provide a single-standard level of service, full pick-up time flexibility and convenient nearby locations. Plus, Russians like to use new technologies and gadgets in their everyday life, and many people had rather use a locker than have a stranger ring at their door for a delivery.

PickPoint's service satisfaction index has been maintained at 86% for the past four years. Note that, in just three years, our user base has more than doubled to 7.5 million people in May 2019. More than 96% (up to 99% depending on the season) are delivered in time. Here is a fundamental point: consumers want to see their order at the time they expect it, not earlier and not later. Otherwise, both the online store and we, as a logistician, expose ourselves to a negative perception.

As for unredeemed orders, lockers offer one of the lowest rate among delivery methods: 6% on average. It varies according to product types – from around 4% for household appliances to some 11% for fashion items.

At bottom, lockers function as a multifaceted instrument for interaction between online retailers and consumers – involving also, in a sense, brands and manufacturers. We regularly develop and integrate useful options and tools, conduct joint marketing campaigns with retailer, etc. All this contributes to establish self-pickup as the closest, safest, most reliable and modern delivery channel.

How did PickupPoint start a decade ago? And how did it reach this leadership position?

I discovered these machines in 2009, while visiting the Post Expo exhibition in Hanover. They were developed by KEBA and deployed by Deutsche Post. They triggered my interest because there was no automated delivery method in Russia at that time. Self-pickup lockers had an obvious potential.

In July 2010, we launched our company under the PickPoint brand name. It took us six months to adapt the system and install the first lockers in Russia.

Launching a totally new logistics service – unknown to most Russian e-commerce companies and online consumers at that time – required to address certain issues. We redesigned the lockers so they integrate payment functions by cash or bank card. Payment on delivery, not pre-payment, was the rule at that time due to low user trust, and it has remained so today to a large extent.

We began installing our lockers in shopping malls, supermarkets and hypermarkets in order to ensure constant temperature and ensure their physical protection.

NADEZHDA ROMANOVA: "WHETHER YOU'RE A DOMESTIC OR FOREIGN PLAYER, YOU CAN'T OVERLOOK SELF-PICKUP IN RUSSIAN E-COMMERCE"

Foreign companies were among our first clients (Yves Rocher was the very first one). They had experience with lockers in other countries, setting the example for Russian online retailers. Some five years later, self-pickup points had become a standard in e-commerce delivery. Several big e-commerce companies, especially in the fashion and beauty segments, began considering us as a strategic partner since our lockers accounted for roughly half of their deliveries.

Tell us about your client portfolio.

We serve more than 5,500 online retailers, including 1,500 on a daily basis. Among them are TMall, Mango, BonPrix, ASOS, iHerb, La Redoute, OZON, Yves Rocher, Reebok, Puma, Adidas, La Roche-Posay, KIKO Milano and many others.

The fashion category accounts for 38% of the number of deliveries, while beauty products and children's goods account for 26% and 5%, respectively.

**Who owns the company? Did you receive external funding.**

Let me keep this information confidential.

Do you have any international expansion plans?

We are currently expanding to Russian-speaking countries under a franchise model. The first lockers have already been deployed in Belarus; we also target Kazakhstan, Azerbaijan and some other countries, where we see as clear interest in our solutions.

(June 2019)

