

Running an e-commerce business in Russia

Working with disruption: operational and HR issues

“If he’s working for us, then he must be the wrong person!” 😊

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Overview

- The focus of this report is to provide you with extensive feedback from senior executives who have made remarkable steps forward in successful e-commerce implementation and also to share some of their mistakes with you
- This slide presentation is not meant to be a comprehensive analysis of e-commerce in Russia but it does provide some solid data about the numbers and trends (at the end of the report)
- In parts the report intentionally stresses the disruptive elements of e-commerce and in some respects it is a bit of “shock and awe”
- But this all stems from the aim to be positively provocative and to some stimulate new thinking on major new trends in business

Last November when I was in Moscow, the head of one company sat with me at lunch after I had made an in-house presentation to his team. The manager then noted and asked the following:

“Danny, headquarters are globally getting crazy with digitisation and e-commerce and are constantly asking about it in Russia. We get some general guidelines from them but frankly I don’t understand what it is, I don’t understand what targets are being set for us but I do know it is going to cause big disruption. What is digitisation?”

- Many executives talk of confusion in Russia about when and how to start up e-commerce and many state that this merely reflects confusion at regional and global headquarters
- The latter point is well known to me as one personal friend who is CEO of a major US company has often told me in private that: “The Board talks incessantly about digitisation and I sign off on it with the other Board members. But I don’t really know what digitization is and neither do most of the other Board members. But we pretend!”
- This point will be elaborated further in the coming slides and one MD has encapsulated the issue succinctly:

“If you are not exposed to Netflix, then you are not connected to the new world. Look at Netflix—not just the films! But run through it and see how it makes the offering and how it keeps the consumer hooked. Look at Netflix as a valuable business model”
- These remarks are not intended to be totally negative of e-commerce in corporations and some companies have established good workable operations and the most famous have, of course, become among the biggest companies in the world. But for “normal” companies the disruption is at the forefront.

- In Russia among several success stories are those relating to how warehouse suppliers are able to present and manage their services for clients much better through digitisation; B2B companies who utilise digitisation for a much better client experience; and some consumer goods companies who are at the moment able to control the offering to clients and expand their e-commerce sales without detriment to traditional sales
- And one more thought: B2B executives may think, “Well, all the disruption is in the consumer sector and that doesn’t really affect us”. There is a small element of truth in this and B2B is changing at a slower pace than B2C
- But those at the forefront of e-commerce argue that B2B will face the transformations with a delay of only 6-12 months because 1) the changes will flow back up the supply chains and 2) consumers who experience B2C e-commerce will expect it in their professional capacity running factories and making procurement. Plus governments are pushing electronic tenders and clients who buy industrial products will expect digital servicing

- Some companies globally and in Russia are seeing their e-commerce sales rise 50-100-250% per annum
- One consumer/food company notes that they have grown the business 16 times in 4 years (this is a top exception!!) thanks to a combination of increasing the number of outlets and due also to like for like sales
- Another company talks about doubling the business each year thanks to e-commerce
- As one MD notes: “E-commerce is driving the whole business model for us while regular retail is growing by just 3-4%”
- This company now in 2018 has 55% of its sales coming from e-commerce compared with 0% in 2015
- Also 45% of these sales are coming from Apps which were only launched in the previous 6 months
- “Where the disruption is happening that’s where the growth is!” and this applies to taxi services, food deliveries and cosmetics etc.
- But one underlying question is:
 - Will e-commerce add to the growth of existing companies or will they lose out more to e-commerce channels and to purer forms of e-commerce competitors
 - To what extent does the future (or what part of the future) belong to standard/conventional large consumer product and retail companies?
 - Or will e-disruption change the playing field entirely or in large part?
 - Will e-commerce mean win-win or warn-lose?

What structure should you have?

- One MD who has managed transformational success in e-commerce argues as follows:

“You don’t want to have an e-commerce “channel” but you need an e-commerce company within your own company. Headquarters don’t understand this and they want to control things which usually means inadvertent sabotage. If you delegate upwards and let the centre manage and control it, they will kill it with bureaucracy so that from the word go, you will be a loser”
- Ideally it is best to have a corporate “protector” or “grandfather” ideally the company CEO who watches over the e-commerce “company” and lets it go full steam ahead based on different criteria and KPIs
- Regular companies will come under fierce pressure from e-commerce companies in terms of product launches, CRM, route to market

- Another executive noted: “One obvious outcome is that if you have a booming e-commerce business, then why do you need so many distributors? Go straight to customer and use the Pochta or logistics companies”
- How do you manage your new supply chains?
- Is there a future for distributors and wholesalers rather than warehouses and logistics companies?
- Internally, what do category managers and key account managers do now?
- Is it best (as above) to run a separate E-company to avoid duplication, overlap and confusion within the “standard-base” company or will this create internal competition and its own confusion?
- Can/should one person fill the roles of marketing manger, brand manger, key account director for both regular and e-commerce? The answer may well be yes, but not if you follow the advice above of running a separate/parallel E-company
- Experience suggests that being a one-brand company is much harder in e-commerce than when multi-brand (?)

