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Internet Economy Set for 30% Per Year Boom

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The Internet economy will see "rapid future growth" in Russia between now and 2015, suggests a newly released report commissioned by Google and prepared by the Boston Consulting Group.

But it is unclear whether Skolkovo, the Russian version of Silicon Valley, will have any role in the new cyber-economy.

The country's Internet economy — Europe's second largest Internet market after Germany — will potentially account for up to 3.7 percent of its gross domestic product by 2015, the report predicts, up from 1.6 percent of GDP in 2009 when it was valued at $19 billion.

But rapid growth is not guaranteed. It will depend on improved Internet penetration in the regions, development of e-commerce infrastructure and investments from government and private business.

Russia also needs to update legislation to keep pace with the rate of development.

If all these conditions are met, the authors of the report think that the Internet economy could grow at least 22 percent annually and as much as 30 percent in the best case.

Internet-related consumption will be the key driver.

Spending on online shopping, Internet access and web devices like laptops and mobile phones will grow 26 percent annually until 2015, the report says.

But Skolkovo, the new center near Moscow being promoted by President Dmitry Medvedev as the country's premier "innovation hub," is not once mentioned in the report.

Google Russia chief Vladimir Dolgov said the absence was not a reflection on Skolkovo's importance but because the research was done mainly in 2009, while Skolkovo is a new project that took off only a year ago.

"Skolkovo will play a serious role. I cannot say that it will be key to the increase of the Internet economy's share of GDP, but you have to keep in mind that Skolkovo has five areas of focus and IT is only one of them," he said.

Since there are currently no Internet projects in Skolkovo, it is difficult to predict what impact the development of the hub will have on the Russian Internet economy, he said.

"Skolkovo is about breakthroughs and startups. ... As an idea it will have an impact [on Russia's Internet economy]. ... There are plenty of talented people in Russia, and they just lack a certain degree of organization that it might provide," he said.

But while the future of Internet economy holds promise, it is not the presidential innovation drive or Skolkovo that will direct the market, suggested Anna Lepetukhina, an analyst at Troika Dialog, but the macroeconomic situation.

"The Internet advertising market will also continue to expand, and we will see the growth in transparency of [ad] placement," she said.

Internet advertising accounts for 11 percent to 12 percent of advertising spending in Russia, compared with about 25 percent in Britain and 18 percent in the United States.

But Russia is slowly headed in the same direction as its Western peers, Dolgov said.

Today companies prefer to rely on television advertising because it is easier for executives to measure its effectiveness, track the number of views and include the results in the annual report.

But with the development of agencies that learn to measure Internet advertising viewership, companies will gradually make a shift toward online ads, Lepetukhina said.

The targeting of online advertising is also better, but so far lacks the breadth of audience that television reaches, Lepetukhina said.

Online advertising — which was not included in the report's GDP calculations — grew 59 percent a year between 2005 and 2009 to $600 million, or 9 percent of the country's total advertising market, the report says.

The authors of the report also discovered a disparity in Internet activity between the country's regions due to large differences in telecommunications infrastructure.

However, once this infrastructure is in place, the Internet starts to act as a great equalizer across the individuals and businesses that use it. People in the regions quickly start to behave like their peers in Moscow and St. Petersburg, using e-commerce web sites and the Internet to supplement their businesses.

A classic example is MTM Shirt, a company based in Izhevsk in the western Urals that allows customers to create and order their own shirts online.

One of the major problems for Internet users in the regions is poor broadband penetration: Just 20 percent of households outside Moscow and St. Petersburg have access to it, compared with 55 percent and 49 percent, respectively, in those cities.

But the situation is improving as telecommunications companies invest in networks, Lepetukhina said.

"While Internet penetration will never reach 100 percent, as there will always be babies and elderly people who just don't want to use it, we can easily reach 80 percent by 2015," Dolgov said.

Russian Internet companies have been attracting more interest from investors since Mail.ru Group went public on the London Stock Exchange in November last year, raising $912 million.

Russia's No. 1 search engine Yandex is next on the list, hoping to raise $1.15 billion with an upcoming IPO, and there could be more to come.

"Social networks and e-commerce projects and companies like Groupon [Russia]/Darberry could be next," Dolgov said in an interview to The Moscow Times.

"Internet companies have two ways to develop: They can either go public or be bought," he said. The latter was the case with Darberry, a Russian deal-of-the-day web site that served as a kind of aggregator of coupons and discounts and was later purchased by Groupon last August.

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