Russia’s Online Economy : How Residents of Large and Medium-Sized Cities and Small Settlements Make Purchases, Payments and Earn Money on the Internet

A Data Insight survey

Results of the survey among Russian Internet users
June 2018

Preface

The 2018 study is our milestone project – the fifth of its kind.

For the last five years, we have been studying the growth of online economy and reporting significant progress year after year. The number of Russians engaged in online shopping, e-commerce and e-payments is going up, and, most importantly, their involvement gets more diverse.

Online economy is growing everywhere, from Moscow to the remotest outskirts of Russia. However, "everywhere" does not mean "in the same way". Differences (and similarities) of megacities, mid-sized cities and small provincial places are the focus of our 2018 study.

Study background

Objective: Estimate changes of Russian consumers' behavior connected with online shopping and payments

Base
N=4005

Age
18–64 years old

Timing
April 4–20, 2018*

Methodology
online survey, river sampling

Geography
Russia, all types of locations

Quotas
By gender, age, macro regions

* The previous studies: 13.02-19.02.2014, 24.02-05.03.2015, 04.02-10.02.2016, 06.02-15.02.2017

Growing diversity

People and practices

PayPal

More than 4/5 of the Internet audience participates in the online economy

Share of those involved in online economy:

2017

73%

X1.1

2018

82%

of those surveyed had made online purchases or payments or used online money transfers in the last 12 months

Core audience:

2017

26%

X1.3

2018

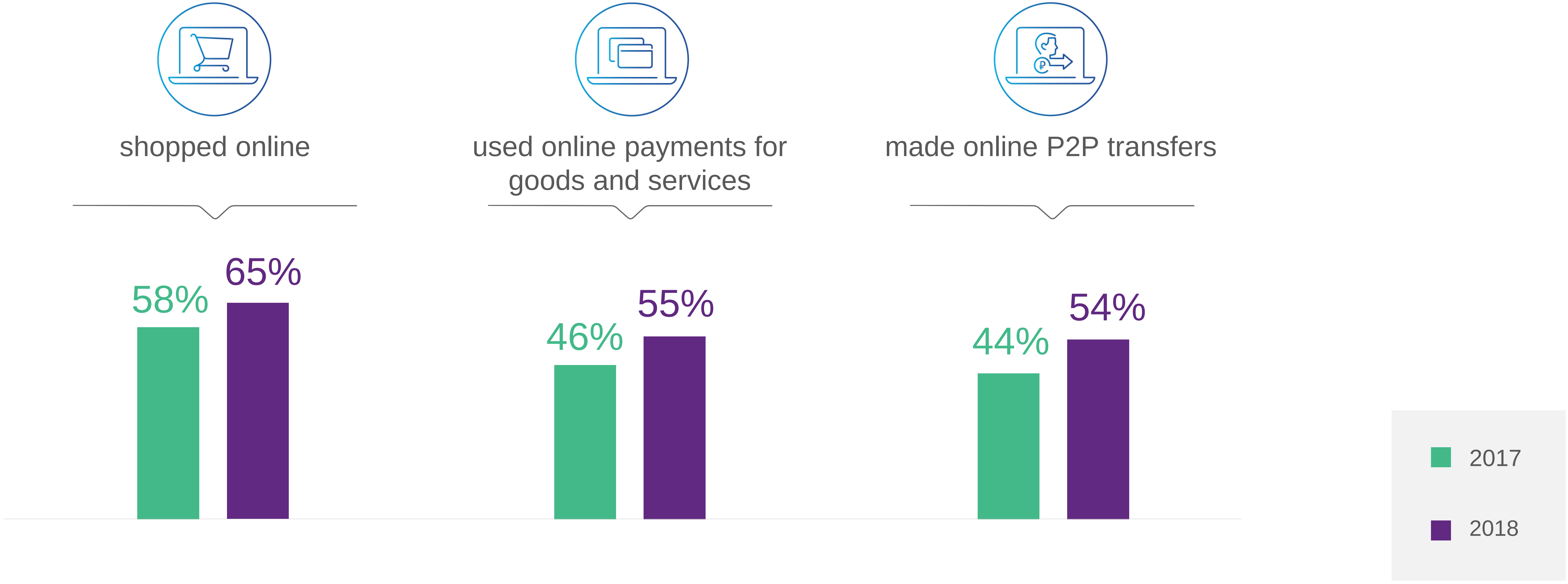
34%

made an online purchase and an online payment and used an online transfer in the last 12 months

N=4005 (all surveyed)

Three majorities

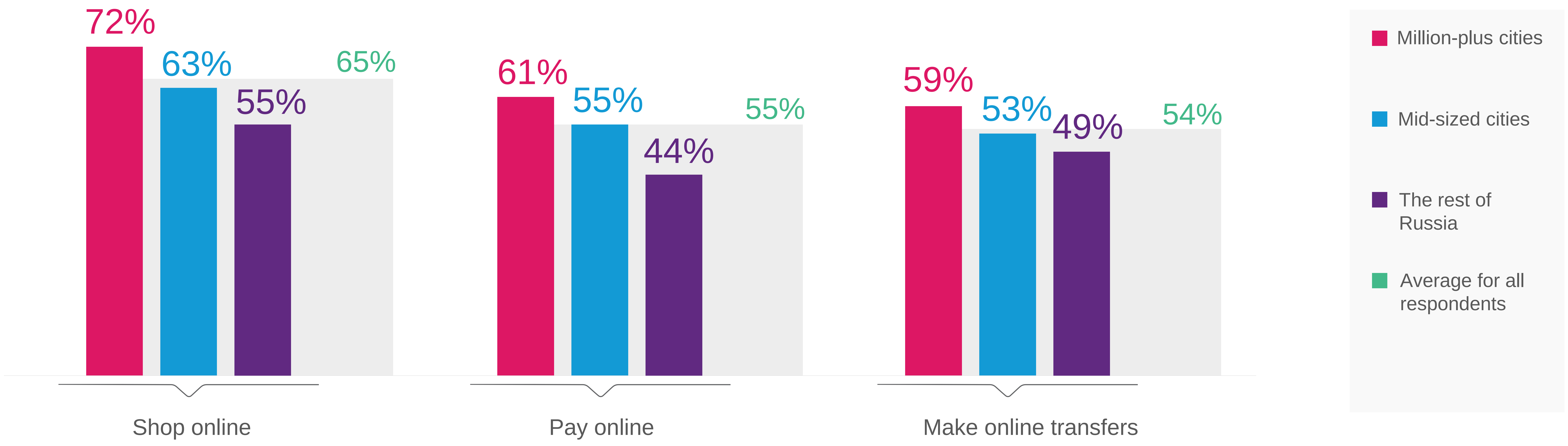
As of the beginning of 2018, more than half of Russian Internet users:



N=4005 (all surveyed)

In small towns, online penetration is lagging behind the Russian average by a mere year

… while the penetration of online shopping, payments and P2P transfers in big cities outperforms average Russian levels – again, by a year or so



N=4005 (all surveyed)

Three types of online behavior

Based on respondents' answers on a questionnaire, we identified three distinct types of online user behavior. These segments also differ by income and level of education.

Million-plus cities

Moscow, St. Petersburg and 15 more cities with the population of ~1 million or more (including Krasnodar and Saratov)

Average-sized cities

Cities with the population of 100k to 750k (outside the Moscow and Leningrad Regions)

The rest of Russia

Towns and settlements with <100k people (outside the Moscow and Leningrad Regions)

	Million-plus cities	Average-sized cities	The rest of Russia
Population, million people	34.7	36.8	63.7
Average household, people	2.8	2.7	2.9
Median household income, RUB thousand per month	50	36	28
Share of population with high education	61%	54%	40%
Online experience, median (years)	10	9	7

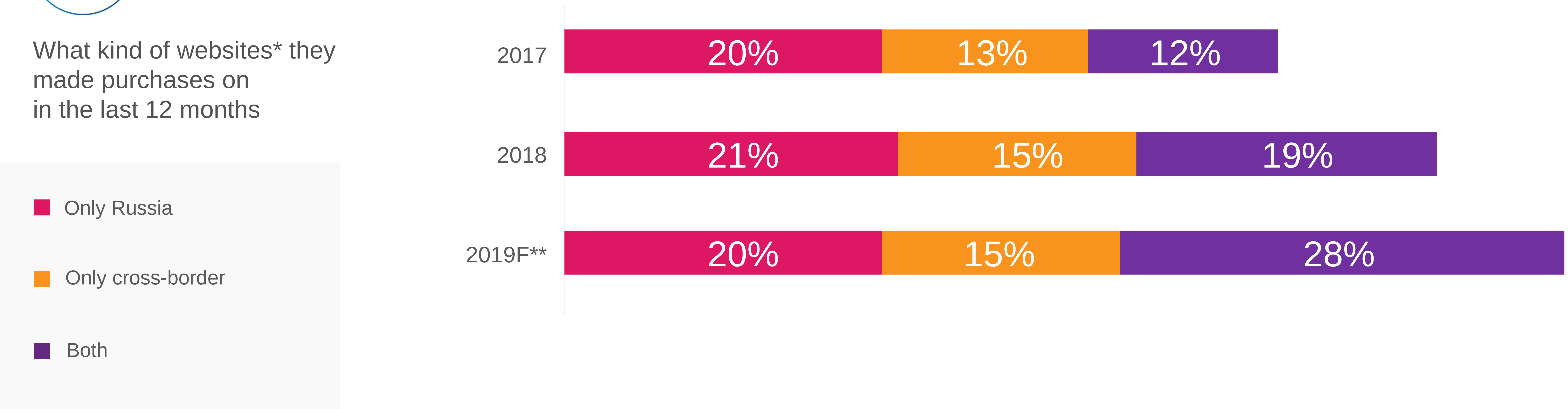
The total population in the three categories is less than the total population of the Russian Federation according to the Federal State Statistics Service because the categories do not cover all the regions of Russia

PayPal

The share of Internet users shopping online, both in Russia and abroad, is growing

The number of users shopping only in Russian online stores or only in foreign online stores remains stable. The only increase is in the number of Internet users shopping both in Russian and foreign stores

What kind of websites* they made purchases on in the last 12 months



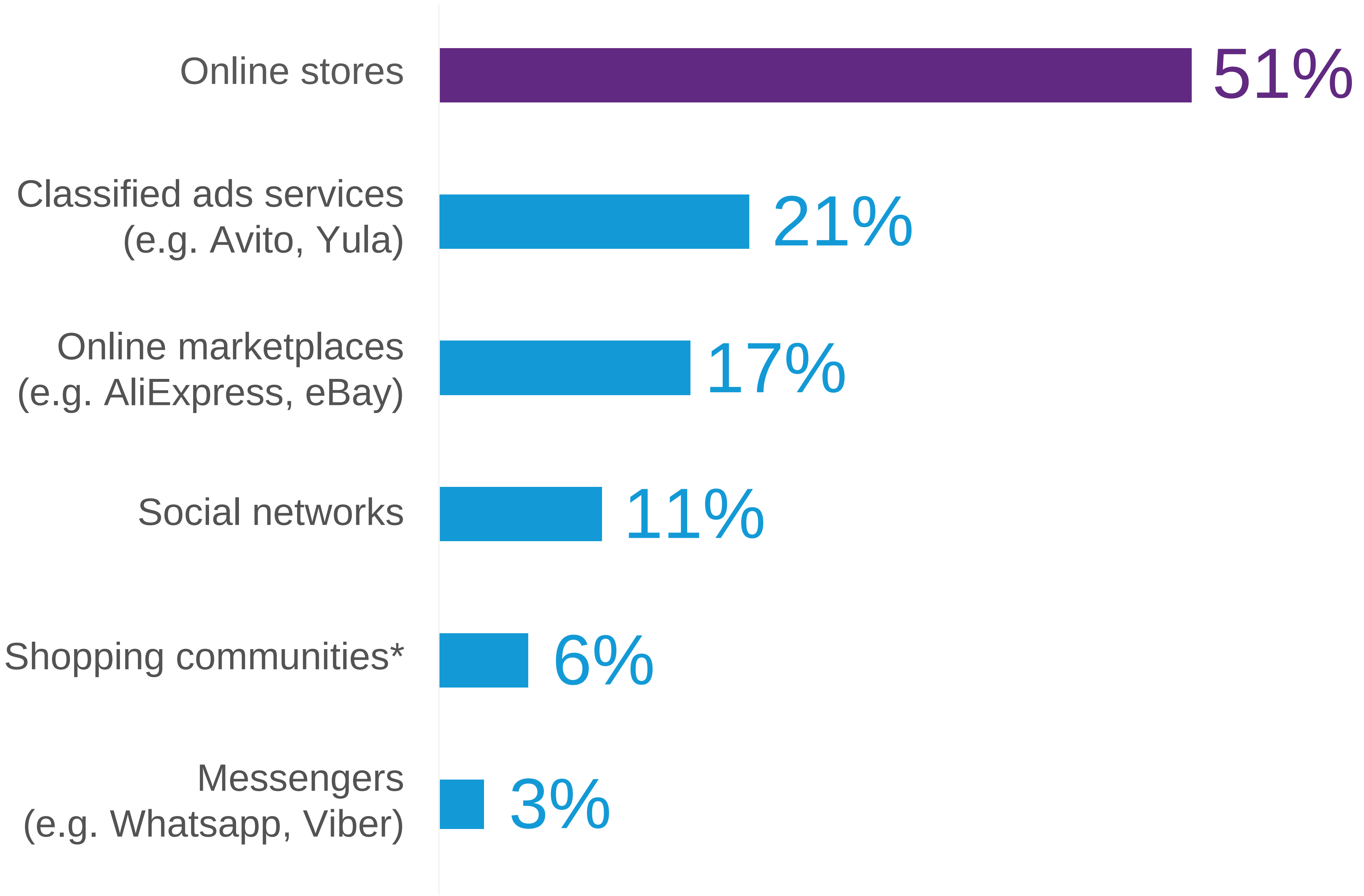
N=4005 (all surveyed)
* Includes purchases in Internet stores and marketplaces
** Data Insight forecast based on responses to “Which of the following are you likely to try in the next 12 months?” and the comparison of 2017 responses with actual penetration growth in 2017-2018.