Best practice tips (1)

- You need to behave like a start-up. What you don't know (and that is so much) then you have to learn it. If you need resources, then go out and get them and build them
- “We did some basic good stuff: We went on to Google and down-loaded lots of good explanatory programs. We also had some junior friends in Amazon and we phoned them and remember the young kids there are fantastic. We had telecom calls, we got introduced to other Amazoners and we had coffee with them and we got advice and this was absorbed into our own business. Our learning curve was vertical. The speed of knowledge acquisition was frightening”
- “Remember: when you offer something to the customer via e-commerce, then you are either Amazon or you are rubbish”. This argues that consumers now have the Amazon experience and this means you have to at least match that or customers get very impatient and dissatisfied quickly
- “Acquisition” is all about getting customers
- Search engines optimization
- Introducing new and sexy and helpful Apps
- The first customer order is critical. Once you have that, loyalty can start: customer activation and e-commerce CRM begin immediately
- What did they buy, where do they buy it, where do they live?
- And then start the customer segmentation

Best practice tips (2)

- But the second purchase/order is even more important: when you have this, “You have them for life!”
- Big companies will spend a lot of time and money getting that second order and if they are clever, they will be willing to sell at a loss --- buy one, get two free!!
- Go for and monitor LTV “life time value” of the customer
- Make sure your Call-centre is just that and not a Problem-centre – allow customers to contact you in many convenient forms for them so that they can “say hello” and, more importantly, give you their feedback
- Get the customer to rate your services and products
- And when you have that information: Act upon it!
- If you do not, then this is a major business failing
- Contact the customer after they have made the purchase: “All ok? Anything you need? Do you want to buy something else which is like your last purchase”? Well yes, you can pretend this idea is your innovation but it’s called Amazon! 😊

Your need to be young...very young!

E-commerce and HR

- One MD has noted provocatively and probably correctly that:
- “If you are born before 1980, then you are disqualified from running an e-commerce business or managing digitisation”
- You see the point!
- “Your customers are increasingly young and they are completely different. Your global CEOs don’t buy on-line”
- As one MD asks: “Will a 19-year old ever visit the standard website of a Fortune 500 company? No disrespect is meant, but they are bloody boring”
- The MD of one expanding e-commerce business notes: “Our marketing director who runs a superb business is 23 years old! And we are NOT a start-up although we try to behave like one. We tried 3-4 executives for this role before we found the right one”!

The MD of one successful company explained:

- “I have a personal trainer not for yoga or pilates but for e-commerce. He is 28 years old and I told him that his job is to “tell me everything you know about e-commerce”
- “We can then migrate this knowledge through the whole company with obligatory and interactive learning sessions and constant workshops. The speed of change is phenomenal”

This MD also told the following story:

- “I was learning like crazy and I told my then deputy manager that “You can join me on this learning journey and rise very quickly with me. But if it is too frightening, then I will not sack you but you will be sidelined in normal business and it will be a boring and safe future. I am pleased to say that she took up the challenge and we progressed together”.

HR and how to do it?

- A great many companies realise that e-commerce is taking off or is about to and they are starting to get a handle on it and make plans
- But this requires skilled and capable HR
- So a huge number of companies is chasing a quite limited talent pool and thus salary costs are rocketing for this staff category
- Some companies are bringing in expatriate expertise
- But one hugely experienced manager working in Moscow noted that the standard model does not work:

“Your company has sort of a global e-commerce strategy and they send to Moscow some young guy who has some experience from the US or Europe and who does not really understand the Russian business. He sits in a room and sets up a few systems and declares that all is fine. After 3-6 months he leaves and nothing really happens or works”.

“You need dedicated local talent or at the very least executives who understand the Russian market and consumer. There needs to be constant links with sales, marketing and research”.