o Nadezhda Romanova is an expert in the logistics sector, consumer and e-commerce markets with 18 years of experience in logistics companies. Prior to founding PickPoint in 2010, she held the position of Deputy General Director of SPSR-Express. In 2017, Mrs Romanova was distinguished as "Top Manager of the Year" by Standard Chartered Rating GmbH Germany and International Rating Association. In 2018, she received the "Businessman of the Year" award from the Economic Development Council, Euro Consulting and Business Rating agencies for her contribution to the development of the Russian economy.
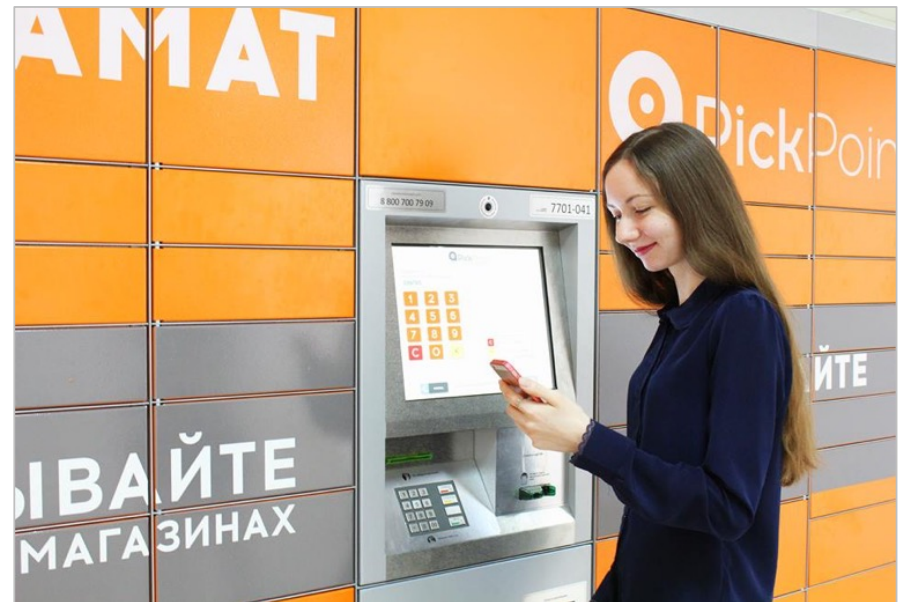
MONOBRAND WITH TASTE:

HOW BRANDS AND MANUFACTURERS CREATE COMPELLING B2C ONLINE STORES

HOW BRANDS AND MANUFACTURERS CREATE COMPELLING B2C ONLINE STORES
BY ARISTOS CEO ANDREY KHROMOV

Aristos, a company based in Russia and Netherlands, provides brands and manufacturers with end-to-end online-sales outsourcing support. The company's General Director Andrey Khromov shared his views on the different models for manufacturers to sell online and on the blockchain future of online retail.

What is the difference between monobrand and regular online store?

A monobrand store sells goods of a single brand produced by one manufacturer. From the consumer's viewpoint, this arrangement implies the shortest distribution chain along which the goods travel from producer to buyer. In most cases, of all distribution chain elements, it is the brand owner or manufacturer who enjoys the strongest trust and loyalty. A monobrand online store makes sense for well-known manufacturers whose products appeal to consumers. Other brands hardly need this type of store, unless it is kept for future purposes, in order to create this perception of a unique product.

If the brand is at the top of the loyalty hierarchy, it also entails the most responsibility. Errors that are pardonable when made by a distributor, reseller or retail outlet will be unforgivable for the manufacturer. They can cause considerable damage to brand image and customer loyalty. We believe this is fair, so we aim to offer end users the level of service they would expect from the brand.

What are the manufacturer's options of building own monobrand shop?

There are three standard online store models:

Model	Who is ultimately responsible for the success of the online store
In-house solution	Manufacturer
Via an existing distributor or reseller	Distributor or reseller
Outsourcing	IT service provider

HOW BRANDS AND MANUFACTURERS CREATE COMPELLING B2C ONLINE STORES

The main difference between these models is where responsibility lies. Who controls the order generation process? In the first model, it is an employee or department from the brand or manufacturer's organization. In the second and third ones, it is the reseller or the outsourcer.

Let's go through the details of each model. How does the in-house model work?

The in-house model implies that the manufacturer has developed its own retail expertise. Whether it is needed or not is up to the manufacturer; but it is important to keep in mind that this is never an instantaneous process: you can't avoid making mistakes that will affect your budget or customer loyalty.

This expertise is generally held within a dedicated department or unit established for this purpose – which makes it vulnerable, especially if this department is small. And it will be certainly small because, in most cases, the manufacturer won't be ready to rent warehouses, hire couriers, purchase vehicles, set up the call center etc. Many or all of these activities are generally outsourced.

What's wrong with that?

There may be two issues. First, responsibility is split between independent parties. Let me use a metaphor to explain this. You're a restaurant owner and you decide to implement the in-house model engaging outsourcing agencies. You'll be at the center of responsibility – but won't actually control much of the operations. One contractor will provide the kitchen team, including the chef; another one will engage waiting staff (with a replacement guarantee); the third one will be responsible for cleaning; the fourth one will undertake advertising; the fifth one will run the IT and so on. It is clear that this restaurant is not viable. Especially if you, the owner, are not present on site every day.