Online shopping is not limited to stores

*“Have you shopped online in the last 12 months? If so, where?”**

44%

Have shopped in a place other than an online store at least once



N=4005 (all surveyed)

** Platforms (forums, groups, etc.) for cooperative purchases at wholesale prices

Not just clothes and electronics

The online purchases of active e-store customers* are becoming more varied:

for 76%

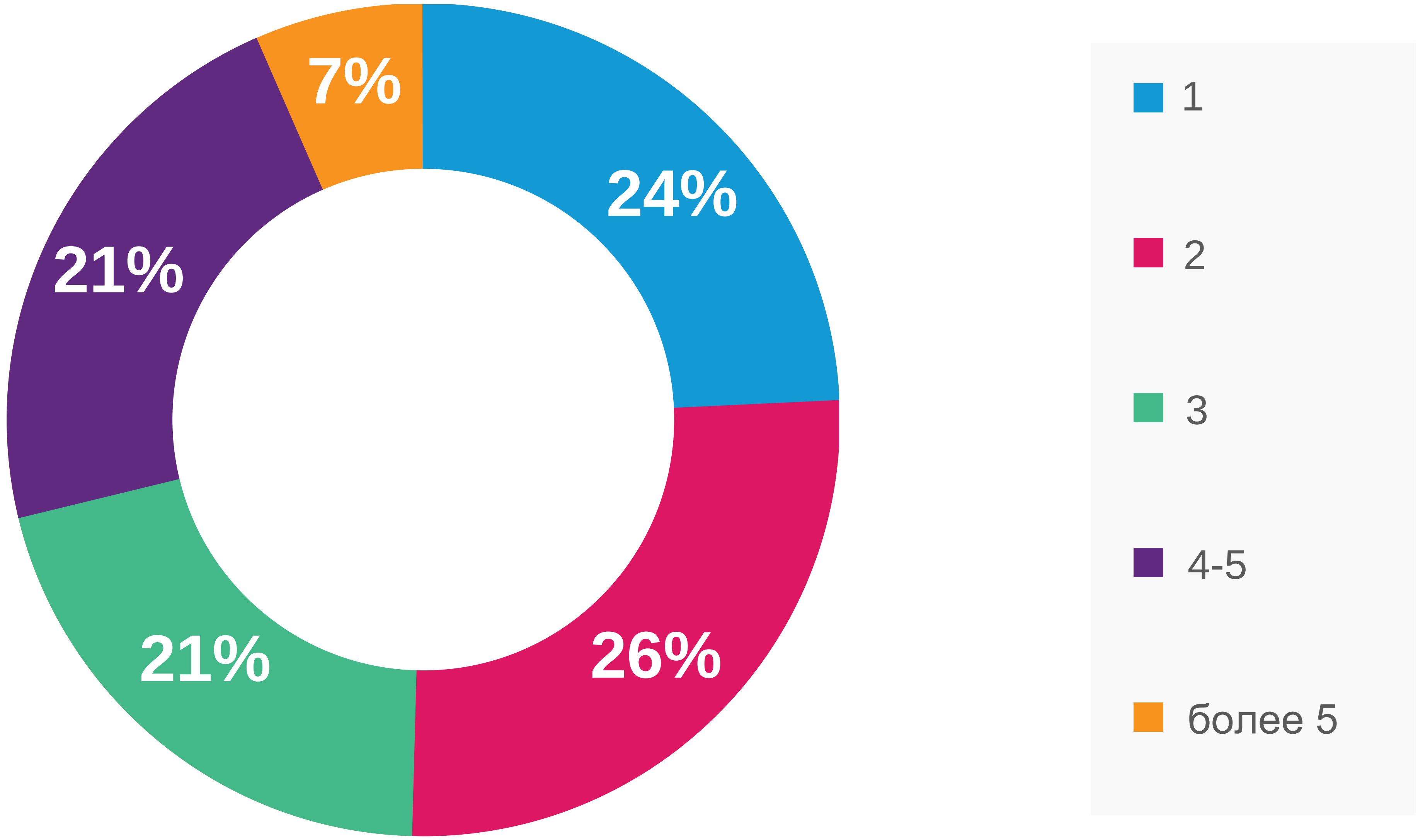
of respondents, the Internet is where they made their last purchases in several product categories** (a year ago, it was 66%)

The average number of categories for which the Internet is the place where they made their last purchase has reached

2.8 per online shopper

that is 12% more than a year ago

The number of categories in which the last purchase was online:



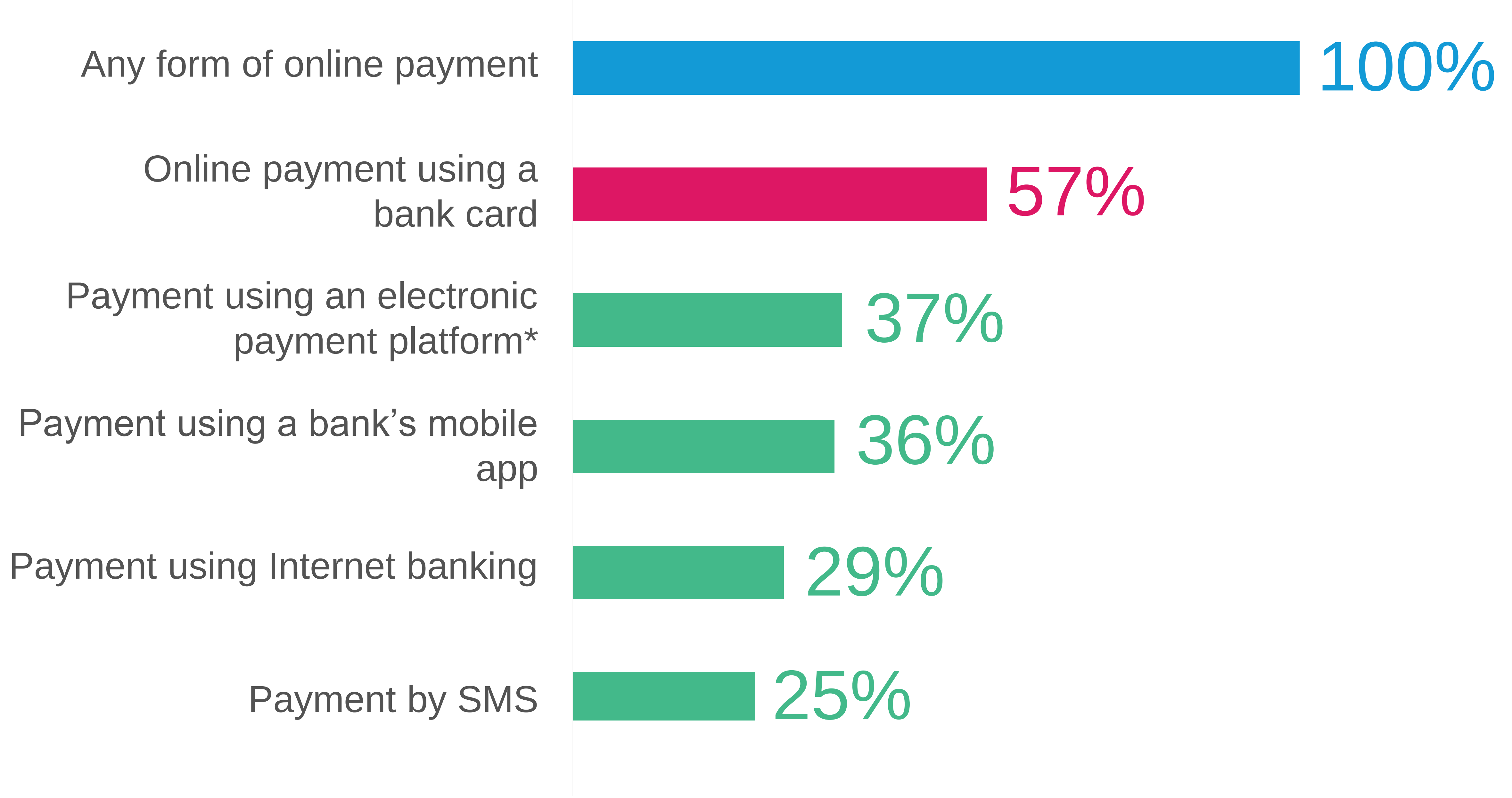
* Includes respondents who indicated at least one category, in which their last purchase was made online (N=1840)
** Includes 7 basic product categories: clothes and shoes, electronics, household and home repair products, goods for children, car parts, cosmetics and perfume, books

Even the most popular payment option was only used by 57% of the total online payment audience

Of those who used it at least once in the last 12 months:

81%

use other forms of online payment than a card



N=2225 (online payment users)

* PayPal, Yandex.Dengi and analogous payment systems

Why do we send money to each other? A growing variety of reasons

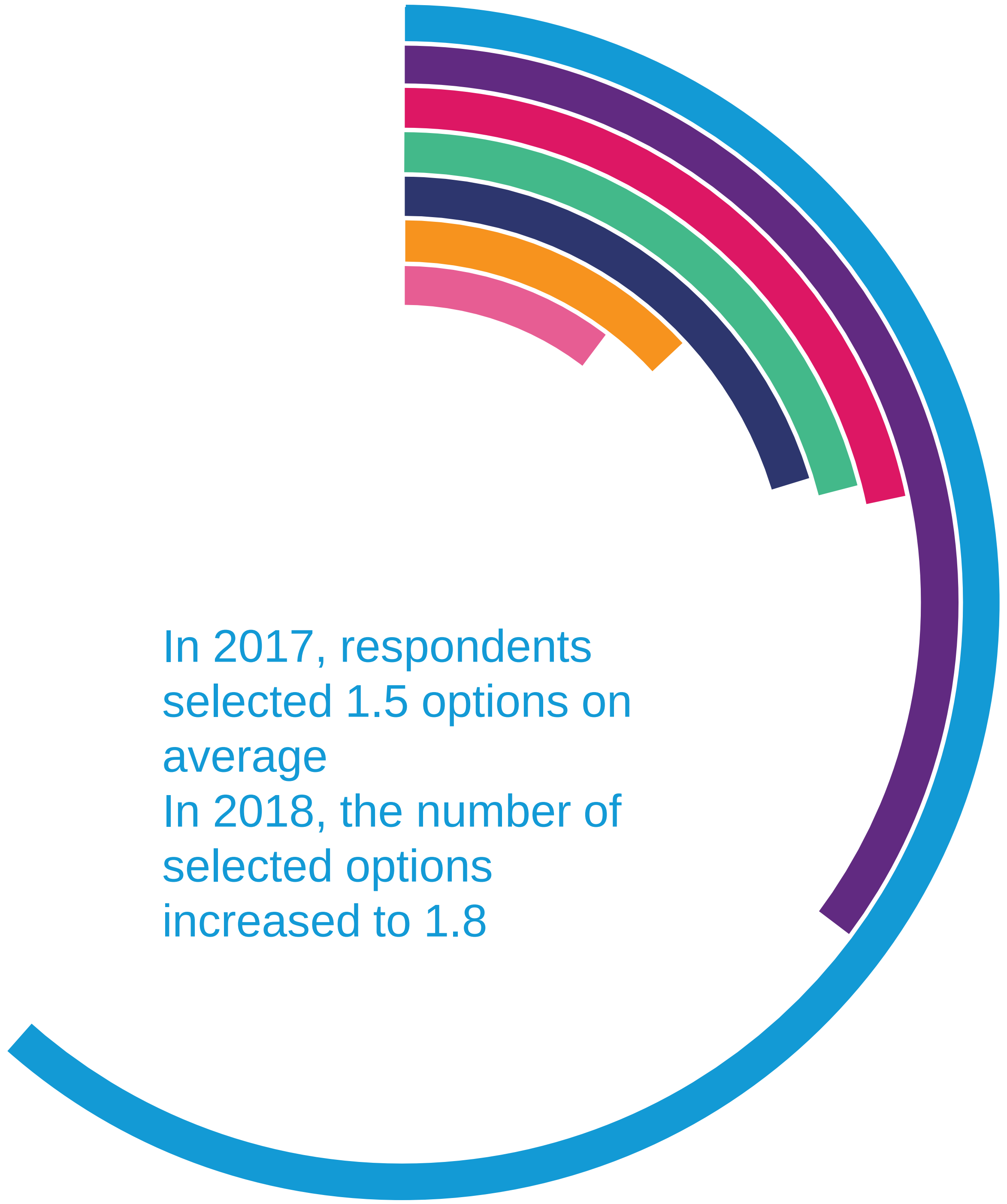
“What types of money transfers have you made in the last 12 months?”

