Online Shopping in Russia

Reported by Yandex.Market
Spring 2007

Contents

Introduction ........................................................................................................................................ 1
1. General market overview ........................................................................................................... 2
   1.1. Moscow and regions ........................................................................................................... 2
   1.2. Growth problems ............................................................................................................... 3
2. Market, its segments and participants ...................................................................................... 4
   2.1. Major trends in Russian online shopping ........................................................................... 4
   2.2. Potential niches in the market .......................................................................................... 6
3. Online brands and products in Russia ...................................................................................... 7
4. Appendix 1. Interesting facts .................................................................................................. 8
Conclusions ..................................................................................................................................... 9

Introduction

The store story in the World Wide Web started in mid 90's. One of the ecommerce pioneers was Pizza Hut, who posted on their website an offer of ordering pizza online in 1994. In the following two years, monsters like Amazon.com and eBay were founded.

Despite that fact that, evidently, it was easier to develop web sales in America (local customers were long used to mail order catalogue shopping, so that, websites describing products became yet another sort of these catalogues; correspondingly, there has already been a developed delivery system), the first Russian online stores appeared not long after those in the West. Thus, in 1995 Russian web users were introduced to a virtual showcase of Moscow’s Partia chain store, and by the end of 90’s there already were web stores that existed as independent, solely online brands, such as Ozon.ru, Foto.ru and others.

Today, the demand for online shopping is supported by millions of users in Russia. The Russian Internet accommodates thousands of stores oriented not only to retail sales, but also to B2B and B2G segments. At the same time, the interpretations of the actual term «online store» vary, starting from a price list posted on a company’s web page, up to a fully developed instrument for choosing products by its features with built-in billing systems. A part of virtual shops complement real off-line shops, the other part are the only channel for sales.

This information bulletin is based on the data from Yandex.Market service, a comparison shopping system for product search and selection. Over a thousand online stores place their offers with the service to be viewed daily by more than a hundred thousand users. This study covers
Yandex Market partner stores that feature a «product page» (after choosing a product at Yandex Market, the user is directed to the store’s webpage with the item description, its price, and «Buy» button). The study focuses particularly on product sales; it practically does not consider the segment of online service sales (holiday trips, loans, insurances). The data cover the period from February 2006 to February 2007.

1. General market overview

According to Yandex, during 2006 Russian online shopping market has shown 42% growth*. The rate of growth in consumer segment of ecommerce in Russia is six times faster than GDP growth, and three times faster than the growth of off-line retail sales in the country**. The Russian online sales experience a faster growth, than the growth of online sales in the West. According to ComScore Networks, B2C segment of ecommerce in the USA in 2006 grew approximately by 25%.

1.1. Moscow and regions

Only a few years ago sparse online stores were located mainly in Moscow and St.Petersburg, and delivered products only within Central Russia. Today, a whole range of companies engaged in online sales own warehouses practically in all regions of the country, and many Russian cities have long been having their own local players in the ecommerce market.

At the same time, the degree of interest toward shopping online remains much higher in the metropolitan areas, than in the regions. According to Yandex search results, Moskovites

![Fig.1. Degree of user interest for online shopping](image)

* 42% is the growth of the number of conversions to the websites of Russian online stores. According to Yandex, this figure corresponds to overall growth of Russian ecommerce market.

Online Shopping in Russia. Spring 2007
visit online stores more often than other people in Russia***. In 2006, their share of visits to websites of online stores amounted to 62% among users in all regions of Russia. In all other cities, including Russia's Northern capital, St.Petersburg, the interest for web shopping is notably lower (see Fig.1).

Another method of assessment also confirms the fact that metropolitan users are more actively interested in shopping online, than regional users. The queries from residents of Moscow and of Russia's Central region, contain words like, «buy», «purchase», «price», etc., suggesting user interest in finding information about the products and making a purchase, more often than the queries from Russia's Internet population on the whole. Affinity Index for popularity in regions of Russia is illustrated in Fig.2.

Interestingly, the Far East is closest to the Center, probably, because the region's proximity to China and Japan promotes fast Internet development.