As a matter of fact, human activities are rarely formalized in a natural way, so no contract can ever have all participants in the process efficiently respond to challenges as a team. This is because none of the contractors feel they own the process. The owner, in turn, has no full levers to influence it.

The second issue lies in ownership twist. Let's use the same metaphor. The client of the restaurant enters into a service agreement with the owner of the restaurant. However, this agreement is performed by other parties that have never entered in any agreements with the visitor. He or she is not their client at all. This is approximately how all public services work. Employees of the tax service, for instance, or the pension fund, ministries and departments have no contract with the people they service. Their client is the government.

Under this model, contractors are motivated to receive payment from the shop owner rather than from the online store customers. This is not to say that such model is not viable: governmental pension funds work somehow. They rarely make their customers fully happy, though.

What are the consequences of the responsibility split and ownership twist?

You receive a package that is damaged. When you specify that to the courier of the logistics contractor, you will most likely hear something like: "You should contact the store, I'm just here to deliver the parcel." Then the shop can also come up with an excuse: "It's our partners who let us down, we will make sure that your feedback is delivered." You're not their client. Why should they talk to you?

What are the advantages of the model that relies on existing resellers or distributors?

The fact that the partner already exists. The partner already has product expertise. Besides, there are probably goods in the warehouse already...

HOW BRANDS AND MANUFACTURERS CREATE COMPELLING B2C ONLINE STORES

But?

There may be no 'but' – but usually it doesn't work exactly that way. If the reseller or distributor has no expertise in online retail sales, they won't do a better job than the manufacturer, and we already saw the issues that can arise. If the reseller or distributor does have the expertise, where did it come from? This kind of partner is likely to have their own online store, in which case the manufacturer's monobrand store will be launched using the same capacity, i.e. some or all resources will be split between these two businesses. Also, it's likely that the official monobrand store should communicate other values and/or provide a different level of service. And that will be very hard to implement within the same business processes. Just like a taxi cannot provide both business and economy class services in one and the same car.

It's also worth noting that, in most cases, official stores use official prices. It will be difficult to explain to the consumer why the price is different if everything else is the same. The consumer must feel that the added price is justified by an added value.

What abouth the third model? Does it also have significant flaws?

Speaking of outsourcing online sales – I mean responsibility over the entire process, not just some parts of it – its closest analogy is franchise. The producer outsources online sales to the contractor in the same way they would grant a franchise. And the franchisee becomes the proper process owner with the same or similar restrictions as those entailed by brick-and-mortar store franchising. What issues can arise here? The same issues: wrong choice of partner, the partner's lack of experience, misunderstanding on the brand's values – or, conversely, a misunderstanding from the manufacturer's side about the partner's values... If the producer is capable of avoiding these issues, everything should work well. Or at least the cooperation model *per se* is fundamentally healthy.

The franchise analogy is clear, but the franchise is usually purchased…

The question is: who should pay whom? It's simple: the party that pays is the one that provides less value than the partner. If both parties generate equal value, nobody pays anyone. And the online store is self-reliable. This is the case with most of our mono-brand store projects. Such online stores are different from regular ones primarily because they *have to* develop and change continuously. Skills in architecture design and successful addition of new features to the existing functionality is an indicator of the online seller's expertise.

It's not easy to stand out nowadays, as many things are easy to replicate…

It is important to stand out with stable performance, i.e. providing the stipulated level of service at all times, steadily low rate of failures, compensating customers for inconveniences etc. In today's world, commodities look very similar. When everything looks similar, it's often enough to be 1% better to become the best.

How do you achieve that?

We do what we call end-to-end online-sales outsourcing for manufacturers. This means that we build the online store's website, buy and store items, pick orders, deliver orders using our own service, carry out promos to attract traffic and trade marketing activities to increase conversion, post sales, customer support — in other words, anything it takes to make the producer proud of their store.

Our partners are large companies with a reputation. Their names must be used with due respect – and that's what we do.

HOW CONSUMER GOODS MANUFACTURERS CREATE COMPELLING ONLINE STORES

What about the cost?