62% One-time transfer to a relative or a friend

36% Payment to other people for work or services

22% Regular transfers to a relative

21% Full or partial repayment of a loan



In 2017, respondents selected 1.5 options on average
In 2018, the number of selected options increased to 1.8

20% Money received in repayment of a loan

13% Collecting money for joint gifts or events

10% Helping people not personally known

N=1912 (made online transfers)

Big cities lead in diversity of user behavior

	Million-plus cities	Average-sized cities	The rest of Russia
Made purchases both in Russian and foreign online stores	24%	15%	11%
Do not use Internet stores exclusively for their online purchases	51%	43%	37%
Made online purchases in more than one category	48%	28%	21%
Use a variety of online payment methods	38%	31%	19%
Sent various money transfers	28%	26%	18%

N=4005 (all surveyed)

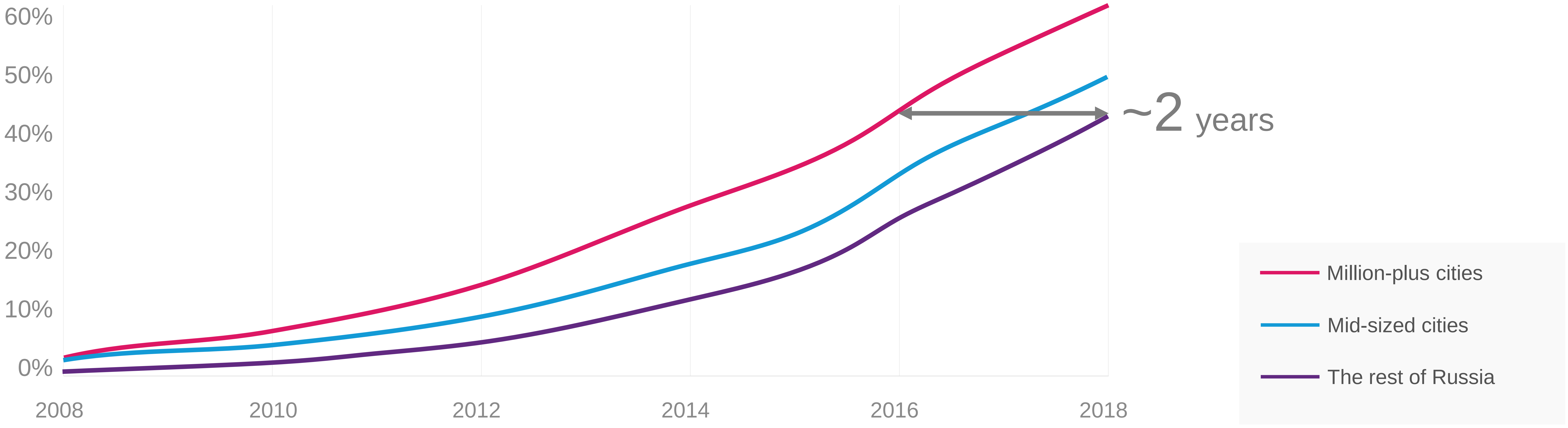
Online shopping

People in Russia are shopping online across all of the country, but megacities, and Moscow in the first place, are absolute leaders – in particular, in terms of online shopping frequency

Russian provinces have taken the lead in e-commerce penetration growth

Catch-up growth: in the last year, the share of online shoppers has grown by 7 pps in large and mid-sized cities, and by an impressive 9 pps in the rest of Russia

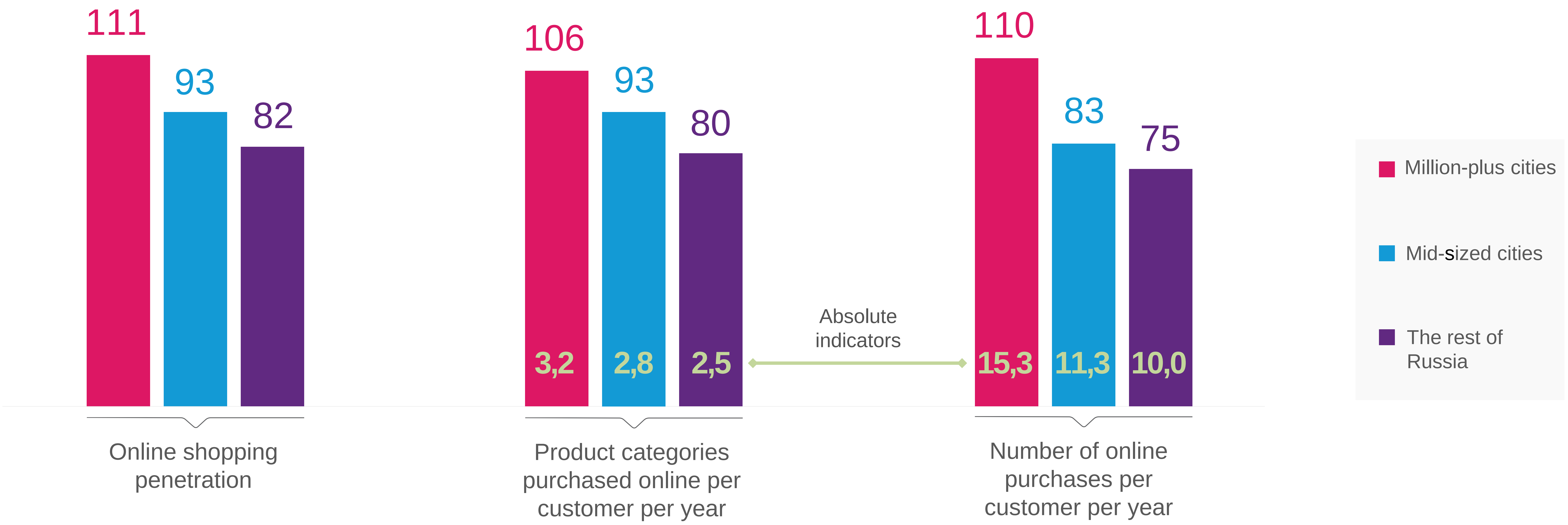
“Please try to remember for how long (roughly) you have been shopping online”



N=4005 (all surveyed)

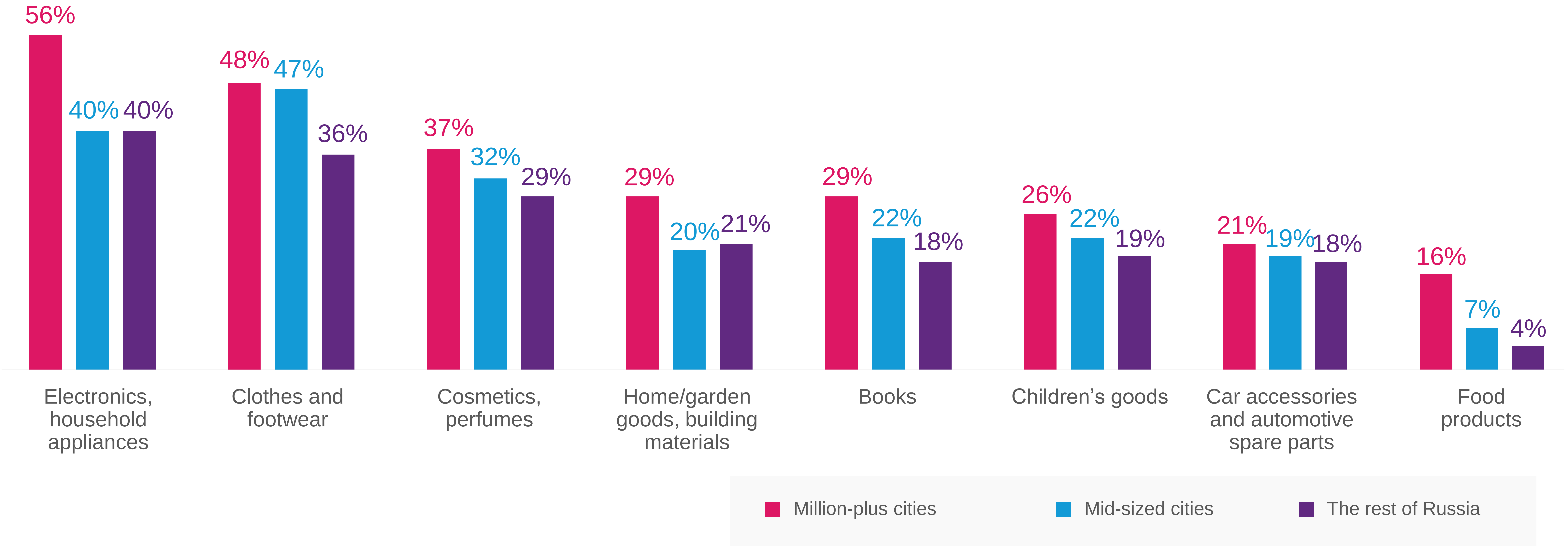
The gap lies mainly in the frequency of online shopping rather than in the number of shoppers

Average data is assumed as 100



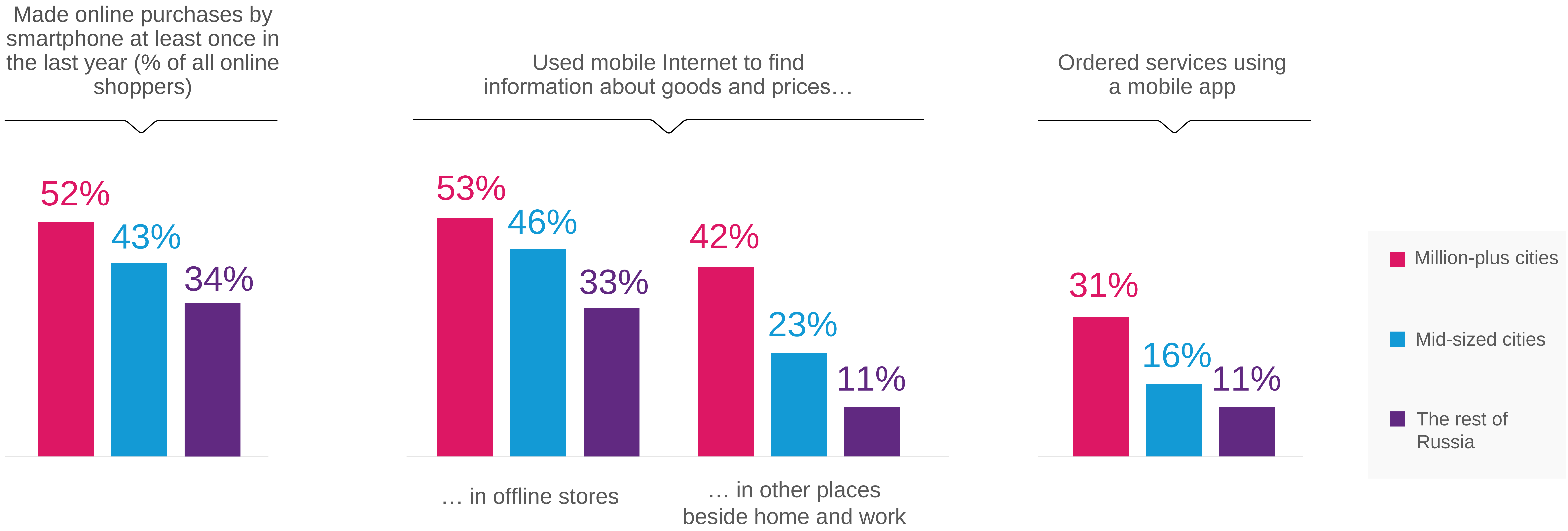
Clothes and automotive spare parts are the most universal categories geographically

Purchased online at least once a year, % of total online shoppers



N=2183 (online stores' customers)

Big cities have a particularly large lead in the popularity of shopping “on the go” and ordering services using apps



