

# **The Impact of the COVID-19 Coronavirus Pandemic on the National Digital Services Market Development (Exemplified by the Digital Commerce Segment)**

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## **ABSTRACT**

In 2020, the world has faced a new global challenge in the form of the COVID-19 coronavirus pandemic. The crisis has become a defining check-test for the Russian economy. The Russian Federation government's response was a number of measures to reduce the fast spread of coronavirus in the country, including borders closure, ban on public events, self-isolation regime introduction, educational and commercial activities transfer to virtual space and suspension of certain companies' activities. This has led not only to a number of changes in the consumer behaviour model, but also to the national digital services market boom. The digital trade segment accelerated the most, which stems from the specifics of such organizations. For a consumer the opportunity to buy goods and services on the Internet has become a key factor in ensuring a comfortable life in self-isolation. It is the retail field, which aims at meeting the basic needs of the population, and is integrated into the human life to the maximum.

For retailers, in its turn, transition to the Internet and digital commerce development resulted not only in a certain volume of sales, but also in the increased competitiveness level.

The given research considers the national digital services market development trends under the crisis. The paper analyses studies of the coronavirus pandemic impact on digital services development and provides the authors' approach to the "national digital services market" category. A retrospective analysis of the digital trade segment development and its current state gave insights into a number of recommendations for the national digital services market development in the near future.

**Keywords:** *national digital services market, tertiary sector, pandemic, digital trade segment, development priorities*

## **1. INTRODUCTION**

The building and development of the national digital services market depends both on the current state of the national economy and on the influence of global trends and crises.

In a historical context, the issues of the digital economy development have long been in the interests of national governments and non-governmental organizations. In Russia, digital economy development has only recently become one of the public administration priorities. In modern conditions, tertiary sector is gaining a dominating position in the national economy, with the transition to virtual space being one of the drivers of the national digital services market development.

These days the COVID-19 pandemic is the main global challenge for the national economy. It has become on the one hand, the cause of the economic crisis in Russia, and on the other, a catalyst of the digital services market development.

In the framework of the research, the digital commerce segment development is of particular interest for the authors as one of the key segments of the national digital services market owing to the specifics of the provided services and goods, received in tangible form.

In this connection, the research purpose is to study the impact of the COVID-19 pandemic on the development of digital commerce, being the national digital services market segment, and to work out measures for this segment development in the near future.

## **2. RESEARCH METHODOLOGY**

In the course of the research, the authors used such methods as analysis, synthesis, comparison and grouping. The theoretical and methodological basis of the research was the works on the economy development during the pandemic, digital services and digital commerce. Among the authors, one can single out Dalakova A.N. [3], Kolodko G.V. [2], Kamolova D.S. [6], Kochieva A.K. [3], Loginov M.P. [1,4], Medvedeva P.I. [10], Nedorostkova

E.E. [1], Nersesjan A.A. [7], Nikolaeva M.A. [6], Normova T.A. [7], Romanova G.G. [10], Pile Ya.E. [9], Starodubtseva A.V. [7], Usova N.V. [1,4] and Tsvetkova T.V. [12].

### 3. RESEARCH RESULTS

The introduction and development of digital technologies in the national economy is one of the priority fields of the national government of the Russian Federation. It is important to note that currently, a number of strategic documents secure digital transformation of the economy as a priority in Russia.

The COVID-19 coronavirus pandemic has become the catalyst for the national economy digitalization in 2020. Restrictions imposed on businesses in the country because of the epidemiological situation have led to a number of negative consequences in the economy. In particular, the decreased income of enterprises and organizations, bankruptcy in various fields of activity due to loss of demand and lack of financial resources for operating a business. The share of bankruptcies of small businesses in various segments of tertiary sector reached 35%.

Second, unemployment increased due to staff displacement. Companies either shut down or optimized their headcount.

Third, the decline in the main macroeconomic indicators of national economy.

Most companies faced a shortage of financial resources to cover payroll expenses and other incurred payments, an increase in accounts receivable, decreased demand for goods and services and subsequent deterioration of financial performance.

In the late March 2020, the President of the Russian Federation approved a list of instructions following the President's appeal in connection with the spread of coronavirus infection in the country [8].

