

OPPORTUNITY  
**Russia**

*BILATERAL*  
**GROWING BEYOND  
TRADITIONAL TIES**

*INVESTMENT*  
**RUSSIA LOOKING EAST FOR MORE  
OPPORTUNITIES & INVESTMENTS**

*ECONOMY*  
**SPIEF 2014: SUSTAINING  
GLOBAL ECONOMY TRANSFORMATION**

*SPORTS*  
**CELEBRATING SOCHI OLYMPICS**



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# REACHING RUSSIA THROUGH E-COMMERCE

By Leighton Peter Prabhu

**In the summer of 2014 foreign investment relations between Russia and the West are in a state of uncertainty, reinforcing existing trends within Russia to ‘pivot’ its economic outlook towards the East. We could be on the brink of a new golden era of cooperation between Russia and Asia.**

**A**nd the interest is definitely mutual. Russia is an attractive market for foreign companies, with a per-capita income that places it solidly within the middle-income category. Moreover, Moscow, with a population of roughly 12 million, is the largest city in Europe, serves as both the political and economic summit of the country, and has consumption patterns on par with the leading cities of the world.

large, with products suited to their lower income levels. Singapore-based Golden Eagle, for example, has managed to build its instant coffee brand in Russia with no discernible presence in Moscow. Shoppers are moving online, especially in the regions.

Not only is Moscow the largest city in Europe, but the Russian online population surpassed Germany’s last year, and is destined to become the

largest consumer market in Europe in short order. Growth in Internet access and usage will continue to be robust over the medium term, and Russians are increasingly comfortable with online shopping although there are specific peculiarities which are discussed below.

While currently representing a small share of total retail sales (roughly three per cent) there has been a flood of interest from international companies. Several local groups have attracted significant venture funding, and are trying to establish themselves as the dominant e-commerce marketplaces.

The online trend is particularly suited to Russia’s geography - consumers in far flung regional cities gain expanded selection of goods via e-commerce, as this channel leap frogs underdeveloped bricks and mortar retail. Even in the face of domestic economic uncertainty, the trend towards online shopping will continue, as it has the potential for improving the efficiency of the retail supply chain.

## What do Russians buy online?

The Russian online market is currently skewed towards standardised electronics and technology products, where the specifications are well known. However, the fastest growing segment is clothing, footwear and accessories (CFA).

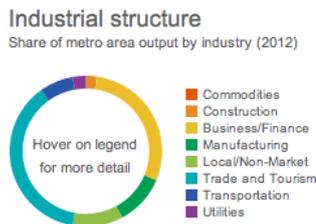
## Peculiarities of the Russian e-commerce market

At the same time, the Russian online market has a few peculiarities which necessitate a degree of localisation. To begin with, a large majority of Russians don’t speak English, so an online seller must offer at least a partially translated website in order to appeal to the mass market. At a minimum, key information such as payment and delivery options should be in Russian. Depending on the nature of products being sold, it may not be necessary to undertake full translation of the product descriptions themselves.

Russian buyers are also more likely to communicate with the online seller prior to purchase. Most Russian websites display their local contact numbers prominently, and offer toll-free telephone as well as chat support. Sellers will typically call each buyer after receiving an online order, to confirm the order details, product availability, and payment and delivery methods.



Moscow has partially recovered from a major recession. It is outperforming Russia on employment change, but is lagging on GDP per capita change.



**Sizing up Moscow in 2012**

GDP:	\$520.1 billion
Population:	11,616,623
GDP per capita:	\$44,774
Employment:	6,245,518

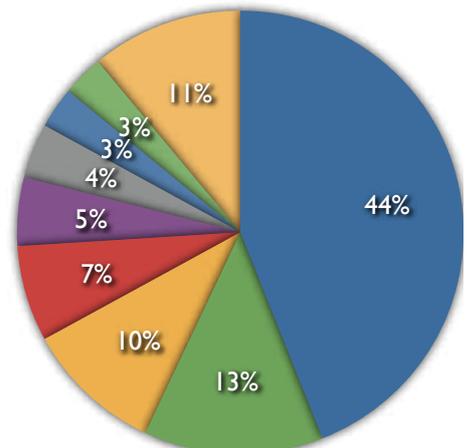
Source: Brookings Institution - <http://www.brookings.edu/research/interactives/globalmetro-monitor-3>

This has not escaped the notice of international luxury brands. US-based Tiffany & Co. is the most recent arrival, opening their two-level flagship store in GUM, right off the Red Square, in early 2014.