We are the seller of the goods and owner of the process. We are motivated to sell the manufacturer's products rather than to sell services to the manufacturer. Our cooperation model assumes that all costs are covered by the frontal margin – and we achieve this result immediately or within a reasonable time. We invest in projects as much as the manufacturer does.

So the manufacturer doesn't receive profit from online sales?

They don't receive profit from the retail margin – but manufacturers usually don't receive such profit. And they wouldn't necessarily receive it if they tried to build online sales on their own. So a more accurate way to put it would be: it is the consumers who receive what they expect to receive: maximum assortment, qualified advice and support and the level of retail service, corresponding to the manufacturer's brand level.

What could possibly make the manufacturer even happier?

The manufacturer receives all the benefits of an almost direct interaction with consumers. It also gets comprehensive sales stats, a high level of control, more freedom in decision making, the possibility to carry out promotions and communications. So, a monobrand site is like a benchmark. This is a signal for the market: "We know how to sell products online and we are excellent in doing it."

What will online sales look like 30 years down the line? Can other models emerge in the future?

Given the spreading of blockchain, we can assume that consumers entering into a smart purchase contract will automatically enter into several subcontracts with the contractors performing the task. Apart from the price of the product, a specified percentage or amount will be automatically charged by the courier service, insurance company, consultancy company, affiliate for providing the lead etc. It depends on the number of participants and their contributions. The more value, the higher the price.

Such smart contracts may well include penalties and, for example, late delivery may deprive the carrier of part of the payments. And there's nothing personal about it: it's just robots that make agreements and share the profit and costs. Airbnb and other similar sites already indicate their fee separately and the consumer knows exactly which parties to the transaction get how much out of the booking price they pay.

SUMMARY: 8 REASONS FOR MANUFACTURERS TO OPT FOR INTEGRATED OUTSOURCING...

1. The manufacturer may trust the development of their store to a professional team of experts who have many years of experience in implementing complex e-commerce projects.

2. Thus, the manufacturer doesn't need to hire employees to control and coordinate business partners. Furthermore, there is no need to hire employees to create an in-house unit responsible for creating, supporting an online store, as well as marketing, logistics, sales and customer support.

3. The manufacturer still receives full operational feedback from consumers, analyze customer needs and implement their own marketing and management decisions.

4. When working with marketplaces and nationwide multi-brand players, these opportunities are practically cut off, and price manipulation becomes the only marketing tool. In the case of an official, mono-brand online store, the manufacturer receives more opportunities to work with their end customer in the most flexible and adapted way.

5. In the sales hierarchy, the consumer perceives the official online store as an opportunity to buy products directly from the manufacturer. In this case, the customer believes he or she receives first-class service, including consultation, delivery, trouble-free warranty service and after-sales support. This service cannot be provided by multi-brand players and marketplaces.

6. An official online store supports the maximum product range of the manufacturer – which no multi-brand online retailer can afford.

7. There are industries with a high proportion of fakes and counterfeit products, which severely affects brand reputation and loyalty. For consumers, official online stores are one of the few channels to purchase original brand products.

8. There is no fixed fee for operations. The outsourcing partner – interested first and foremost in selling the brand's products will carefully study the manufacturer's market and customer characteristics. Based on this, an individual and flexible approach is a arguably the most convenient approach.

...AS EXEMPLIFIED BY THESE BRANDS*

AXE

BLACK+DECKER

Castrol

DeWALT

emsa

GROHE

hansgrohe

KRUPS

logic.