### 1.2. Growth problems

Gartner, an IT-research firm, estimated a 2 bln USD loss in American ecommerce in 2006 due to user concern over online payment security. This problem is not yet that relevant in Russia, as most Russian online stores use the cash-on-delivery scheme. At the same time, the Russian ecommerce has other, more prevalent, barriers. According to Yandex.Market service, in 2006 what the Russian online shoppers considered to be the major problem that they had to deal with, was that the chosen item was not in stock***. Customer dissatisfaction is also caused by the wrong (understated) prices indicated in the store offer. Solving part of these problems could promote the growth rate of customer interest for online shopping in Russia.
2. Market, its segments and participants

2.1. Major trends in Russian online shopping

According to Yandex.Market service, in 2006 users expressed interest most often toward computers, consumer electronics, photo equipment, telephones (mostly, cell phones), and household appliances (Fig.3).

Despite that fact that the items from «Consumer electronics and photo equipment» category still attract most interest of Russian web users, in 2006 this category had smaller growth rate of consumer interest than other categories. As a result, the percentage of conversions to the website offers of online stores in this category in the Russian ecommerce market went down by 12% during the year. «Consumer electronics and photo» category can be considered the most mature segment of the market: web searching for items from this category has already become «commonplace» for many Russian web users, and the demand is completely «covered» by the supply of hundreds Russian online stores.
Fig. 4. Demand for consumer electronics, photo equipment, and computers

Consumer electronics and photo

- Satellite and cable tv (1%)
- Home theaters
- Accessories
- Video cameras
- DVD-players
- Home audio
- Photo
- TV sets and plasma TVs
- Other

Computers

- USB Flash drive
- Desktop computers
- Supplies
- Game consoles
- Keyboards and joysticks
- Networking
- Accessories
- Printers
- Multimedia
- Memory cards
- Monitors
- Notebook
- Components
- Pocket PCs
- Software
- Other

according to Yandex.Market

Online Shopping in Russia. Spring 2007
The same is true for book sales, a sector that has existed in the Russian e-commerce for more than 10 years. When choosing computer appliances, online shoppers more often than not prefer multifunctional devices. Thus, the percentage of consumer interest for printers among all computer equipment fell during the year from 5.52% in 2006 to 4.02% in 2007. Trying to save money and space, users tend to buy devices that feature printing, as well as scanning and copying functions.

Consumer interest for monitors fell by 16% during the year. One of the factors that caused a drop in demand for monitors, probably, was an increasingly popular desire to exchange a desktop computer for a laptop. The demand for portable computers grew by 19% during the year.

Both tendencies for redistribution in demand for printers and for monitors, are supported by the offline data.

Consumer interest of the Russian web users for home appliances, kitchen devices and other household products, grew by 8%. Consumer interest for ordering large home appliances (refrigerators, dishwashing machines, etc.) was growing at advancing rates.

Online Shopping in Russia. Spring 2007
2.2. Potential niches in the market

According to Yandex Market, the number of Russian online stores has grown by approximately 47%. Faster than average growth is experienced by the online businesses that offer equipment, construction materials, gifts and flowers, books, sporting goods, and children’s accessories (Fig. 6).

The founders of online stores do not always consider customers’ affinity for the segment of the market that they have chosen. For example, according to Yandex, the number of online stores selling makeup, toiletry and other health and beauty products, has approximately tripled during the year, but customer interest, on the contrary, has dropped by 2%. At the same time, online demand for clothing and shoes is growing three times faster than the number of online stores offering these products. Besides, today the scope of interest of online shoppers includes not only books and appliances, but also home products, as well as sporting goods and construction materials, while the growth of the number of stores in these categories is not big enough.

3. Online brands and products in Russia

Russian ecommerce is middle-class oriented: higher-end models of computer, photo- and video equipment predominate in the product ranges offered online. Top ten most offered products in 2006 has 42” plasma televisions, and 8-10MP digital cameras (Tbl. 1).

Top ten brands most searched by Russian users for the past year is by half represented by cell phones and smartphones. And the hot list of vendors for Russian online stores has mainly companies that produce home appliances and consumer electronics.

Table 1. Top 10 products most offered online.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Product Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Cell phone Nokia 8800</td>
</tr>
<tr>
<td>2</td>
<td>Digital camera Sony Alpha DSLR-A100</td>
</tr>
<tr>
<td>3</td>
<td>Cell phone Motorola RAZR V3</td>
</tr>
<tr>
<td>4</td>
<td>Digital camera Canon EOS 3500</td>
</tr>
<tr>
<td>5</td>
<td>Plasma television LG 42PX38V</td>
</tr>
<tr>
<td>6</td>
<td>Plasma television Panasonic TH-42P60R</td>
</tr>
<tr>
<td>7</td>
<td>Digital camera Canon Powershot F430</td>
</tr>
<tr>
<td>8</td>
<td>LC-monitor Sony SDM-H57S</td>
</tr>
<tr>
<td>9</td>
<td>Projector Sim2 HT500</td>
</tr>
<tr>
<td>10</td>
<td>Plasma television LG 42PX44R</td>
</tr>
</tbody>
</table>

Table 2.

