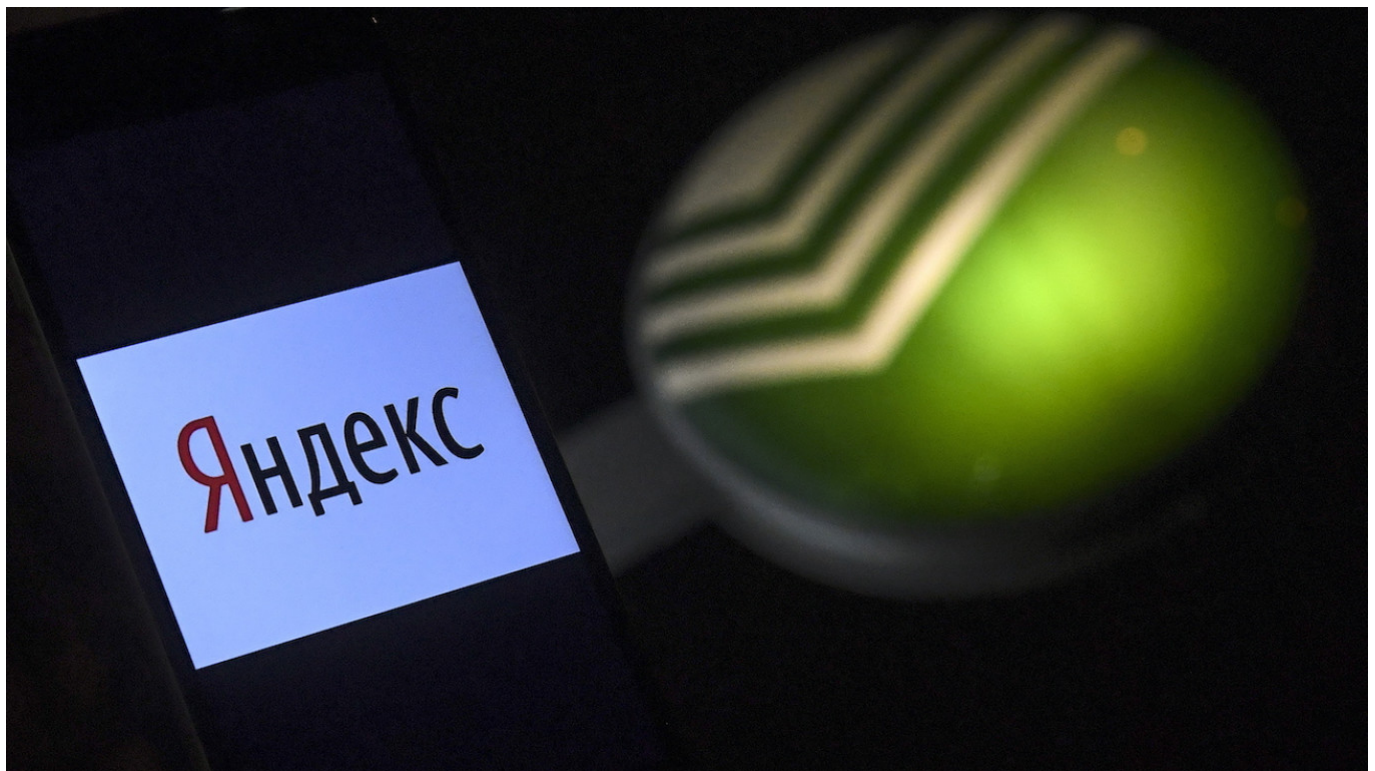


Yandex vs. Sberbank: Battle of the Russian Tech and Finance Giants Begins

Two of the country's highest-profile companies have unveiled plans to dominate a host of cutting-edge industries.

By [Jake Cordell](#)

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State-owned lender Sberbank and technology giant Yandex are increasingly finding themselves in direct competition. **Kirill Kukhmar / TASS**

Yandex and Sberbank's fight to gain control of Russia's finance and technology industries is being billed as the corporate showdown of the decade.

"Sberbank versus Yandex: The battle of the super platforms has begun," declared Russian business daily [Vedomosti](#) last week. Novaya Gazeta went further, dubbing it a "[war of the ecosystems](#)."

The clash — which has been brewing in the background for years — took center stage last week when Yandex announced it had [struck a deal](#) to buy upstart online [challenger bank](#)

[Tinkoff](#). Less than 48 hours later Sberbank unveiled what it called the “[biggest transformation in its history](#),” unveiling a suite of technology products, and dropping the word “bank” from its corporate branding.

The developments mean the two are now either competing directly against each other, or through their subsidiaries and joint ventures, in areas as diverse as banking and fintech, ridesharing, driverless cars, artificial intelligence, food delivery, virtual assistants, media streaming and cloud data services.

Battle for the future

Both firms plan to lean on their established profit centers to fuel investments in their other projects. But the reasons for the two most recent developments — Yandex agreeing to buy Tinkoff and Sberbank launching an aggressive push into tech — are different, analysts say.

For Yandex, the takeover of Tinkoff is an aggressive expansion bringing in a potentially lucrative source of new profits and helping to cut transaction costs for its other retail operations — especially e-commerce, which is still in the early stages of development in Russia.

“Yandex will take quite an aggressive stance towards grabbing the opportunity,” said VTB Capital in a research note, adding that according to its calculations Yandex accounted for just 1% of the e-commerce market in 2019 through its Yandex Market platform. VTB forecasts that Yandex Market’s revenues will rapidly rise to almost 200 billion rubles (\$2.6 billion) by 2024 — more than the company’s entire income last year.