Moulinex

OLYMPUS

OLYMPUS PEN

PHILIPS

PURINA

REHAU
Unlimited Polymer Solutions

Rowenta

STANLEY

Tefal

Unilever

*from Aristos client portfolio
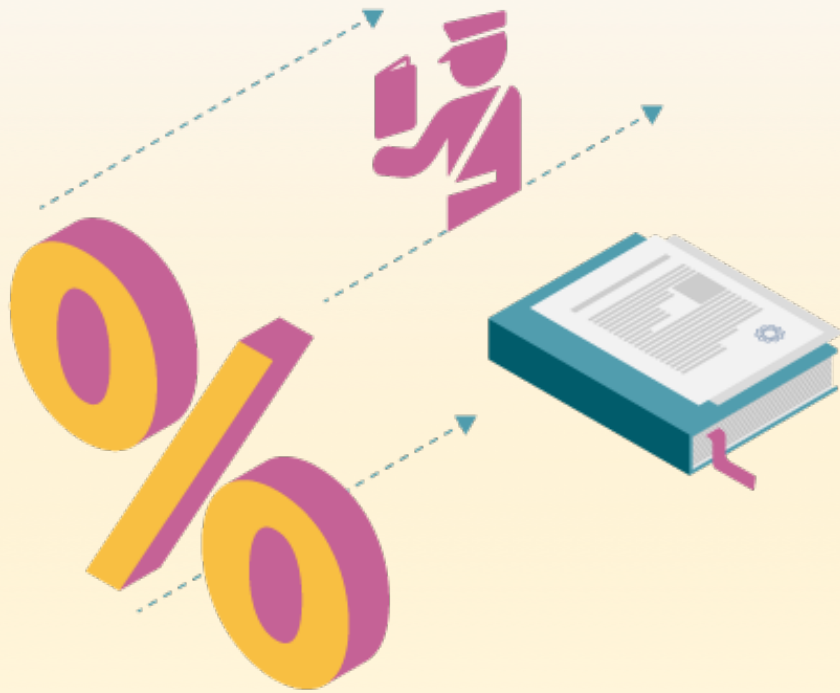
SECTION 3:

TAXES, CUSTOMS & LEGAL

CROSS-BORDER E-COMMERCE TAXATION
BY ARTYOM BERLIN, ASSOCIATE OF TRANSACTIONS & CORPORATE LAW PRACTICE, BORENIUS RUSSIA

VAT IN CROSS-BORDER **E-COMMERCE**

B2C cross-border online purchases via mailing are not subject to VAT. A foreign seller has no obligation to register as a VAT payer; a Russian private purchaser is not imposed with import VAT duties. The Russian business media periodically reports discussions at the government level to impose cross-border online purchases with VAT. Three options are on table: registering foreign retailers as Russian VAT payers; imposing customs fees for the amount equivalent to VAT; combining both options.[1]

However, there is no strong sign that the authorities would confirm the introduction of such tax in the near future. Not only do they currently seem unwilling to restrict cross-border e-commerce too severely, but the VAT mechanism could be technically hard to apply. While it could be agreed with large international companies, the Russian authorities would lack enforcement instruments to cover all e-merchants worldwide.

VAT ON B2B SALES

If a Russian company makes purchases on an international online retail site, the transaction is subject to VAT, which is due by the Russian buyer. (The foreign online retailer is not involved in tax relationships, because it has no tax payer status or any other tax-related status pertaining Russian tax system.)

The buyer must pay VAT at the standard 20% rate, based on the customs value in the course of the customs procedure. VAT deduction may be applied further, depending on the use of the imported goods.

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1. The option of applying VAT could be structured similarly to the existing 'Google tax.' Introduced on January 1, 2017, this value-added tax applies to foreign companies operating in Russia for the e-services they provide. Such services may include the transfer of rights to use programs, web advertising, website support, storage and processing of information, website analytics, hosting services, access to search engines, etc. Should such VAT be applied to international online retailers, these would register as VAT payers in Russia, directly charging and paying VAT from goods sold to Russian customers.

CROSS-BORDER E-COMMERCE TAXATION

CUSTOMS TAX THRESHOLD FOR TAX-FREE ORDERS

As of Jan. 2020, online cross-border B2C purchases are exempt from any customs taxes if their value (per package) does not exceed €200 *and* their weight (per package) does not exceed 31 kg.[2]

Purchases above this threshold are subject to a 15% customs fee (applied to their fractional value above the threshold), with a minimum of €2 per 1 kg of weight exceeding the threshold.

These thresholds are well above those practiced in the EU, where B2C cross-border online purchases are imposed above €30. The threshold is at around €150 in Ukraine, €200 in Belarus, €250 in the United Arab Emirates), €700 in Australia. Russia's domestic retailers have been lobbying for lowering Russia's threshold closer to EU standards – with little success so far.

