

Catalog Retailer Otto Grows Russian Business and Plans to Open Logistics Network to Third-Party Sellers

By [Guennadi Moukine](#)

August 20, 2013

The  Moscow Times

Otto Group, the world's largest catalog fashion and lifestyle retailer, will invest 50 million euros (\$67 million) in its order fulfillment and parcel delivery infrastructure in Russia and will open its network to third party retailers, allowing them access to the Russian online market, company representatives said at a news conference Tuesday.

The investment will double the capacity of the group's logistics center in Tver, 170 kilometers from Moscow, creating 690 additional jobs by 2014. It will also extend Parcel Shop Network — a courier service operated by German firms Hermes and DPD — to 1,000 parcel collection points in 150 cities around Russia by 2015.

The investment is not intended to compete with Otto Group's longstanding partnership with Russian Post, said Martin Schierer, CEO of Otto Group Russia. Parcel Shop Network is there

to complement the combination.

Last year, Russian Post delivered more than 15 million parcels for Otto. This partnership is vital to the company's success, and both organizations are working together to improve customer service, Schierer said.

Otto sees a lot of potential in Russia's e-commerce market, which grew almost 20 percent in the second half of 2012 to reach \$20.92 billion in that year, according to eMarketer.com.

"Russia is one of the most interesting e-commerce markets. We are convinced that Russian [telephone and internet sales] still have a lot of potential," Chairman of the Otto Group Supervisory Board Michael Otto said.

"There are 140 million people in this country, out of whom only 61 million are on the web, and of those only 26 million shop online. That number will increase, and this gives us optimism," said Alexander Birken, the group's spokesman.

The company's turnover from catalog sales, which combines orders placed over the phone and orders placed online, has seen double-digit growth since 2006. Reaching 547 million euros in 2012, the goal over the next few years is a billion euro turnover, Birken said.

Some of that volume is expected to come from competitors — the company plans to develop its logistics infrastructure to the point where it would become more cost effective for competitors to use Otto's services than build their own delivery networks in Russia, Birken said.

Order fulfillment outsourcing is a logical development, said Alexei Zhukov, marketing director of Beta Production, a private company based in Moscow that already offers the service.

"Cross-border parcel deliveries are useful to test the market and are only suitable for small merchants in the long term. Large companies need to be present in Russia, close to the customer and close to the regional sorting centers of Russian Post," Zhukov said.

Otto Group employs 2,000 people through the Tver's logistics warehouse, call centers — two in Tver and one in Samara — and the business office in Moscow. Only 1 percent of staff are foreign nationals. The rest are locals. And the company is very proud of that, Schierer said.

Contact the author at g.moukine@imedia.ru

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