

# B2B: A High-Stakes Game: Russian B2B E-Commerce

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In August 1994, the founders of Net Market announced the first-ever sale through a secure Internet link. "Ten Summoner's Tales" by English rock legend Sting cost \$12.48, excluding shipping and handling. Immediately, new challengers appeared in the conquest for the market, but the emergence of secure electronic transactions hit the headlines.

The mechanism of online stores is familiar to most people today. The annual volume of online B2C (business to customer) sales in Russia exceeds 500 billion rubles, and this is just the tip of the iceberg. E-commerce has now expanded to the business sector as well: many companies actively buy and sell goods or services through online channels directly to other companies, with a yearly segment turnover of tens of trillions of rubles. These are known as B2B (business to business) online sales.

**B2B E-Commerce: the Russian Story**

From steel pipes to measuring equipment, stationery and office equipment, banking and clearing services — these needs and others are posted by buyers on Electronic Trade Platforms (ETP). Suppliers answer with offers for products and services with price, terms of delivery, and advance-payment requirements. Buyers compare the bids to select the most advantageous one and award the contract to the best bidder. All processes are performed online — the entire process happens in front of the computer.

B2B e-commerce platforms appeared in Russia in the early 2000s, when they were viewed as an experiment. Even online stores were a novelty, not to mention B2B solutions with complex IT infrastructures. However, as in the case with online shops for individuals, users quickly appreciated the benefits, and the number of B2B solutions began to grow exponentially.

According to the rating agency Expert RA, 68% of Russian enterprises are actively using

electronic trade platforms, while B2B-Center confirms that online transactions made by corporate and government customers in the first nine months of 2014 increased by 40%, compared to the same period in 2013.

## **Feel the Difference**

A typical construction contract for two power units can total 57 billion rubles — not a single online store can boast of any comparable kind of deal. Of course, one does not see such purchases on electronic trade platforms on a daily basis. However, the point is that the average checks in the B2B and the B2C sectors are radically different.

To begin with, consider the volume of the purchased products: compare a child's school supplies needs, bought by his parents from an online stationary store, with the stationary needs for even a small business. Furthermore, buyers on electronic trade platforms tend to purchase completely different items. Last year, construction goods and services — for example, engineering designs, surveying, construction and installation — were in great demand among B2B-Center's customers, totaling more than 20% of the total number of purchasing procedures. Industrial engineering products, such as machinery for the mining industry and oil-field equipment, took second place at 18.6%. It is hard to imagine your average Internet surfer purchasing a mobile exploration drilling rig.

Due to the cost and size of these kinds of purchases, it follows that both sellers and buyers in the B2B sector must ensure fulfillment of their transactional obligations: clearly, broken commitments could bring huge losses. It is one thing if some online store fails to deliver your new pair of shoes in time, but it is an entirely different matter if a factory's tire production is shut down because of a delay in a delivery of rubber. Therefore, the transactions on B2B electronic trade platforms are legally binding.

In general, procurement activity in Russia is tightly regulated by legislation, especially when it comes to State-owned companies. In addition, each organization usually has its own internal regulations and long-term purchasing plans, fixing quantities and specifications of purchased goods. For this reason, the B2B sector has little room for spontaneity, giving us another point of difference from B2C.

Besides, the B2B procurement process is normally much more complex, with greater time horizons. Tender notices, pre-qualification, the bidding cycle (which is often delayed for days or even weeks), choosing the winner — all of this takes time. Signing the contract and arranging delivery often are performed outside of the electronic trade platform, so same-day delivery on the day of ordering on the platform is only a fantasy.

## **Common Trends**

Despite the fundamental differences between B2C and B2B e-commerce, analysts recently have been noting trends in B2C that affect B2B as well. Take, for example, mobility. Consumers are already actively using their gadgets to visit online stores, and electronic trade platforms are no exception. It is more convenient to manage purchases from a phone or tablet, even if we are talking about billions of dollars in contracts with tens of potential suppliers. Three months after the launch of B2B-Center's mobile application, the number of users exceeded 5,000.

The B2B sector is adapting other innovations from online stores, as well. For example, we see a clear move to increased personalization, with much attention paid to the convenience of individual users. This trend has been called the move from B2C and B2B to H2H (human to human).

Ultimately, similarities will become even more evident, especially in the area of interaction with customers: Both sectors have something to learn from each other. Both represent different sides of multifaceted e-commerce, which has great growth potential.

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