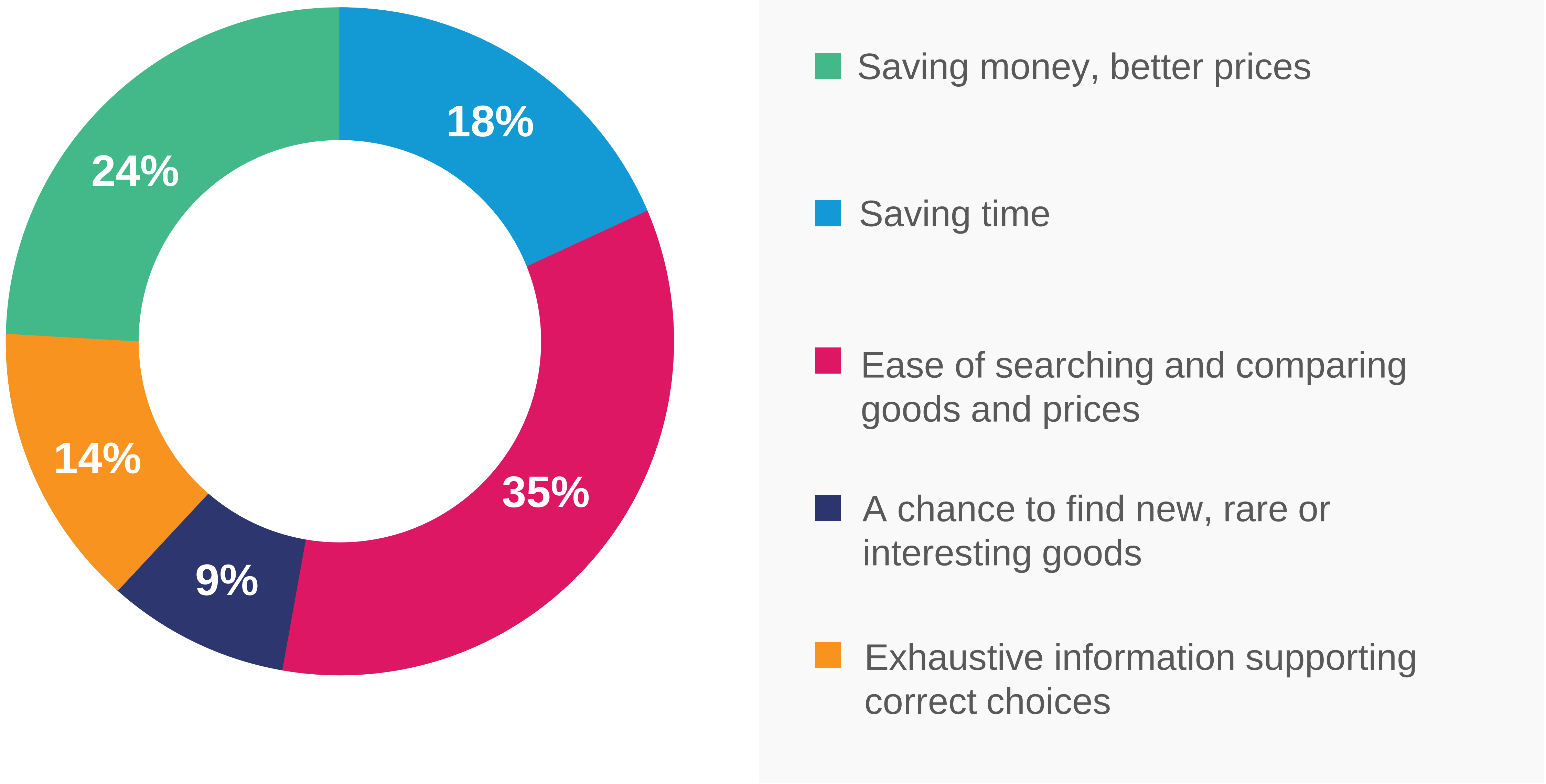
N=4005 (all surveyed — unless specified otherwise)

Why do or don’t we shop online

Customers change their mind easily – but purchases are often cancelled as a result of their dissatisfaction with goods or online stores

No. 1 driver of online shopping is the ease of searching and comparing goods

“What is your main reason for going online to search, select and order goods?”



Megacities, mid-sized cities and small towns demonstrate basically the same structure of responses

N=3455 (use Internet to search information on goods and prices or to purchase them)
Shares are shown without considering the category “Unable to answer” (2%)

Changed my mind, could not agree on delivery terms, lost interest in the product...

72% of respondents noted that in the last three months they “planned an online purchase but ended up without placing an order”

Reasons for a non-placed order*

N=2237 (there have been cases when the respondent was going to place an order and changed his/her mind)
* Estimate based on the number of reasons for a non-placed order provided by each respondent and the share of abandoned purchases

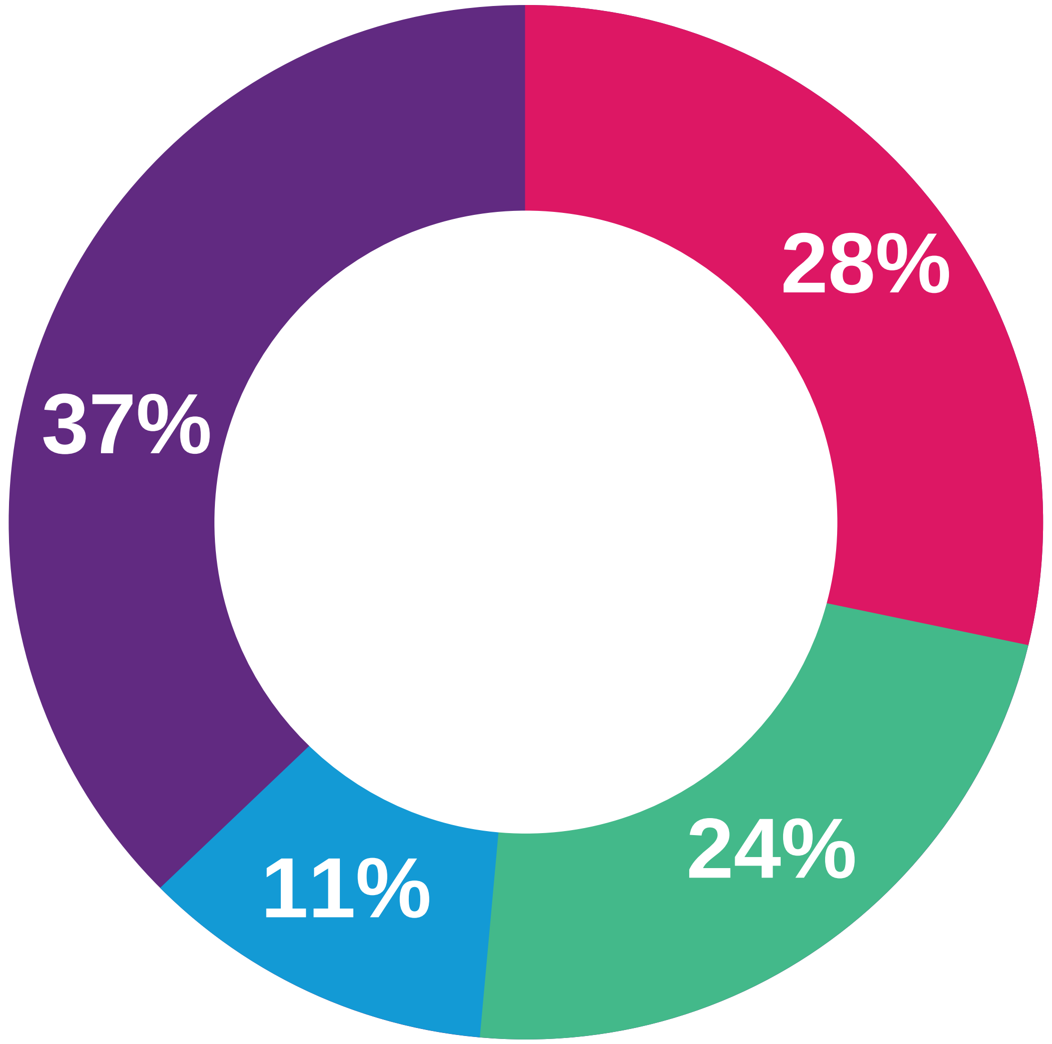
Changed my mind, could not agree on delivery terms, lost interest in the product...

Customer-related

13% I changed my mind and decided that I don't need the product

10% I had no money to purchase it at the time

8% I decided to buy this or similar item in an offline shop



Product-related

8% I did not like feedback on the selected product

6% I researched the product in more detail and understood that its characteristics do not fit my requirements

5% I found the product to be overpriced

4% Product details available on the shop's site were insufficient to make an informed decision

4% I could not find the selected item on stock anywhere

Store-related

6% I did not like the delivery charge

6% I did not like the delivery time

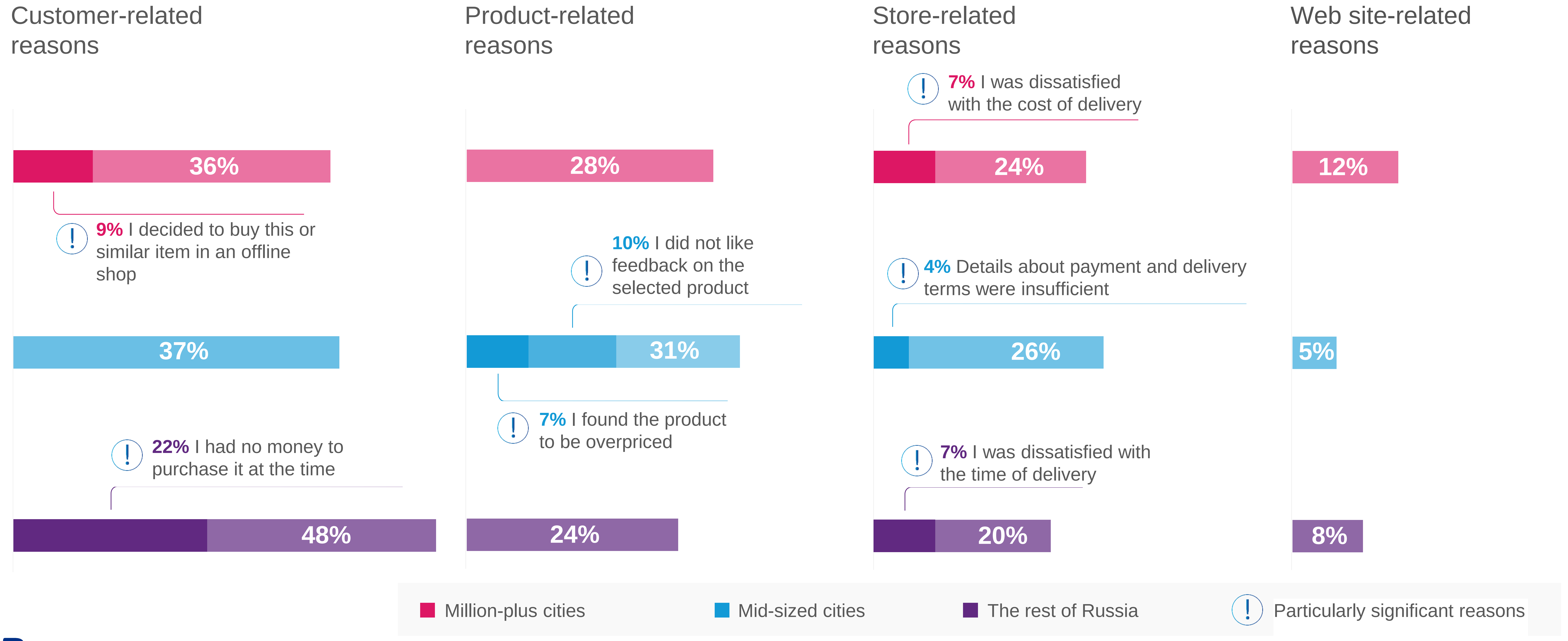
5% The online store appeared suspicious and untrustworthy

4% The online store requested mandatory prepayment

Web site-related*

N=2237 (there have been cases when the respondent was going to place an order and changed his/her mind)
* Includes a number of reasons with no more than 3% share each

In provincial towns, the main barrier to online shopping is the lack of money



N=2237 (there have been cases when the respondent was going to place an order and changed his/her mind)

A placed order doesn’t mean a purchase

…in particular, if an online seller offers goods, which are actually out of stock or of poor quality. **53%** of respondents reported online orders made in the last three months that were not delivered or were cancelled by them.