Not only is Russia's threshold exceptionally high, it is not always applied. For postal shipments, there is no efficient way to control the thresholds and apply such tax. Private parcels and small packages are passed through customs control freely, unless a customs officer would have reasonable doubts pertaining to their content or value/weight as regards the customs tax thresholds.

Hence, only items clearly undervalued (e.g. an expensive laptop with a declared value of €100) or looking like commercial shipment (e.g. 10 phones in a single shipment) are imposed de facto with customs duties.

Another issue for applying the customs tax is that the only method to control the cumulative value of weight in multiple postal shipments is to record and compare addressees' names – while these may be spelled in various ways in English.

The situation differs for items delivered by private courier services (e.g. DHL). These are required to collect Russian purchasers' taxpayer identification numbers and disclose them to the customs along with the shipping details. This mechanism helps the customs monitor the cumulative value of items delivered through such channel.

The seller (foreign online retailer) is not involved in the settlement of the customs tax in any of these cases. (See details about tax settlement by the customer in Section 4.)

(June 2019, updated Jan. 2020 for the customs tax)

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2. The tax-free threshold was progressively lowered: from €1,000 to €500 in Jan. 2019 and from €500 to €200 in Jan. 2020. But it then applied per month, not per package.

PERSONAL DATA LAWS
BY ALEKSEI GRIBANOV, SENIOR ASSOCIATE AND HEAD OF THE INTELLECTUAL PROPERTY & INFORMATION TECHNOLOGY PRACTICE, BORENIUS RUSSIA

PERSONAL DATA STORAGE LAW[1]

According to this law, which came to force in September 2015, a company must ensure that personal data of Russian citizens is initially stored and otherwise processed with the use of databases located on Russian soil. Personal data may be transferred outside Russia only afterwards; but it is unlawful to initially store the data abroad and subsequently transfer it to Russia.

While many businesses — including Alibaba, AliExpress, Apple and Google — have managed to transfer user data from foreign data centers to Russia, others refused or failed to comply.

As a consequence, the authorities blocked access to certain sites from Russia, as was the case with LinkedIn in 2016 following two court decisions (https://bit.ly/2F1q9tG).

LEGISLATION ON PERSONAL DATA COLLECTION, USE AND TREATMENT

This legislation includes a variety of provisions. Foreign online retailers should pay particular attention to the following ones (but not limited to):

• Written consent of the data subject

Companies are required to obtain the written consents of users to various types of use of their personal data. Such consent may be provided in electronic form but using an electronic signature.[2]

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1. See white paper by EWDN and EY (https://bit.ly/2WTm84P)

2. An electronic signature may take, for example, such forms as: (a) a unique code sent to the data subject in an SMS message and then entered by the data subject at a website; (b) an email sent by the data subject from a certain email address; (c) checking a box by the data subject **after** the data subject logins to a website with a password (just checking a box box does not constitute an electronic signature since it does not prove that the signature was made by a specific person). The employed mechanism of an electronic signature shall be described in an agreement with the data subject.

PERSONAL DATA LAWS

In any way, the written consent must include such information as passport details – which may be problematic to request from hurried online customers.

Written consent may be required, in particular, for such operations as transfer of personal data to certain foreign countries – those which Russia considers not to provide a sufficient level of protection of data subjects' rights. These countries include the USA, but not the EU, the legislation of which Russia regards as being satisfactory from this standpoint.

If you agree with a third party (e.g. a Russian data center or marketing agency) to process personal data on your behalf, make sure your agreement with this third party specifies the requirements to the protection of personal data and contain other provisions specified by law. Further, you will have to obtain consent from your users to have the third party process their personal data on your behalf.

▪ Notifying the regulator

Companies are required to notify Roskomnadzor, the Internet and telecom regulator, of their intention to process personal data even before such operations actually start. There are certain exceptions: for example, the notification may not be required if personal data are processed only to perform an agreement with the data subject. In practice, however, Roskomnadzor often requests companies that did not file notifications to provide an explanation of their inaction.

▪ Customer information

A company that collects personal data online must publish its privacy policy. The law does not provide explicit requirements to privacy policies, but , Roskomnadzor offers recommendations on their content. Note that a GDPR-compliant privacy policy will not necessarily meet Russian legal requirements.