- But finding the right quality HR to run your expanding e-commerce business is the challenge
- And as one executive commented: “We need to get our teams much more digital-minded and focussed across the whole company and not just a few specialised new hires”
- This point was made above: e-commerce is or will be a game changer for many companies and it will be very disruptive and this disruption will be replicated with talent and HR. Mind-sets will have to change and are doing so initially
- On a simply organisational/HR level: how will key account manager handle e-commerce? How will omni-channels work? If e-commerce booms ahead, will it start to dominate the business model and will traditional approaches fall away?
- Are current sales and marketing executives skilled up for the challenges ahead? If not, they will soon need a lot of training and new knowledge

- Other experiences include:
- “You bring in a “guy” to run your e-commerce business but first of all, you don’t really know what you want so that’s your problem. And the second problem could be him: is he the right person, what experience does he have, have they earned their money by selling through e-commerce already?”
- Another MD from a major consumer product company cites the words used on the cover page of this presentation:
 - “If he is working for us, then he is the wrong person in the wrong place”.
- This comment includes a fair amount of self-criticism and of the executive's company. He went on to explain: “We are a very big, typical, standard FMCG company. We have big and long processes and a bureaucracy. If a young man/woman comes to us to work on e-commerce, then surely by definition, they are the wrong person because we are the wrong company. If someone is exciting, go-getting, dynamically involved in e-commerce, then why is he working for us and not for some IT start-up or a major e-commerce company. You see the sad logic?”

The disruption of it all

Can you launch a new product in one day?

- Consumer product companies are being hit by changes from all sides
- Among these disruptions, the biggest is e-commerce and speed of route to market
- One MD asked: can you launch a new product in one day? “I ask because that is almost the challenge we face globally and that will arrive in Russia soon. With the new e-commerce start-ups and even established e-commerce firms, they are now able to launch new products within 1-3 days. They see that something is working or not working and they change and adapt immediately. I have seen new product variations launched within the same day”
- On this point one MD based in Moscow of a major consumer products company acknowledged that:
 - “Can we launch a new product in one day? Never”
 - “In one week? Never”
 - “In one month? Never”
 - “In 3 months. No but maybe”
 - “In 6 months. Yes, perfect!”
- He went on: “To launch a new product is a big deal for us and others. You get the data, look at the strategy, set up committees. Vested interests in the company have different interest and we argue. Headquarters referees the arguments. We do trials and test. Someone says that we have capacity for production which needs to be used and shipped from Alabama or from Munich and then we launch after 6 months. And we are 5.5 months too late”.

Executives on e-commerce (1)

“Massive disruption in FMCG and retail?”

Other comments from a well-experienced executive from a major company operating in Russia are extremely revealing and cause for some concern:

- Most executives operating in Russia “don’t get it”
- We will reach the hockey-stick inflection point for e-commerce in Russia anytime in the next 2-3 years and when that happens all the best are off
- I don’t think enough companies have learned lessons from recent business history
- In China in the last five-year period most major consumer products companies have seen 15% of their business disappear/eaten up by e-commerce
- And the big point is that we will never get that back
- The same will happen in Russia and it’s only a matter of timing
- E-commerce hits you everywhere: consumer relations, retail relations, pricing, marketing, logistics, HR – you name it!
- There is no full protection, but companies can work on defensive strategies and also look to take control of some/a lot of it

- **This executive went on** to make the valid point that consumer goods companies globally are facing challenges from evolving retail, price sensitivity, promotions and discounts and while this causes tremendous downward pressure on the business, global HQ and activist investors are demanding big and quick top line and bottom line results
- He questioned the viability and sustainability of the overall business model globally and also underlined the tremendous extent of promotions and discounts in Russia:
“This model can’t continue. The Russian retailers when speaking in private know that it can’t continue and MDs in Moscow know that the business model won’t work if this promo trends continues apace”
- The point he makes is that the disruption of e-commerce is arriving when the overall business model (at least in consumer food and FMCGs) is being questioned
- Not everyone has to agree with this view or the extent of it but it is very fair and sober “food for thought”
- We also know in the business world from several executives that: “Alibaba is here or Alibaba is coming” which makes many people either very excited or quite frightened!
- We saw above the overall growth numbers for e-commerce but it is rising rapidly in some categories by 50-75% per annum. The MD of one specialised CP company noted in Moscow last week that: “E - commerce represents 30% of our business in Moscow and 12% elsewhere in the country”

The MD of one cosmetics company summed up the issues well when she made the points below and these were substantiated by other executives:

- For her company e-commerce is growing at 150%+.
- But what about delivery through available channels?
- What does it do to your sales and marketing structure: how do you manage key accounts?
- At the moment, the threat is that it will cost you a lot and the experience for the consumer will not be first class. But are things improving?
- The country lacks the proper, necessary infrastructure of good railways and good roads.
- In China e-commerce can expand and offer a good proposition thanks to excellent infrastructure.
- The financial, banking system should be up to the job.