20% Ordered goods were out of stock

18% The goods did not fit / disappointed / were faulty *

12% The seller cheated by accepting the payment, but failing to deliver the order **

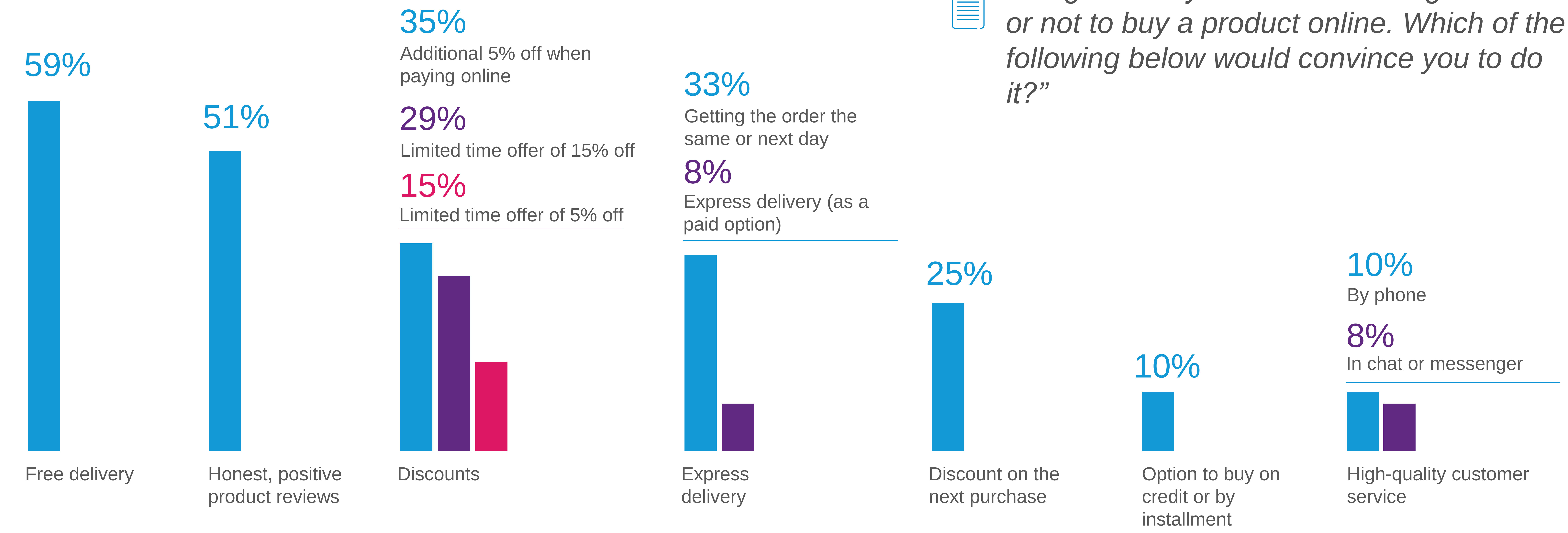
12% Delivered goods did not correspond to the order

38% Other ***

N=1077 (there have been cases when the order was cancelled or not fulfilled)
* In 56% of cases, "the product did not fit or I didn’t like it," in 44% "the product was faulty or did not work”
** Including 24% among customers of foreign online stores and only 6% among those who shopped exclusively at Russian online stores
*** Including ”no spare money to pay for the order” (9%); "bought it somewhere else while I was waiting for the order” (8%); "changed my mind after placing the order, decided I didn’t need the product” (7%); "the delivery was late / arrived at an inconvenient time” (5%)

Free delivery and positive product reviews are the best conversion drivers

“Imagine that you are considering whether or not to buy a product online. Which of the following below would convince you to do it?”



N=2183 (online stores’ customers)
*does not include the options “none of the above” (5%) and “unable to answer” (2%).

Customers do not believe in windfall discounts

A 5% discount for online prepayment has a stronger effect on conversion than a 15% discount for no reason

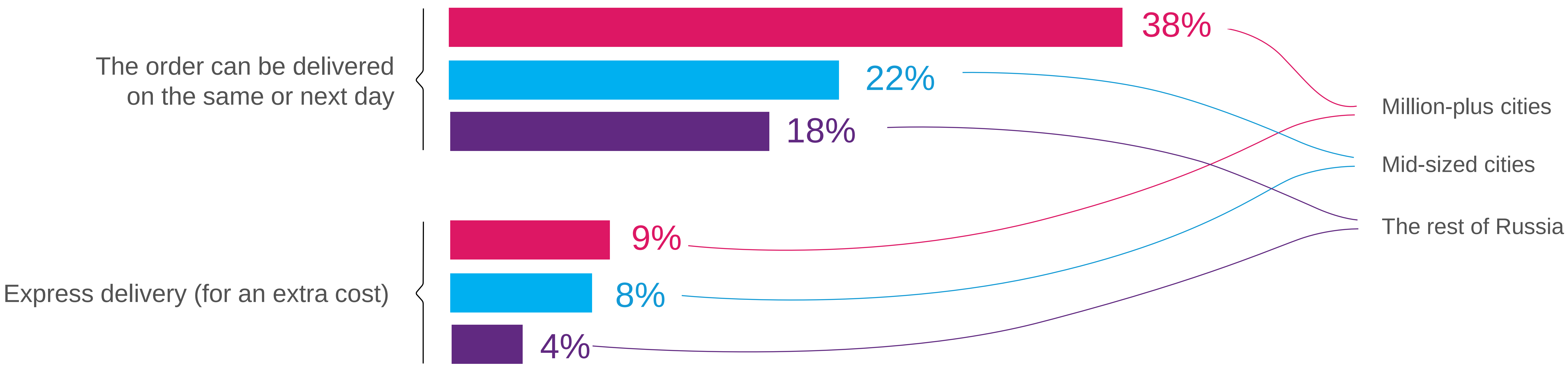
“Which of the following can persuade you to place an order?”

N=2183 (online stores’ customers)
Each respondent saw only one of the above three options (selected randomly) in the list of factors which can persuade them to place an order. The percentages represent the share of respondents selecting the option in %% of all respondents who saw that particular option

Online shoppers like express delivery but the majority is not prepared to pay for it

Express delivery at extra cost was selected 4 times less than a more abstract option of “delivery on the same or next day” as a driver behind the decision to make a purchase

“Which of the following can persuade you to place an order?”



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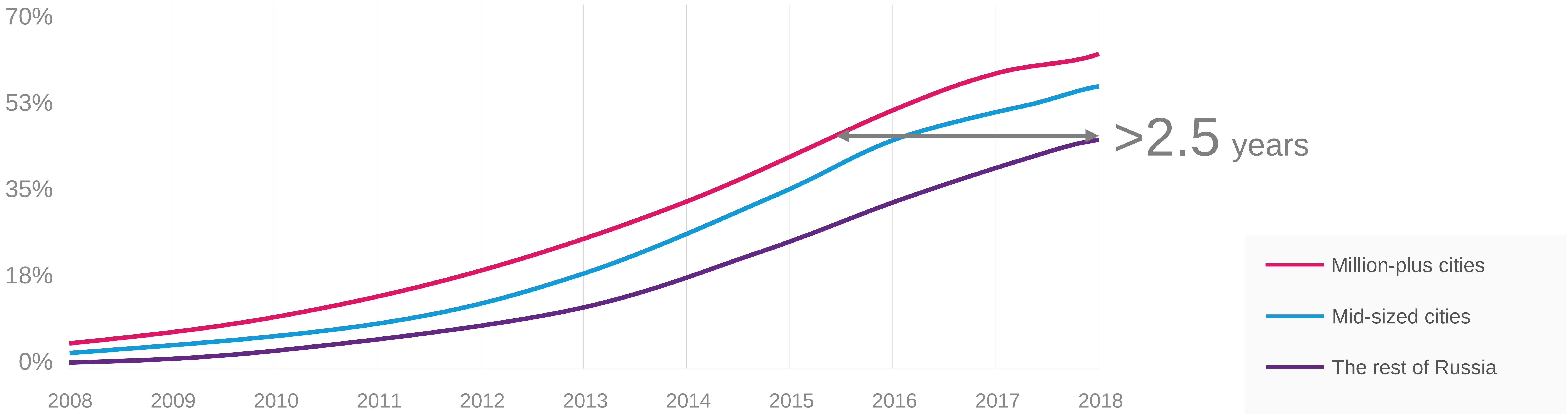
Online payments

National trends: less cash, more online payment experience, and less fears as online experience grows

Online payments are growing steadily across Russia

The number of people using online payments is growing slower than the number of online shoppers, and the gap between mega/mid-sized cities and the rest of Russia isn't closing

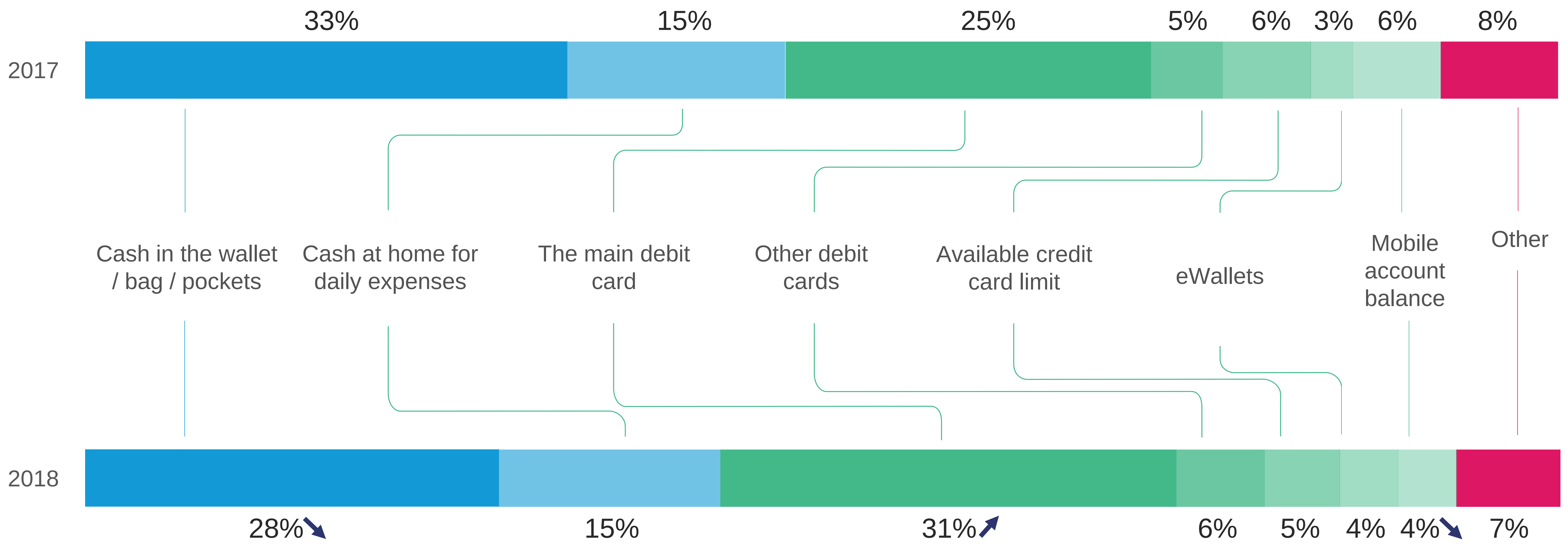
"Please try to remember for how long (roughly) you have been using online payments"



N=4005 (all surveyed)

Cash is loosing ground

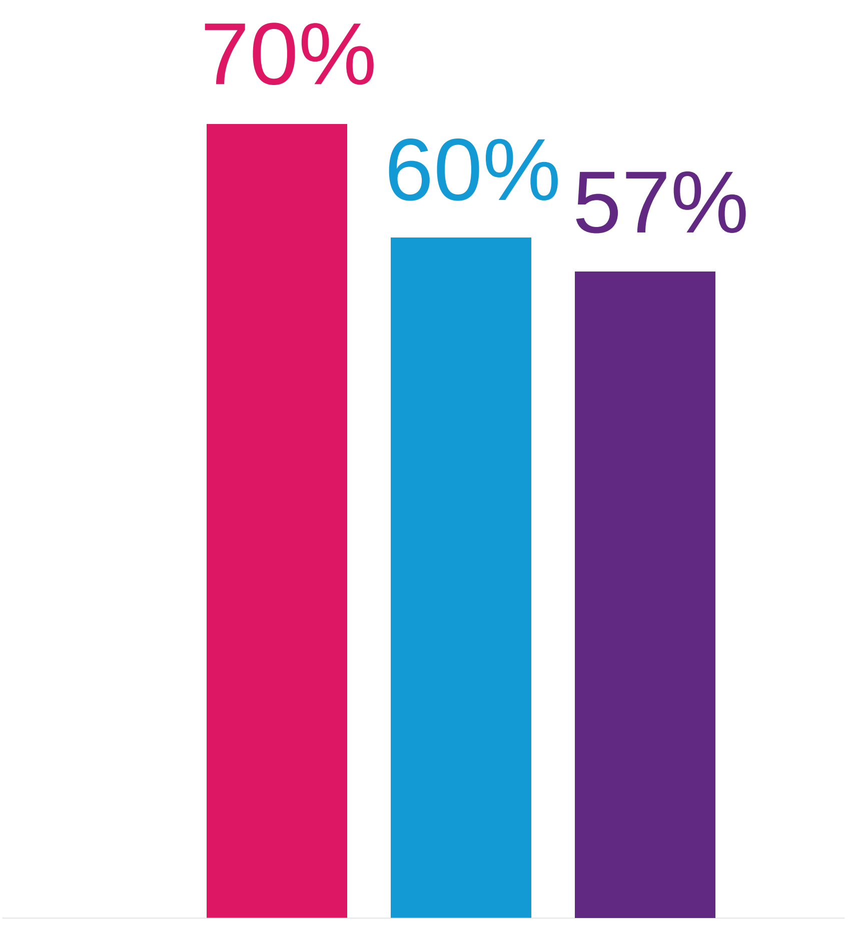
"If we take the total amount of all the money that you have at the moment (excluding savings) for 100% or 100 points, how will they distribute between various categories?"