There are no specific requirements to the terms of use or similar documents. However, these terms must meet the mandatory requirements of Russian legislation, including the consumer protection law.

WHY FOREIGN ONLINE RETAILERS ARE CONCERNED

Russian personal data laws apply to all companies, including foreign ones, should their online activity target Russian users. For example, the use of the .ru domain name, the existence of a web page or of an advertising campaign in Russian language may be sufficient ground to apply these laws to a foreign player.

Thus, the legislation applies to any online retailer – even those operating from abroad without a physical or legal presence in Russia, should their online resources target users in Russia.

In April 2019, Roskomnadzor's head publicly ordered his subordinates to control the compliance of foreign e-commerce companies with the personal data storage law. "There are lots of money going there, and lots of violations," he claimed (https://bit.ly/2KFrYQB).

Roskomnadzor can start an investigation against any company based on a single user complaint or based on their permanent online monitoring. This is why all international online retailers are concerned de jure and de facto by the personal data legislation, in which ever quantities – even symbolic – they sell goods to Russian consumers.

The provisions of Russian legislation on personal data collection, treatment and use do not fully correspond to the EU's GDPR. Hence, compliance with this legislation might require substantial changes in the company's IT systems. In some cases, the foreign company may even have to choose whether to comply with Russian data protection law or to comply with the GDPR.

PERSONAL DATA LAWS

In certain situations, a company should act differently under Russian data protection law and under the GDPR. For example, under the GDPR, a company's 'legitimate interest' may be enough as a legal basis to process personal data for marketing purposes without requiring the data subject's consent. The Russian data protection law construes 'legitimate interest' more narrowly and may require a company in the same situation to obtain such consent.

In such a situation, the company would have to choose whether to comply with the GDPR and take the risk of violating Russian data protection law or to comply with Russian data protection law and take the risk of violating the GDPR.[3]

PENALTIES FOR NON-COMPLIANCE

Violations of Russian personal data laws may lead the authorities to block access to the site from Russia. A company also faces fines or be required to pay a compensation for the damages and moral harm caused to data subjects.

Blocking a website is Roskomnadzor's most powerful weapon. LinkedIn has been blocked in Russia since 2016. Currently, the regulator is putting pressure on Twitter and Facebook so that they move to Russia their databases with personal data of Russian citizens. The threat of being blocked may apply equally to non-compliance with the legislation on personal data storage (as is or might be the case with LinkedIn, Twitter and Facebook) and non-compliance with other Russian personal data laws.

Administrative fines for illegal data processing are relatively low in Russia (some fines are up to approx. €1,000). But if cumulated, these amounts may become significant.

However, under a new bill under discussion in the Russian parliament, the fines for failure to comply with the data storage requirements may soon increase to up to approx. €82,000 for the first violation and €248,000 for a repeated violation.

Compensations for damages and moral harm caused by illegal data processing are usually low in Russia. Some experts judge the amounts of such compensations to be so low that they might just increase the moral harm.

(June 2019)

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3. Under the GDPR, in each situation there is only one correct legal basis for the same data processing operation. If the correct basis is a legitimate interest but the company relies on the user's consent, the company violates the GDPR. Thus, the company must carefully choose only one legal basis.

PRODUCT RESTRICTIONS & PRODUCT CERTIFICATION

BY ALEKSEI GRIBANOV, SENIOR ASSOCIATE AND HEAD OF THE INTELLECTUAL PROPERTY & INFORMATION TECHNOLOGY PRACTICE, BORENIUS RUSSIA

PROHIBITED GOODS

Alcohol, tobacco products, drugs, jewelry, pharmaceutical products, weapons, spy equipment, and other goods specified by Russian law are prohibited for online sales in Russia. The same rules apply both to domestic and to cross-border e-commerce orders if a foreign online retailer targets Russian users.

The sale of goods prohibited for online sales in Russia may lead to administrative fines (of up to approx. €560) and seizure of the concerned goods.

A website used for distribution of prohibited goods may be blocked. We are aware of the blocking of a .com website used for selling an alcohol.

The Ministry of Finance has recently developed a bill on a step-by-step legalization of online sales of an alcohol. Under the bill, since 2020, the wines may be distributed via the internet. To start online sales of an alcohol, a company is required to be included in a special register of Rosalkogolregulirovanie (Federal Service for Alcohol Market Regulation), and register in the domain zone egais.ru.

