INTERACTIVE SESSION: ORGANIZATIONS

E-COMMERCE RUSSIAN-STYLE

Nearly 63.6 million Russians have Internet access, making Russia the second-largest e-commerce market in all of Europe, behind only Germany. By the end of 2014, Russia will surpass Germany with an estimated 80 million users. Broadband reach is estimated at 40 percent of all households—around 20 million households. Still, only a scant 24 to 26 million—about 38 percent to 40 percent of Internet users—have made an online purchase through 2013 and e-commerce accounts for only 2 percent of Russian retail sales. Why? What's holding e-commerce back?

Russia has expanded its online consumer base faster than any other country, but there are serious barriers to further growth. Russia lacks both logistics infrastructures and online payment systems for e-commerce to flourish. The postal system is both expensive and unreliable, with lost or stolen packages, excessive delivery time, and non-distributed parcel rates of up to 100 percent in remote areas. Cash is the predominant payment method due to an under-developed financial services sector, exorbitant bank charges, and lack of consumer trust in electronic payments. Pre-authorization is often required for card use, merchants lack the infrastructure to store card data, and fraud poses a significant threat to merchants. Combined with the prohibitively expensive investment required to deploy fiber connections across the vast expanses of Russian terrain, the impediments to e-commerce expansion are substantial.

Russian online consumers by and large pay cash-on-delivery (COD) at "pick-up stores" where they collect their purchases. The collection centers accumulate large quantities of cash, which must be deposited every few hours to reduce the risk of theft. A system of payment kiosks has also sprung up on street corners, and in grocery stores, small shops, and convenience stores. These kiosks also serve as bill payment centers and often include multiple terminals from different companies, fashioning a comprehensive payment island. Several online payment systems have been developed including Yandex Money and WebMoney. These e-wallets, often subject to daily transaction limits, are linked to domestic bank accounts or debit cards or loaded with funds at the kiosks or offline stores. Though Yandex Money has signed up 20,000 merchants and 14 million consumers, and WebMoney 2,200 merchants and 6 million users, 80 percent of all B2C e-commerce in Russia is still conducted in cash.

Russian e-commerce is developing, but at a slower pace than Western markets. Half of habitual e-commerce consumers only began shopping online in the last two years. Card and online payment systems are gaining acceptance for digital goods (software, e-books, and digital music) and travel purchases such as airline tickets and hotel reservations. Shoppers have entered the online sphere for these products as well as for books, and are expanding to electronics, computers, and home appliances, and then jewelry, cosmetics, clothing, and shoes.

Online shopping mall Ozon began in 1998 as an online bookstore but now stocks well over 2 million items. Ozon adopted a multi-pronged strategy to combat Russia's market challenges. In the short-term, it accepted customer preference for COD in order to build trust, expand its customer base, and establish market position. Its delivery service (O'Courier) and 2,100 pick-up centers serve 350 cities throughout Russia and Kazakhstan. This logistics network dwarfs those of its competitors.

Another domestic leader, KupiVIP, has also succeeded largely because it built its own logistics network including multiple warehouses and a fleet of delivery trucks. Centered on its original high-fashion flash sales site, KupiVIP (kupi means buy in Russian) now includes nine white-label sites and ShopTime, a full-priced fashion site. KupiVIP's delivery drivers to double as customer service reps. In addition to collecting COD payments and merchandise for return, they will even wait at the door while customers try on merchandise to decide if they want to keep it.

The unexpected leader of Russian e-commerce, however, is hybrid online-offline retailer Ulmart, which recently became the first Russian e-tailer to surpass $1 billion (USD) in sales. Founded in August 2008 to sell computers online, it quickly expanded into home electronics, household appliances children's goods, auto parts, and tires. Ulmart complements its online selling with 32 Kibermarkets—electronics superstores open 24 hours a day—as well as around 140 pick-up outposts in 150 cities across Russia. Five hubs supply the fulfillment centers, and a fleet of nearly 200 trucks transports merchandise from the warehouses to the outposts and makes home deliveries. Floor space that would traditionally be taken up with row after row of product is instead used for computer

terminals and giant state-of-the-art touch screens that serve as virtual display cases. Customers browse and choose products from a virtual catalog, use cash, credit cards, or Yandex Money at a payment zone terminal, and proceed to a comfy waiting zone accoutered with couches and tables for a 15-minute or less wait for their purchases. Ulmart is also at the forefront of Russian m-commerce, building a new Web site for smartphones, even while continuing to support 24-hour call centers.

Ulmart's conspicuous vulnerability is its neglect of the nearly 88 percent of Russia's landmass that lies beyond the reach of its logistics network. To reach these customers, Ulmart must rely on the government-owned Russian Post. Pochta Rossii, still struggles to transport goods between Ulmart's St. Petersburg headquarters and Moscow (400 miles) in less than two weeks, let alone service Novosibirsk, Russia's third most populous city and most populous in Asian Russia, nearly 1,750 miles away.

Russian e-commerce is dominated by a handful of these large companies. Most medium and small domestic retailers have yet to establish an Internet presence. EBay has launched a Russian language site and Amazon is in the process of building one, but their presence is overshadowed by Russian firms, which control 90 percent of the market.

Sources: "Broadband Internet penetration in Russia," themoscownews.com, April 4, 2014;Diane Brady, "Russia's Online Retail Leader Says 'Amazon Has No Chance," Bloomberg Businessweek, February 27, 2014; MaelleGavet, "The CEO of Ozon on Building an e-Commerce Giant in a Cash-Only Economy, " Harvard Business Review (July-August 2014);Ben Hopkins, "The 'good times' could be over for foreign retailers in Russia," rusbase.com, January 29, 2014; James Marson, "At E-Commerce Firms, Russia Rises," by James Marson, Wall Street Journal, Nov. 12, 2013; Juho, "Is E-commerce in Russia Exploding?" magentaadvisory.com, February 4, 2014; "Insight: Online Payment Preferences: Russia," cybersource.com, 2013; Alexi Moskin, "Ulmart and the Benefits of Hybrid Shopping," The St. Petersburg Times, August 14, 2013; "Expansion Ahead for Russian E-commerce," The Moscow News, August 29, 2013;and OlenaSikorska, "E-commerce in Russia: Trends, Problems and Winning Local Players," digitalintheround.com, December 3, 2013.

CASE STUDY QUESTIONS

1. Describe the technical and organizational obstacles to e-commerce growth in Russia.
2. How do these technical and organizational factors hamper companies from doing business in Russia or setting up Russian e-commerce sites?
3. Will non-Russian companies like Amazon.com and eBay flourish in Russia? Explain.

Aside from integrating the new with the old systems, there are problems of human interface design and functionality of systems. For instance, to be truly useful for enhancing productivity of a global workforce, software interfaces must be easily understood and mastered quickly. Graphical user interfaces are ideal for this but presuppose a common language—often English. When international systems involve knowledge workers only, English may be the assumed international standard. But as international systems penetrate deeper into management and clerical groups, a common language may not be assumed and human interfaces must be built to accommodate different languages and even conventions. The entire process of converting software to operate in a second language is called **software localization**.

What are the most important software applications? Many international systems focus on basic transaction and management reporting systems. Increasingly, firms are turning to supply chain management and enterprise systems to standardize their business processes on a global basis and to create coordinated global supply chains. However, these cross-functional systems are not always compatible with differences in languages, cultural heritages, and business processes in other countries (Martinons, 2004; Liang et al., 2004; Accenture, 2014). Company units in countries that are not technically sophisticated may also encounter problems trying to manage the technical complexities of enterprise applications.