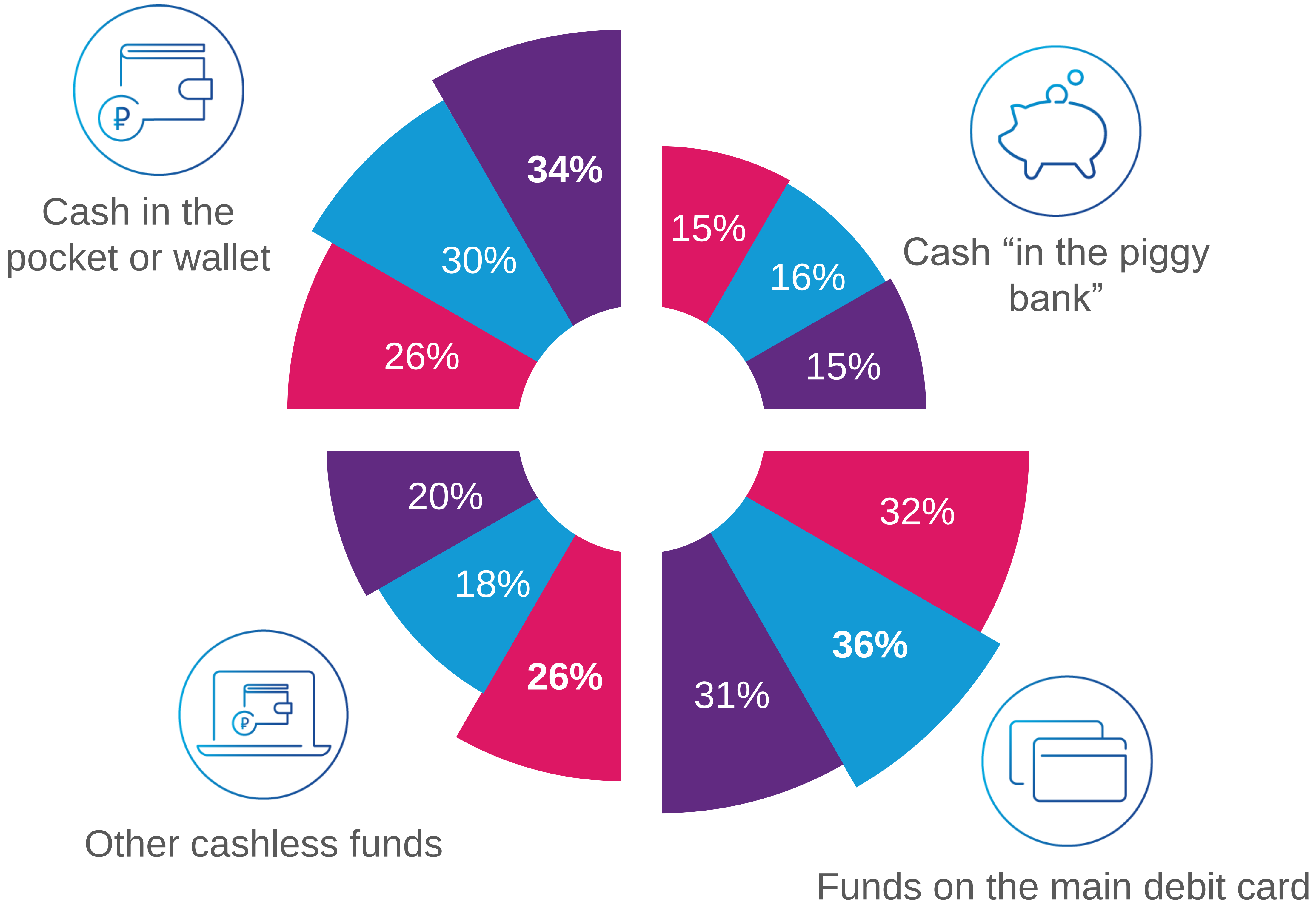


N=4005 (all surveyed)

Cash is being displaced even in provincial towns

Say they might get rid of cash (within 20 years):





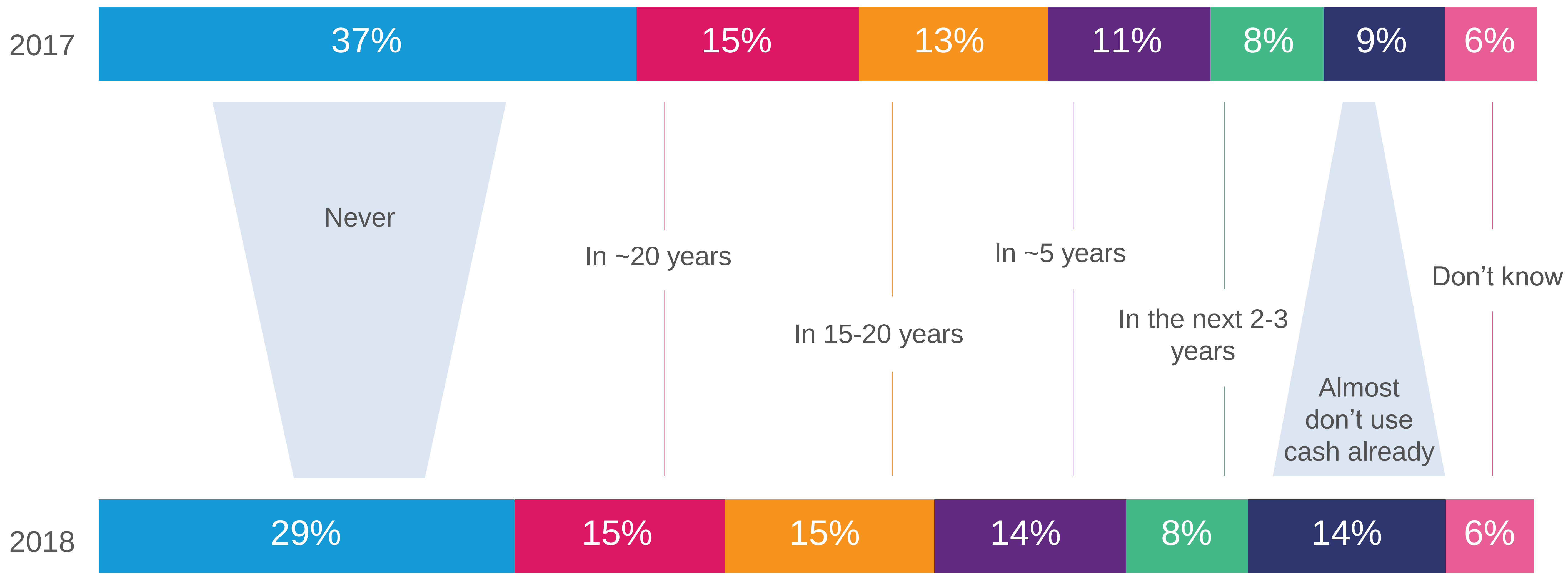
Million-plus cities | Mid-sized cities | The rest of Russia

N=4005 (all surveyed)

Every seventh Russian has practically ceased to pay in cash

The share of those who “almost do not use cash” has grown 1.5 times year on year, which indicates that respondents are too pessimistic in estimating how soon they will stop using cash right now or in the future

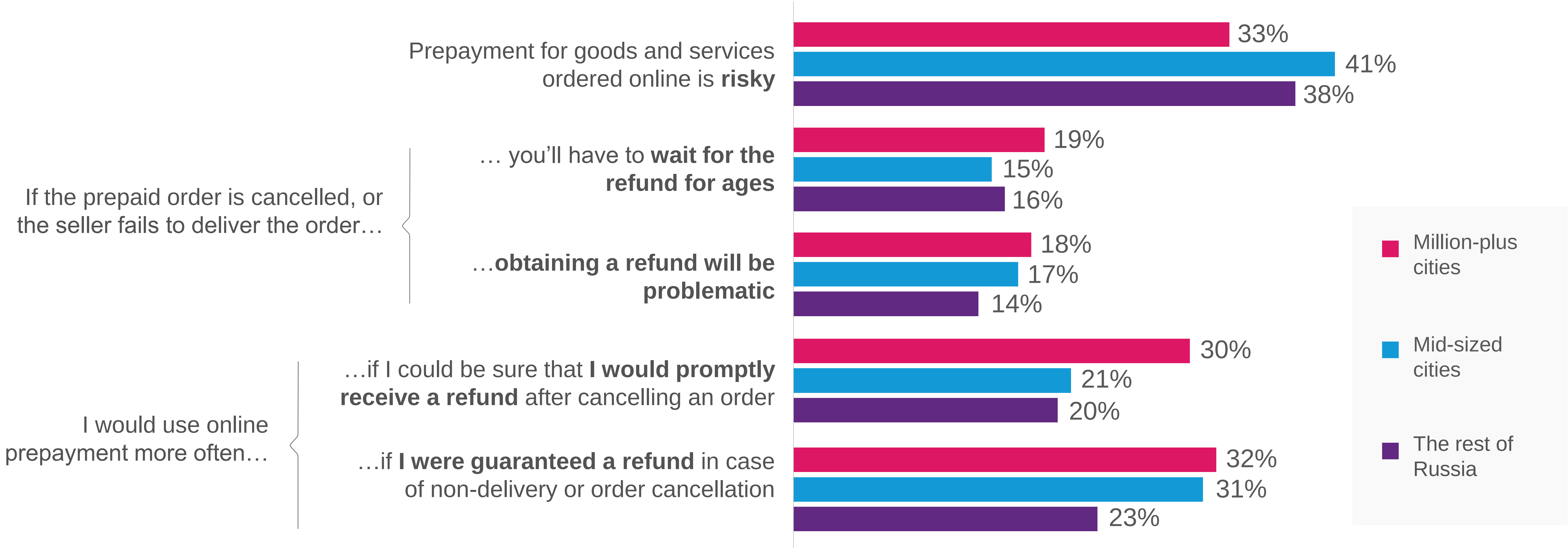
“Based on your estimates, how soon will you be able to live without (or almost without) cash?”



N=4005 (all surveyed)

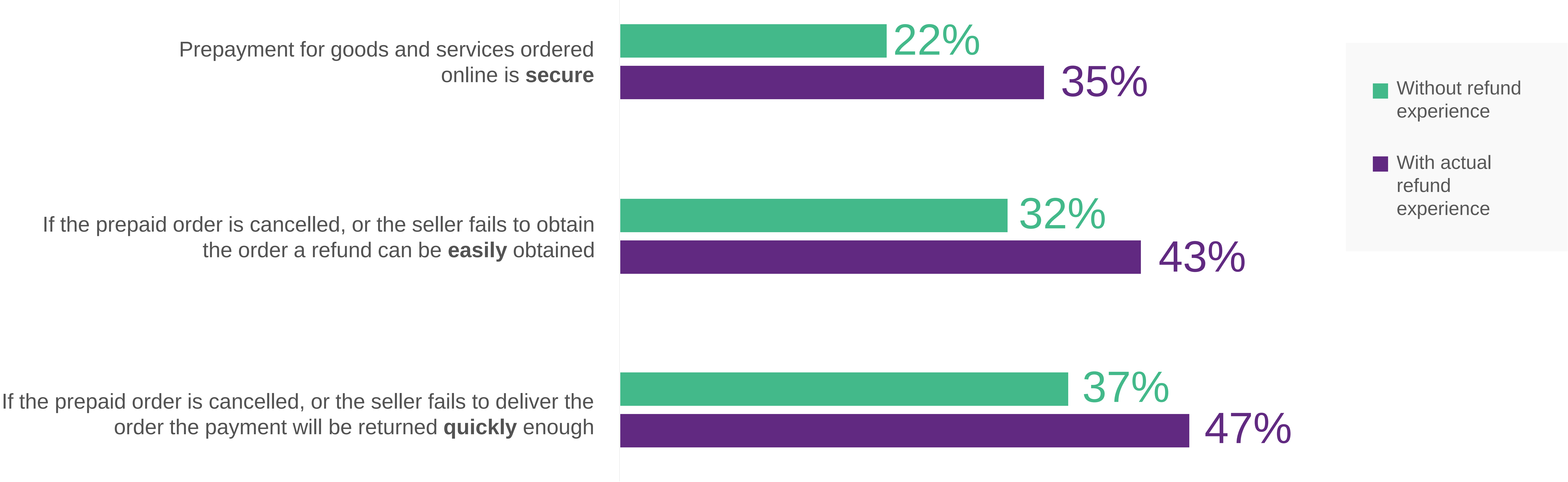
Outside big cities, the fear of online payments remains strong

…but mainly abstract: the sense that the payments are risky is great, but worries about long delivery times or trouble returning items are slight. Provincial users are also less likely to associate the frequency of online prepayment with the guarantee of a smooth and quick refund.