In that sense, Yandex’s push into the fintech space is in line with global trends in the tech industry, said a [recent report](#) by Alfa Bank.

Related article: [Yandex Shares Hit Record High as Analysts Cheer \\$5.5Bln Tinkoff Deal](#)

“The largest global players are constantly expanding the range of their banking and financial digital services. Considering that Yandex’s transaction volume could reach 1.6 trillion rubles (\$21 billion) by 2023, it has an urgent need to create its own financial platform,” Alfa Bank analysts said.

Meanwhile, Sberbank’s pivot to become a tech player is a defensive move.

Sberbank’s “ecosystem strategy is largely a client retention tool,” said VTB Capital analyst Mikhail Shlemov, citing low fees for its new “Sber Prime” subscription service as an obvious attempt to lock in customers it might otherwise lose.

Other market players agree. After Sberbank’s presentation of its new tech products and services, Telecoms businessman and former CEO of Euroset Alexander Malis told [Forbes](#): “It is unlikely that these will lead to new customers for Sberbank. But they can help form a stronger connection with the existing ones, forcing them to use the new features in the ‘Sber’ ecosystem.”

The Mail.Ru angle

Some have questioned what Sberbank's unveiling of new products means for its partnership with Yandex's other major rival, Mail.Ru. The bank controls around a fifth of the voting shares in Mail.Ru and the two have a joint venture to run some of the more well-developed non-financial products Sberbank has been involved in: ride hailing, food delivery and express groceries.

Shortly after the Sberbank presentation last week Oleg Tinkov, Tinkoff Bank's billionaire founder, wrote on Instagram: "If we had such financial opportunities, we would certainly do the same and even faster. In their place, we would have bought Mail.Ru a long time ago."

Both Mail.Ru and Sberbank [pushed back](#) against that idea, but analysts are convinced the two will now deepen their cooperation to fight off the threat from a combined Yandex-Tinkoff.

"As the tempo of competition in the ecosystem is rising, with Yandex-Tinkoff going after the Sber retail business cash cow ... a closer tie-up between Sber and Mail.Ru is far more likely," VTB Capital's Shlemov said.

Who will triumph?

Markets have shown more enthusiasm for the Yandex-Tinkoff tie-up than Sberbank's flashy tech presentation.

Yandex will immediately gain one of Russia's fastest-growing most-innovative banking firms, and a huge source of cash flow. Tinkoff's profits came in at more than \$500 million in 2019, compared to \$180 million at Yandex.

Analysts point to close matches in terms of the two's "entrepreneurial DNA," focus on customers and deep expertise in technology and innovation as raising the prospects of a successful integration.

Sberbank's technology speciality is less obvious, although it has been on a huge hiring drive in recent years — poaching key talent from Yandex, including its former head of experimental products to run Sberbank's [smart devices arm](#). Reflective of the state-owned bank's hierarchical structure, some analysts say the push towards technology flows from the top, and question how far down it reaches.

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"Sberbank's activity in the digital segment is highly dependent on the existing management team," Alfa Bank wrote. "We do not rule out that the situation may change after 2023 if German Gref is not re-elected for another term as CEO."

Their main advantage in the looming battle is size — both in terms of reach and resources. The balance sheets of the two empires are not comparable. Even combined, Yandex and Tinkoff only managed to record as much profit over the whole of 2019 as Sberbank made in an average three-week period — an annual \$13.7 billion compared with \$760 million.

Sberbank's network of customers — more than 96 million retail clients at the end of 2019 — also means it could gain huge market share in areas like streaming, e-commerce and virtual home assistants, even if only a fraction of its current customers take up the offer. The average customer already uses more than four different Sberbank products or services, according to its data.

Gref's ambitions should also not be underestimated. Sberbank officials have said they want to boost the share of non-financial products from under 2% to as much as 30% of its income. In 2019 that would have been the equivalent of \$7.5 billion — almost three times Yandex's entire revenue.

However, the benefits that come from being a state-owned monopoly could also be Sberbank's biggest drawback. The Russian government obliges Sberbank to distribute at least half its profits in dividends, eating away at a potential source of capital. Accordingly, the bank announced Russia's [highest ever corporate dividend](#) payout last week.

There are also questions about how much energy and management resources are being diverted to these new experimental business lines — and what that means for the core banking operations. Maintaining a 14,000-strong branch network around the country is still the kind of expensive — and, for many younger clients, outdated — model that gave the opportunity for challenger banks like Tinkoff to pounce.

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While the conflict has been dubbed a “war,” analysts also point out that Russia is long-overdue a digitization surge, and there could easily be room for both to emerge winners. E-commerce, for example, only accounts for 5% of Russia's retail spending and is a highly fragmented industry.

Market leader Wildberries controls around 12%, while Ozon, with a 5% market share, is preparing for a multi-billion dollar [initial public offering](#) (IPO) later this year. Amazon, in contrast, controls more than 40% of the U.S. market.

Both Yandex and Sberbank are monopolies or market leaders in most sectors they operate in, and many analysts suggest they have simply outgrown their home turf.

Yandex's online advertising network — predominantly its search products — brought in 70% of its revenue last year, with Taxi income adding another 21%.

“Yandex needs to go beyond online advertising. It already controls almost half of the online market, and it's difficult to expect further significant growth,” said Finam analyst Leonid Delitsyn.

Sberbank faces a similar issue of market saturation, said Freedom Finance analyst Georgy Vaschenko.

“Competition in the classic banking market is difficult, margins have dropped dramatically, and income growth has practically stopped,” he said.

“The development of ecosystems is a top strategic priority.”

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