GOODS SUBJECT TO CERTIFICATION

Certification requirements do not apply to international online retailers as long as they sell goods for individual consumption. Should the goods be further distributed in Russia (including through the Russian distribution centers), they may be subject to technical regulations: such is the case with perfumes and cosmetics, children's goods, toys, clothing and shoes, furs, leather products, sports equipment, locks, etc.

To obtain certification, foreign companies must authorize a partnering Russian organization to apply for product certification on their behalf. Such organization submits an application to the certification body which makes research and agrees, or not, to certify the product.

PRODUCT RESTRICTIONS & PRODUCT CERTIFICATION

Certification is carried out by accredited certification bodies and testing laboratories (centers) which are included in the Unified Register of Eurasian Economic Union.

Failure to get a product certified when it is required by law may entail a ban on the import of such product as well as administrative fines.

PRODUCT LABELING

International online retailers selling the goods through Russian distribution centers should check whether these goods are subject to obligatory identification labeling. For example, perfumes, cameras, and clothing must be labeled since December 2019 and shoes since July 2019.

(June 2019)

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OTHER LEGAL REQUIREMENTS TO INTERNATIONAL E-COMMERCE COMPANIES
BY ALEKSEI GRIBANOV, SENIOR ASSOCIATE AND HEAD OF THE INTELLECTUAL PROPERTY & INFORMATION TECHNOLOGY PRACTICE, BORENIUS RUSSIA

LIABILITY OF MARKETPLACES

E-commerce platforms that allow to buy goods from different sellers are required to provide their customers with information on themselves and on these sellers. They may be liable for inaccurate information provided to the customers – including information on a third party or its offerings if the information became inaccurate following an action performed by the platform (e.g. if the platform altered the information provided by the seller).

Thus, e-commerce platforms may be required to pay a compensation for the damages inaccurate information may cause.

E-commerce platforms are also required to refund pre-payment for goods, should these be not delivered in time and should the customer withdraw from the purchase agreement.

TRADEMARK PROTECTION

International online retailers should ensure that their domain names, slogans and other designations they use do not violate third parties' rights to trademarks protected in Russia.

PAYMENT REGULATION

International online retailers should check that the payment solutions they use while making transactions with Russian customers comply with Russian legislation and regulations in this field. In particular, they should make sure that their payment service providers store personal data on Russian soil as far as Russian users are concerned. In some cases (e.g. online sales through the distribution centers in Russia) law on cash registers may apply to international online retailers..

OTHER LEGAL REQUIREMENTS TO INTERNATIONAL E-COMMERCE COMPANIES

ADVERTISING LAW

Many types of information usually published on websites may be considered as advertising under Russian law. It is advisable to ensure that such information complies with Russia's advertising legislation

PRODUCT INFORMATION

▪ On site catalogue

International online retailers are required to adapt product description/labels in their catalogue to comply with Russian legal requirements if they target users in Russia.

Under Russian consumer rights legislation, the seller must provide the consumer with specific information related to the product for sale. This includes the description of the goods, place of manufacture, warranty, price in rubles, terms of payment, etc. The relevant information must be provided in clear and plain Russian language.

Non-provision of such information may lead to administrative fines, enhanced liability for defects of the goods, consumer's withdrawal from the agreement, and enhanced liability for harm to consumers' life, health and property. However, the enforcement of legal decisions against an online retailer is made difficult if the company has no presence in Russia.

▪ Product information for the customs authorities

No specific requirements on information placed on the package apply to the international delivery of consumer goods by postal operators or shipping service providers.

▪ Terms of purchase and consumer agreement

The parties may choose to apply foreign law to their purchase agreement; however even in this case the customer will enjoy protection of his or her rights under mandatory provisions of the Russian consumer rights legislation.

Hence the purchase agreement should be consistent with the corresponding provisions of Russian law: in particular, but not limited to, the customer's right to withdraw from the agreement within seven days as of the delivery of the ordered product, to demand replacement of defective goods, and to withdraw from the agreement if the goods are defective.

No other specific legal requirements apply to purchase agreements between Russian customers and foreign e-merchants.

(June 2019)

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