N=2225 (online payment users)

Positive refund experience builds confidence and the feeling that online payments are safe



Share of those in agreement with the statements (data in percentages of all those in agreement either with the statement or its antithesis, “prepayment is… risky,” “…a refund is hard to obtain,” “…it will take a long time for the payment to be returned”)

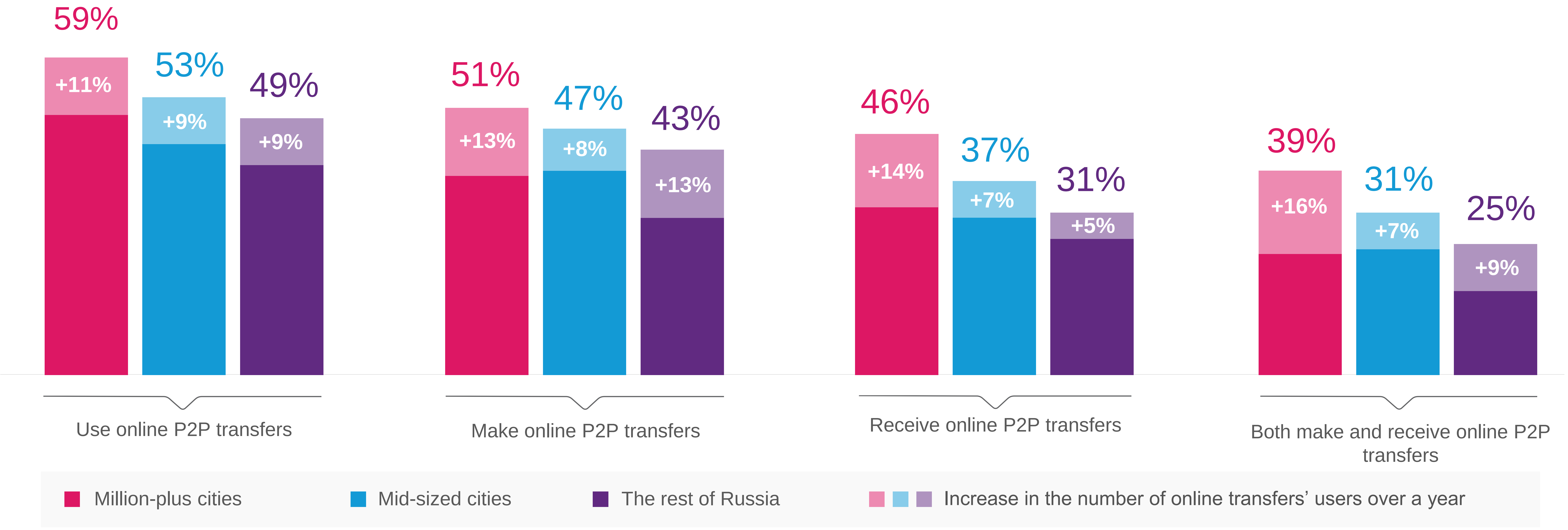
Online transfers and personal business in the Internet

The Internet has removed boundaries for personal income, but online business opportunities are still explored by people living mainly in megacities

Recipients of online P2P transfers are mainly concentrated in big cities

In small towns, senders of P2P transfers are the only fast-growing category

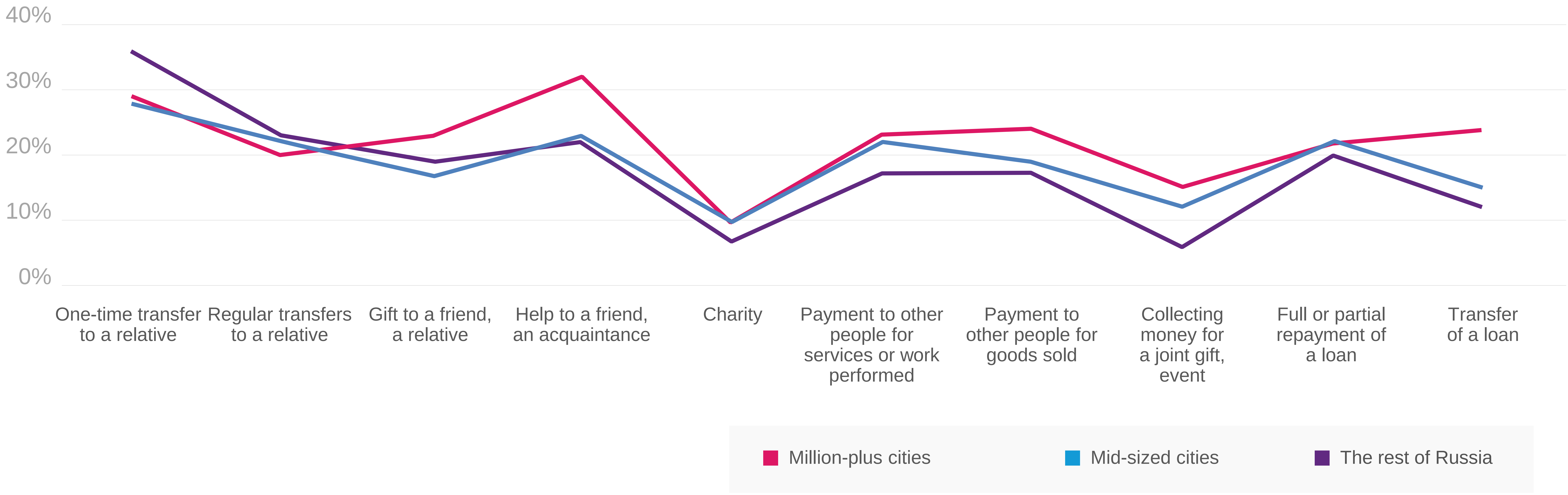
The share of people using online transfers (at least once in 12 months)



N=4005 (all surveyed)

Residents of megacities use online transfers for helping, making gifts and lending money

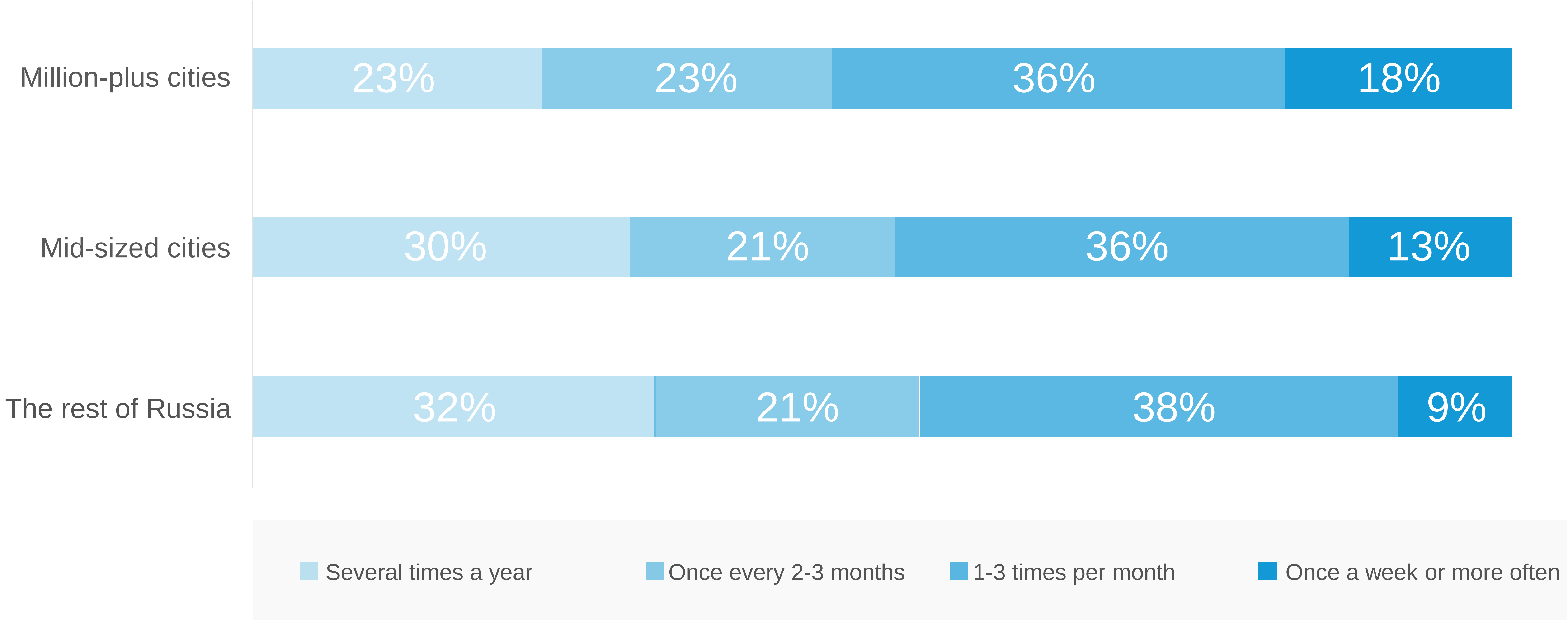
While outside big and mid-sized cities online P2P transfers are mainly limited to one-time money transfers to relatives



N=1912 (made online transfers)

The share of frequent senders of online transfers in megacities is twice as large as in small towns

"How often do you make online transfers to other people?"



N=1912 (made online transfers)

16% of respondents offered or provided services online

Even in small provincial towns the share of online sellers of services is 13%, while the share of online sellers of goods in small towns is two times less than in big cities

N=4005 (all surveyed)
* Handmade goods, antiques, collection items, animals, plants, resold goods

Goods and creative services in megacities vs. productive services in small provincial towns

Services and goods offered online MORE often

Online sellers from million-plus cities

- Development of web sites and mobile applications
- Photo services
- Collection items

Online sellers from mid-sized cities

- Copywriting and translation services
- Collection items

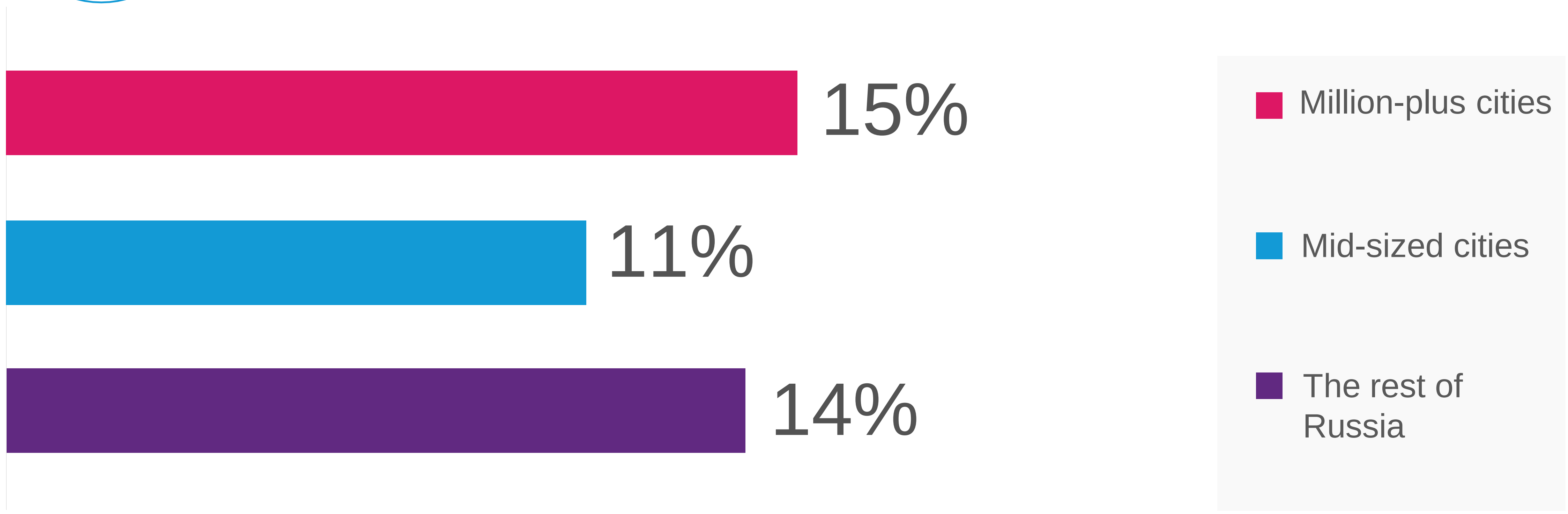
Online sellers from The rest of Russia

- Construction services
- Custom handmade services
- Animals and plants

PayPal

Online sales are just as important for small town dwellers as for big city residents

“Online sale of goods and services for you is important, main or the only source of income”