The MD of another consumer product company and other interesting insights to share:

- E-commerce is coming and it represents about 10% of my business but is growing at 50%+
- When I am traveling in Siberia (and not just in Irkutsk) I buy one of my company's products on lien and ask it to be delivered to the small Siberian town where I am staying. Later in my travels I return to that town to discover that the purchase was delivered in 6-7 days. For such a remote location in Russia, I think that's impressive
- Russian Post/Pochta is booming thanks to e-commerce
- I am hearing more and more about Alibaba
- The pharmacy chain 36.6 is already a digitalised player
- E-commerce and digital in all aspects is growing fast and many new alliances are being formed. The landscape is changing
- By the way, Russian shoppers like to buy something online, take a look at it and then return the purchase to choose something else. For example: returns in the fashion industry can be as high as 50-60%

E-commerce sales in Russia

2015 = 20.5bn Euros

2016 = 24.6bn Euros

2017 = 28.8bn Euros (estimate)

E-commerce sales overall rose in Russia by 20% in 2016 and by 17% in 2017.

For comparative purposes, 2016 e-commerce sales were in China were \$366bn and US sales were \$310bn. Estimates for 2021 in China are \$610bn and in the USA \$580bn

Source: E-commerce Foundation 2017 Report, Dt-Global Business Consulting

E-commerce in total retail sales in Russia

When will the hockey-stick effect take place?

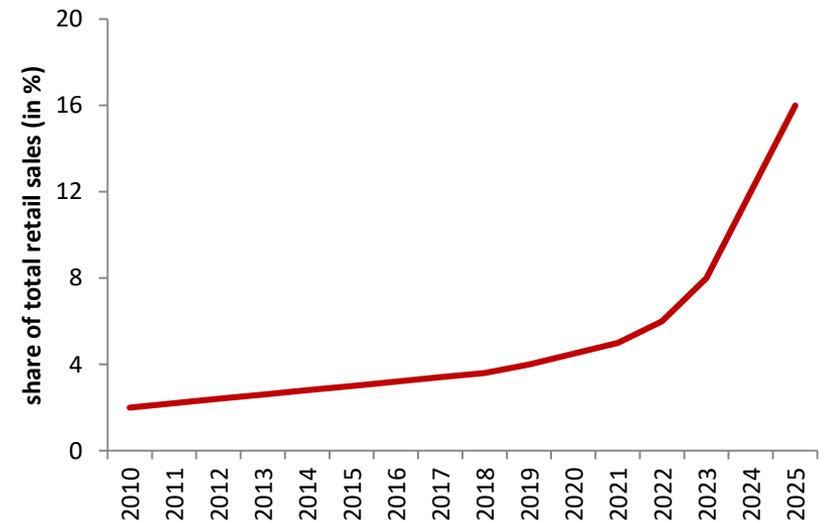
As a share of total retail sales, Russia is some way behind but has the potential to catch up

The share of e-commerce in total retail sales 2016:

Global	=	8.5%
China	=	17%
USA	=	10%
South Korea	=	18%
India	=	5%
Brazil	=	5%
Russia	=	3-4%
Moscow	=	15-20%

Source: Euromonitor and DT-Global Business Consulting

**E-commerce as a percentage of total
Russia retail sales 2010 - 2025**



It is estimated that e-commerce accounts for about 15-20% of retail business in Moscow and about 3-4% of total retail business across the country. Nationally Russia has some way to go to catch up on western markets where the e-commerce market ranges about 8-15%.

Shopper demographics and usage of smartphones in Russia

Shopper Demographics

Russian population	=	143mn
Online visitors	=	105mn
Online shoppers	=	62.5mn

There are 62.5mn shoppers and the average spend is 626 Euros.

Of those who go online, 15% are frequent purchasers, 32% are occasional shoppers and 53% have no plans or limited plans to buy on line.

The most visited sites in Russia are in order:

Aliexpress
Ozon
El Dorado
Dns Shop
M Video

Source: E-commerce Foundation 2017 Report

Number of smartphone users in Russia

76mn in 2015
80mn in 2017
94mn in 2021

Internet usage via smartphone:

12% in 2013
42% in 2016!!

- Currently 42% of population uses a smartphone while 19% use a tablet format
- 97% of 16-19-year olds use internet
- And 70% 16-19-year olds access the internet via smartphones while the other 27% use laptops and computers

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