<table>
<thead>
<tr>
<th>Top 10 brands searched by Yandex search engine users¹</th>
<th>Top 10 producer companies presented at Yandex Market²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nokia</td>
<td>Samsung</td>
</tr>
<tr>
<td>Samsung</td>
<td>LG</td>
</tr>
<tr>
<td>Sony-Ericsson</td>
<td>Panasonic</td>
</tr>
<tr>
<td>Motorola</td>
<td>Sony</td>
</tr>
<tr>
<td>Siemens</td>
<td>Bosch</td>
</tr>
<tr>
<td>Qtek</td>
<td>Ariston</td>
</tr>
<tr>
<td>Sony</td>
<td>Philips</td>
</tr>
<tr>
<td>Canon</td>
<td>Siemens</td>
</tr>
<tr>
<td>LG</td>
<td>Electrolux</td>
</tr>
<tr>
<td>Asus</td>
<td>Zanussi</td>
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</tbody>
</table>

¹Based on Top 10000 queries during the year
²Based on the number of product offers
4. Appendix 1. Interesting facts

Online shoppers are among those who first get an opportunity to order another new product, and the desire to buy a passe model often disappears right after a newer model comes out. Online stores, on their part, strive to ensure that they showcase only products that are relevant for customer interest. High frequency of assortment renewal may cause some categories of products totally go off sale. Thus, it took only two years for online stores to fully reorient toward selling nonprofessional cameras with 5.0-7.0MP or higher resolution, while in 2004 the percentage of such offers was relatively small (Fig.7). Customer demand for VCRs was practically totally «killed» by the interest for DVD-players (Fig.8), and MP3-players during the past year have finally shouldered cassette tape players, CD- and MD-players out of the market (Fig.9).

Table 3. Prices slide on popular characteristics of products

<table>
<thead>
<tr>
<th></th>
<th>Mean price in 2005</th>
<th>Mean price in 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 MP of camera sensor</td>
<td>$63.4</td>
<td>$49.2</td>
</tr>
<tr>
<td>1 Gb of desktop HDD</td>
<td>$0.72</td>
<td>$0.59</td>
</tr>
<tr>
<td>1 inch of HD LCD television</td>
<td>$82.4</td>
<td>$67.6</td>
</tr>
</tbody>
</table>

according to Yandex.Market

Fig. 7. Changes in structure of online supply of digital cameras

Fig. 8. Change in web user interest for DVD-players and VCRs

Fig. 9. Change in web user interest for cassette tape players, CD-, MD- and MP3-players

according to Yandex.Market
Conclusions

According to Yandex, during 2006 Russian online shopping market has shown 42% growth*. Western ecommerce turnover showed a smaller growth of 25% approximately.

Metropolitan residents demonstrate a notably higher degree of interest toward online shopping, than those who live in the regions. Moskovites use online stores more often than other people in Russia. In 2006 their share of visits to websites of online stores amounted to 62% among users in all regions of Russia.

In 2006 users expressed their interest mostly toward computers, consumer electronics, photo equipment, telephones, and household appliances. Consumer interest was growing most actively toward the products in the «Constructing and Renovation» category (+30% during the year).

The number of stores in the Russian Internet has increased approximately by 47% during the year. The fastest growth is experienced by the online businesses that offer equipment (+77%), construction materials (+68%), gifts and flowers (+62%), books (+52%), sporting goods (+51%), and children's accessories (+49%).

The number of stores selling various products online does not always grow with consideration of the demand for what they offer. Today, the scope of interest of online shoppers more often than not includes clothing and shoes, household products, sporting goods, and construction materials.

The top ten brands most searched by Internet users in 2006 are mostly cell phone producers. The Top 10 Russian Internet vendors has companies that produce home appliances and consumer electronics. Expensive models of tv-sets and photo-cameras dominate the list of top ten most offered goods.

* The growth of the number of conversions of Russian users to the websites of Russian online stores. According to Yandex, this figure corresponds to overall growth of Russian ecommerce market.
**According to Russia's Ministry for Economic Development and Trade, in 2006 GDP growth amounted to 6.8%, and retail sale growth reached 13% compared with the corresponding period in 2005.
***Based on user conversions made from Yandex.Market service.
****Based on user feedback at Yandex.Market.