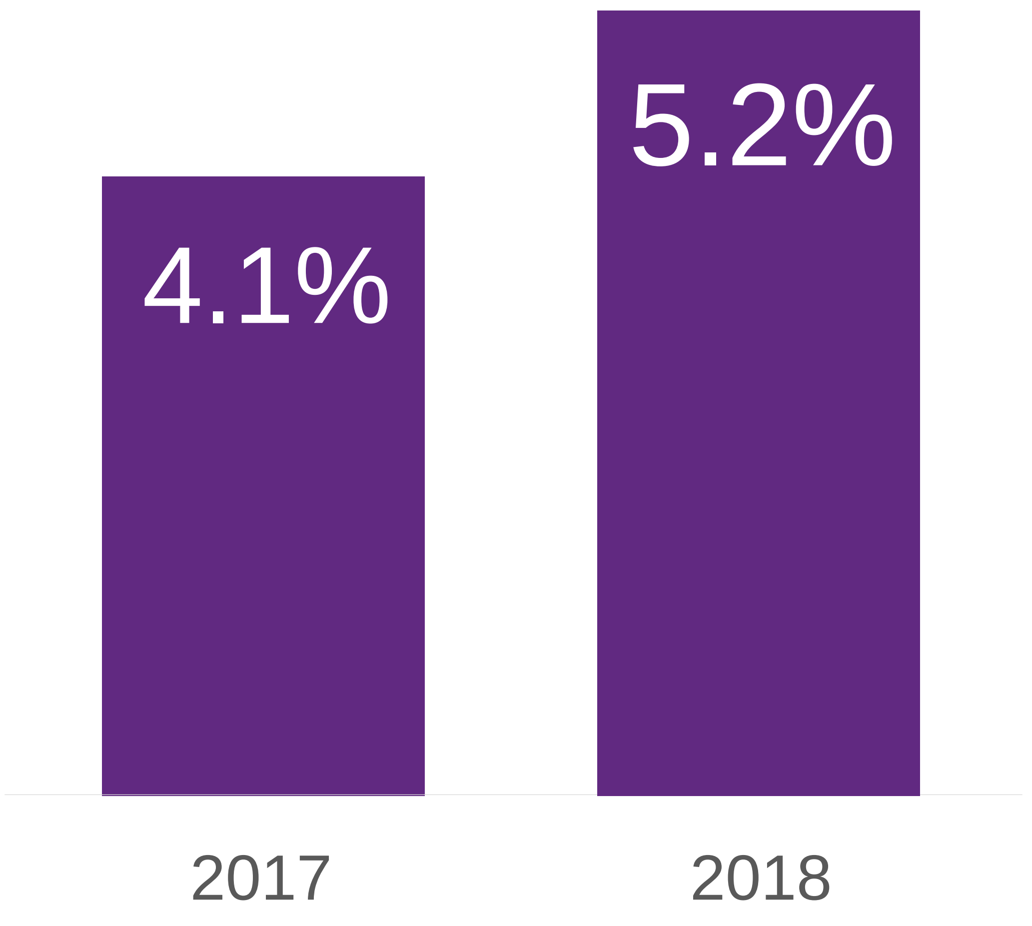


N=1431 (currently engaged in online sales)
In addition to respondents who selected “important”, “main” or “the only source of income” (10%, 3% and 1%, respectively), 13% selected “just a hobby”, 59% - “irregular and unimportant source of income”, and 14% - “regular but unimportant source of income”

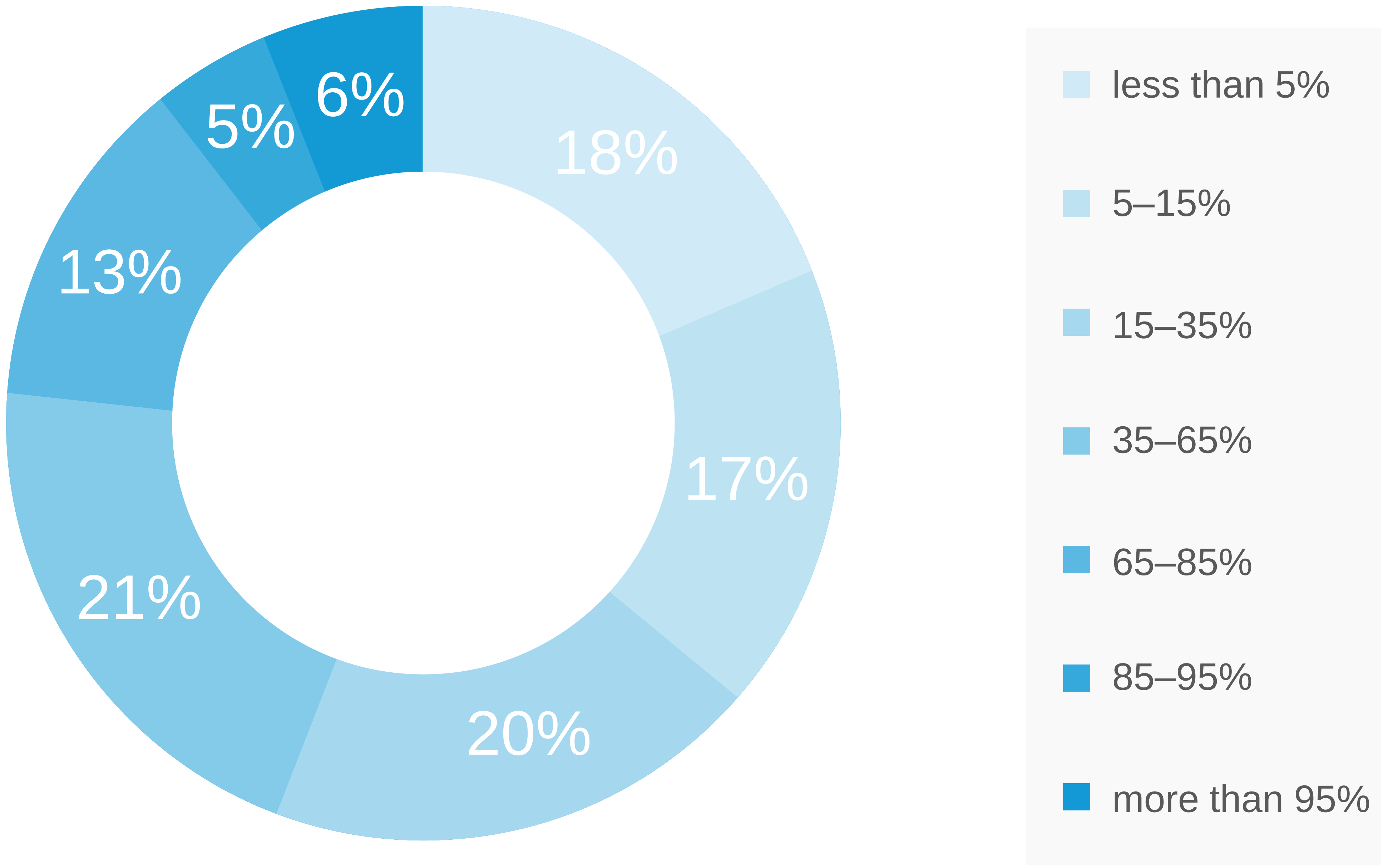
The number of cross-border sellers increased by a quarter over a year

“Have you sold any goods or services to other countries online?”

percentage of positive responses

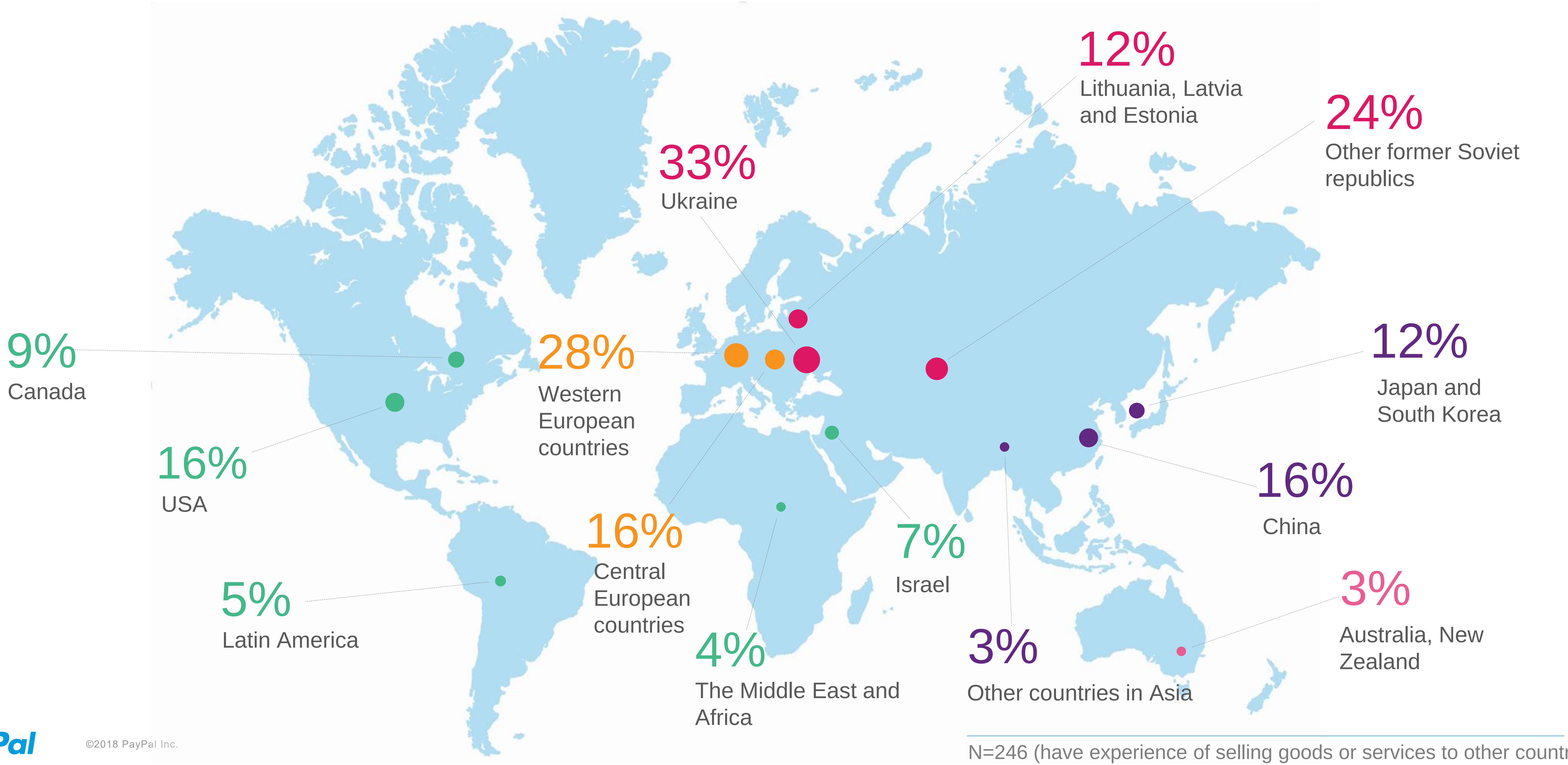


“What share of your online sales go to customers from other countries?”



N=4005 / 246 (all surveyed / have experience of selling goods or services to other countries)

Ukraine remains the main destination for C2C cross-border sales



N=246 (have experience of selling goods or services to other countries)

Half of cross-border online sales are shoes and clothes or various appliances

"Exactly what goods or services have you sold to other countries?"

shoes
perfume, telephones
a telephone
websites, advertising
production, design
binoculars, a telephone
purses
food
game pieces and beads

seeds
athletic shoes
a wedding dress
orders from Ukraine and China for washing machines, vacuum cleaners, fishing equipment, electronics and so on
consulting
a handmade coffee tree

cosmetics
paintings
computer equipment, tablets, telephones
dogs
a book, a smartphone
things for a personal diary
bicycles
cords

clothes
a table
used goods (electrical instruments with spare parts)
cell phones
gaming consoles, things
salted pork fat
underwear
a computer

* A random assortment

Main trends in online shopping, payments and P2P transfers

Differences in online behavior of people living in megacities, mid-sized cities and small towns

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Megacities: leaders in all parameters

1. Residents of big cities are the most experienced Internet users, and they have the longest and most varied experience with online purchases and payments.

2. The majority of them are firmly entrenched in the online economy in a variety of ways: many buy online (in various product categories and not only in online stores), pay online (often by various means), and use online money transfers.

3. In spite of the high level of penetration already reached, growth in the number of users (although not as fast as in the rest of Russia) continues in big cities in all areas — online shopping, online payments, and online money transfers.

4. Residents of big cities have a particular lead in purchasing via mobile devices, especially making online purchases "on the go," away from home and work, and using a smartphone to order services.

5. Residents of big cities use the Internet not only for purchases and payments, but to receive money as well: this is where the greatest share of Internet users is who sell goods and services online and receive online transfers.

Mid-sized cities: between the big cities and the provinces

1. Mid-sized cities are not far behind big cities in the penetration of online payments and money transfers.

2. There is a substantial difference between big and mid-sized cities in online purchasing, and especially in its frequency.

3. Unlike electronics and appliances, household and repairing goods, books and food products (online demand for which is concentrated in big cities), online purchases of clothing and footwear, as well as cosmetics, perfumes and automotive spare parts as much in demand in mid-sized cities as in big cities.

4. A significant share of Internet users in mid-sized cities are already selling used goods online (or the ones that did not fit), although penetration of “professional” online sales of goods and services is at a low level, similar to that of provincial towns.

Provincial towns: lagging behind only by 2-2.5 years

1. Even outside the big and mid-sized cities, 73% of Internet users participate in the online economy. The majority make online purchases, about half make online money transfers, penetration of online payments is almost 50%.

2. Provincial towns come close to big and mid-sized cities in money transfers.

3. Penetration of online purchases and online payments in small towns remains just 2 to 2.5 years behind big city indicators — and that difference is shrinking for online purchasing.

4. Residents of small towns make online purchases for exactly the same reasons as residents of big and mid-sized cities — first because of the convenience of searching and comparing goods and prices, and to save money.

5. Online sellers of goods and services in provincial towns are relatively few — but those who do it are no less active and serious than online sellers in big cities.