## Moscow vs the regions

While Moscow could be a wealthy country in its own right in terms of economic power, 90 per cent of the Russian population lives outside of Moscow. It’s perfectly viable to avoid Moscow and focus on the mass market in the country at

- Electronics / technology
- Clothing & footwear
- Automobile parts
- Housewares & furniture
- Children’s items
- Cosmetics & perfumes
- Books & CDs
- Foodstuffs
- Other



Source: Data Insight (2012)

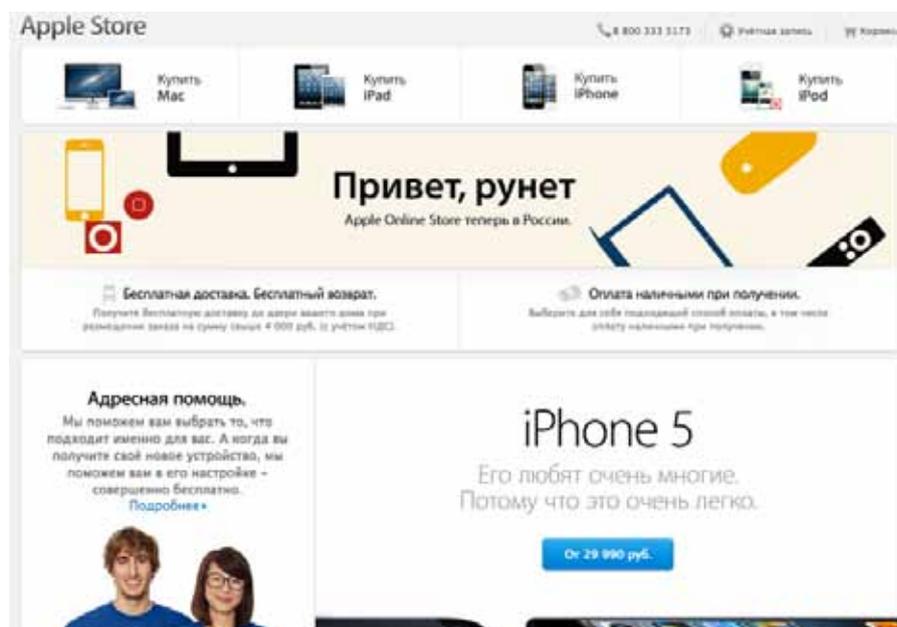
Another significant issue arises with online payment systems. Russia-based online sellers, in most categories other than travel, conduct the majority of their business on a cash-on-delivery basis. This is impractical for a purely offshore seller, and without a local agent it further restricts the potential reach of an online store's appeal, particularly if that store has no brand recognition in Russia.

Finally, the key online marketing platforms in Russia differ from the rest of the world. In keyword advertising, Yandex is the main player with a plus 60 per cent market share in search. In social media, VK and Odnoklassniki attract a far larger audience than Facebook, although Facebook is closing the gap and generally attracts a more worldly user base. Adapting marketing programs to Russia not only involves translation but requires specialist knowledge about the Russian-specific platforms.

**Where are the opportunities for Singaporean companies?**

For Singaporean companies in the consumer market, entering Russia as a direct online seller is a relatively low risk strategy, enabling a company to test the Russian market's receptiveness. An online strategy can be very specific in terms of targeting cities and demographic groups. However, localisation is a necessity.

One example is the Singapore online project called Snapped, which sells customised laptop sleeves and mobile phone cases. Snapped has been active in Russia since 2012 and has adapted both its website and operations for Russian users. Through a local partner, Snapped offers Russian customer service and local payment methods, including cash-on-delivery. To save on



the time and expense of drop shipping individual orders, the company also stocks its most popular items in Russia and is able to fulfill orders immediately, with periodic stock replenishments. They sell directly from their website, as well as through third-party online platforms in Russia. Apart from being direct online sellers, opportunities exist in modernising the transport and warehousing infrastructure. Changi Airport has already been advising certain Russian cities on their airport development plans. Singapore has a lot of expertise in logistics and warehousing automation as well.

Financing and ownership of modern warehouses are also options for financial investors, with yields on Russian investments offering significant premiums over western European markets. Russia is also moving towards a self-sufficient domestic payments system, and companies with deep technical expertise in this domain

would see demand from Russian banks and other financial institutions.

**A staged approach**

Most foreign retailers in Russia have seen impressive growth from their Russian operations and have a very positive overall experience. However, short-term opportunistic approaches will not work well.

As elsewhere, Russian consumers need repeated exposure to new brands before reaching purchase readiness. While cross-border selling is a good way to get started, with time and success the benefits of investing in a local operation becomes evident.

While vicissitudes are part and parcel of any emerging market, Russia's fundamentals are undeniable and globally-oriented companies should take a closer look at the market, before their local rivals become too entrenched. For good business models are easier to replicate than ever before.

**About the Author**

LSP Prabhu is a partner with Interstice Consulting LLP (Moscow, Singapore), focusing on e-commerce business development. The above article is Copyright (C) 2014 Interstice Consulting LLP. All rights reserved. No part of this article may be reproduced in part or in full, in any form, without express written consent.

