

RETAIL

Russia's domestic ecommerce shortcomings lead to \$4.3B in cross-border sales

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Image courtesy of Alena Akhmadullina

By JEN KING

As the Russian market has matured and become more competitive, the country's retail sector is entering a period of optimization led by mobile purchasing and cross-border commerce, according to a new report by East-West Digital News.

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According to EWDN's "[Ecommerce in Russia 2016](#)" report, the country's total market size for physical goods has a value of approximately \$12 billion, an increase of 14 percent compared to 2015. During the market's growth spurt, more than 30 million consumers shopped online for a total of about 195 million orders, and more than 40 percent of those orders were placed from mobile devices.

"Be it in Czarist times 100 years ago or after the fall of communism 25 years ago, luxury goods are traditionally in high demand in Russia," said Paris-based Adrien Henni, chief editor at East-West Digital News, an international resource on Russian ecommerce. "This is an opportunity for western players, who have virtually no competition from domestic producers, be it in traditional retail or online.

"Thus in 2016, L'Oréal launched online sales for a series of luxury brands, including Yves Saint Laurent, Lancôme, Urban Decay, Kiehl's, Clarisonic and others," he said. "Same with Italian brand Furla. These brands already had an offline business in Russia.

"Others, such as Yoox and Farfetch, have developed cross-border online sales to Russia over the past years in many cases, successfully. EWDN has heard that perfume maker Yohji Yamamoto is among the next ones in the list of foreign luxury brands planning to launch online sales to Russia this year."

Since 2011, EWDN has worked with dozens of industry players and experts to report on Russian digital industries.

Retail and the ruble

Prior to 2015, much of Russia lagged behind most other European countries in terms of Internet penetration. In 2010, the Russian market only had an Internet penetration rate of 37 percent.

Citing a GfK poll, Internet penetration in late 2015 exceeded 70 percent with an estimated 84 million Russian consumers older than 16 years old being connected. Similar to other emerging markets, mobile connectivity is attributed to the growth.

By region, Russia's largest cities, concentrated in its European part where nearly three quarters of its population are located, have the most prolific Internet users. Understandably, locations with smaller populations have less Internet usage.

With nearly 84 million Russians having access to the Internet, Russia's domestic online retail market has seen noted growth. In 2015 that market was valued at \$10.5 billion, and in 2016 growth continued for a value of \$12 billion.



Affluent Russians depend on mobile devices for ecommerce

Those in the upper middle and high income brackets living in cities such as Moscow and St. Petersburg purchase goods via ecommerce most often. But, the rate is still far behind advanced markets such as the United Kingdom, where 85 percent of Internet users buy online.

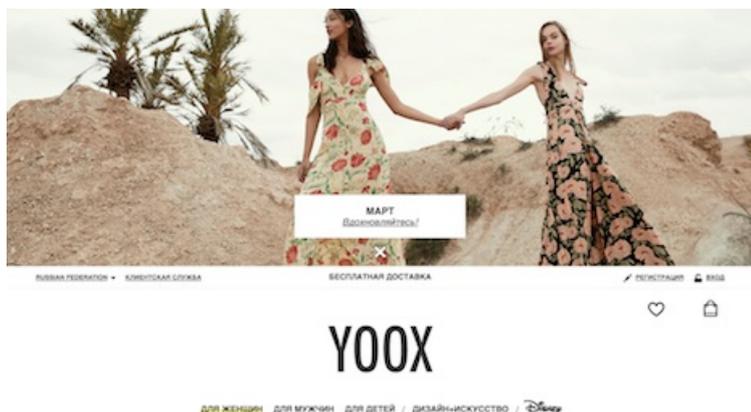
Although there is ecommerce potential in the Russian market, many international brands do not offer localized online selling in Russia, despite success in other countries. A lack of local Russian ecommerce by international brands has given way to cross-border sales' popularity.

The cross-border sales volume in 2016 reached about \$4.3 billion, up from \$3.4 billion in 2015 and only \$2.2 billion in 2014.

Cross-border purchases are often less expensive than goods bought on the domestic Russian market. When the ruble lost value in 2014-2015, Russian consumers were attracted to Chinese online retailers such as JD.com rather than Western brands due to competitive pricing.

"Over the past few years, Chinese merchants saw their sales to Russia increase at an extremely fast pace," EWDN's Mr. Henni said. "This Aliexpress has become, the number one Russian ecommerce marketplace, far ahead of eBay and their domestic competitors such as Yandex Market.

"Today, nearly Chinese sites deliver some 80 percent of orders made by Russian consumers on foreign sites," he said. "The proportion in value is lower, however, due to lower AOV Chinese on Chinese sites.



Online retailer Yoox has a thriving ecommerce relationship with Russian consumers

"However, Chinese and Western merchants do not position themselves in exactly the same way. Chinese players

will be unbeatable for some electronic goods, or clothing for the middle or lower classes.

"Western online retailers still enjoy popularity among the upper-middle and upper classes, especially when it comes to branded clothing and shoes, quality electronics, perfumes as well as a variety of niches such as vitamins and supplements," he said.

In addition to goods being cheaper outside of Russia, foreign online retailers often carry products unavailable on the country's domestic market and the customs taxation is much more favorable.

Currently, purchases that do not exceed 68 pounds or 1,000 euros in value are not subject to custom taxations, and goods over this amount are subject to a 30 percent tax of the total value, with a minimum fare of 4 euros per pound. But, Russian authorities plan to lower this taxation threshold and start VAT on cross-border purchases sometime this year.

Ready and willing

Once a high-growth market for the luxury sector, Russia's geopolitical and economic climate have deflated spending in the country, but a report from ContactLab and Exane BNP Paribas shows the nation is set for a comeback.

Sanctions, the ruble's lowered value and declining oil prices, consumer confidence and consumption fell in recent years, with luxury spending half of what it was at its highest. A number of developments, including a lowered unemployment rate and the possible removal of sanctions as leadership changes in France and the United States may help brighten the luxury market in Russia and the industry's global outlook for 2017 ([see story](#)).

Also, devalued currency rates in Russia have spurred an uptick in tourism and the purchase of luxury accessories within the market.

Market researcher Euromonitor attributes the positive effect on the Russian market to a number of factors including fewer residents traveling abroad to buy luxury goods, as well as an influx of foreign tourists due to lower travel costs. Although Russia's luxury sector has had its share of highs and lows, many brands have worked to capitalize on its potential ([see story](#)).

"Russian ecommerce is still at the early stage of development, with just \$16 billion sales of physical goods in 2016, including some \$4 billion for cross-border sales," EWDN's Mr. Henni said. "But Russia is catching up fast, with dozens of million Internet users who just begin to buy online, and will do so more and more in the future.

"In addition, shipment providers and the Russian Post have made considerable progress over the past few years, making online purchases more attractive," he said. "Thus the Russian ecommerce market is expected to see its size increase by several times in the next five to 10 years."