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Online Retail Picking Up Tempo

By Evgenia Kleyner

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Although the online retail market is growing by 25 percent per year, poor logistics, a low level of trust and distaste for banks continue to hamper e-commerce, experts said at an industry conference.

Internet retail sales hit 310 billion rubles ($10.5 billion) in 2011, but that is still less than 2 percent of the total Russian retail market turnover, research group Data Insight reported.

Growth is occurring thanks to decreasing delivery costs and improved shipment infrastructure. Cash on delivery is the predominant method of payment for goods ordered online.

"There is no rational reason to pay beforehand," said Adrien Henni, co-founder of East-West Digital News. "If you are buying a physical good, you want to feel and see it before handing over money. This is ingrained in Russia's culture."

"Russian Post doesn't help either," Henni said. "Sometimes parcels can get lost or stolen

in the mail, or if they do manage to get through, it takes two to three weeks, and certain regions are entirely inaccessible."

Online payments to Internet-based vendors made with credit cards and other e-commerce tools account for no more than 20 percent of their turnover and can be as low as 0.1 percent, while cash on delivery is the preferred method about 80 percent of the time, according to Data Insight.

Elena Orlova, CEO of the PayU payment system, said the problem "has to do with a lack of trust in online payments as well as in the Russian banking system."

"Online retailers need to educate consumers about data safety features. Discounts, free delivery and cash-back promotions on e-payments help customers get acquainted with the system and eventually trust it," she said.

Sometimes, debit and credit cards can be more expensive to use as a payment option because of high bank commissions.

"Occasionally it's less expensive to use a courier," Henni said. "The banks are not playing the game yet."

The country's online retail market is "one of the fastest-growing but the least known and understood on the planet," Henni added.

Data Insight predicts that online retail sales will grow 250 percent by 2015, to as much as 900 billion rubles, representing 5 percent of the country's total retail market.

But that would still be a 10-year lag behind more developed economies, like the United States, where online retail sales are about 7 to 9 percent of overall retail sales.

Moscow and the Moscow region accounted for 30 percent of online shoppers, Data Insight said.

Customs clearances and operating costs like tariffs on mail orders make many business models ineffective, said Damian Doberstein, managing director of E. Ventures Russia.

Household appliances, books, mobile phones, computer hardware, apparel and travel services were the most popular goods sold online in 2011, according to a survey by Romir and PricewaterhouseCoopers.

The absence of official figures makes ranking the top players difficult, but research firm Online Retailer estimates that Citylink.ru, which sells consumer electronics, is one of the top performers, with a turnover of 9.5 billion rubles annually.

Estimates of revenues of KupiVip.ru, which sells apparel, range from 2.3 billion rubles per year, according to online service provider InSales, to 6 billion rubles as estimated by Online Retailer.

"Running an e-commerce company in Russia requires more dexterity than performing on the stage of the Bolshoi Ballet," said KupiVip.ru founder Oskar Hartmann.

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