In April this year, the government of the Russian Federation approved a list of industries of the Russian economy that suffered the most amid the worsening situation because of the spreading coronavirus infection. The acting document enshrines certain types of economic activity. In particular, transport, healthcare, non-food products retail, public catering, household services (repairs, hairdressers, beauty salons and similar), tourism, hotel business and others.

The current situation has strengthened the importance of the digital services market development. Moreover, digital technologies have affected every business sphere. For example, in the field of public catering, the lack of company's offers in virtual space and possibility of goods delivery has led to a sharp decrease in its competitiveness.

In the pandemic, mobile application, webpages in social networks or the official website of an online store has become critical for organizations. For many of them, communication on the Internet made it possible to maintain their competitiveness. The opportunity for the people to buy goods online with the further delivery or

self-pickup has become the main way to provide sales and retain consumers.

Digital commerce, previously perceived as an additional marketplace, has become the main one, due to which the organization continues to operate and meet the needs of its target audience.

For the foregoing reasons, the authors have concluded that there is a need to research and reveal the essence of the "national digital services market" category. Notably, so far this category has not been reflected.

In the authors' opinion, the national digital services market is organizational and economic relationships connected with the process of interaction between the producer and the consumer of digital services through information and communication technologies on the Internet in the frames of the national economic space.

Digital commerce in the national market did exist before the coronavirus pandemic, but in the current situation, its importance has increased. First, let us look at the digital commerce development trends before the pandemic.

According to Yandex. Market and GFK [11], in the period from 2014 to 2018, the share of online shoppers aged 16 to 55 from the RF cities increased from 17% to 42%. Moreover, the demand for digital commerce among the population of this age group is most clearly identified in Moscow and cities with population of over 500 thousand people. Here, this indicator value exceeds 55%. The reasons for buying online and refusals in favour of offline trade are of particular interest [11].

For most respondents, the key factors for choosing digital commerce are the ability to compare the cost of a product or service and to save money, as very often goods and services on digital platforms cost less than in the offline market. In addition, for customers it is important to be able to buy at any time of the day, to save the time spent on purchases and to have access to other people's reviews.

In its turn, the main reasons for refusing to buy online are lack of opportunity to touch and try the goods on, doubts about the quality of goods, as well as certain fears, that it is unclear, who to address in case of problems, and concerns connected with refund.

When selecting an online store, the most significant aspects for a customer are the ability to pay upon receipt, friends' feedback, store size and positive reviews.

Another digital shopping platform is social media. Here, the share of buyers is 23%, and the most popular and in-demand social networks are VKontakte (65% purchases), Instagram (34%) and Odnoklassniki (22%).

The Institute for Statistical Studies and Economics of Knowledge of the Higher School of Economics, together with the Ministry of Communications and Mass Media of the Russian Federation and the Russian Federal State Statistics Service presented key indicators of the digital economy development in 2018 [13]. The fundamental points of particular interest in the frames of the current research are:

- More than half of both households (77% of the total) and the adult population (65%) who use mobile communications (smartphones) to access the Internet

outside home or work have access to the Internet in Russia.

- Russia is among the leaders in terms of the time spent on social networks (78%). Only Japan (89%) leaves us behind in this indicator.

- 39% of users perform online financial transactions and approximately the same percentage, namely 35%, use the Internet to order goods and services.

Generally, the relevance and demand for digital services is confirmed by the following certain facts.

First, a number of users have got several connections and access points to the Internet, which can be confirmed by the following data: as of January 2019, the total number of mobile connections is 172% of the total population in the Russian Federation (in absolute terms, 248.2 million connections).

Second, 81% of users search for goods or services on the Internet for the further purchase, 82% of users access online stores (with no differentiation by access device), and 44% made a purchase using a laptop / desktop computer, 32% – a mobile device.

Third, 76% of users have an account with a financial institution. At the same time, 40% buy on the Internet or pay bills online, which indicates the demand for both mobile and Internet banking.

The COVID-19 coronavirus pandemic has made its own adjustments to the development of the Internet services market in general and the digital commerce segment in particular.

If before the pandemic, the consumer had the opportunity to choose the method of purchasing goods and services, in the current situation the picture has considerably changed.

The store closures and transition to Internet during the pandemic has led to the significantly decreased profitability of business activities. Despite the positive dynamics in digital retail services development before the 2020 pandemic, certain negative trends have yet emerged. In particular, “According to the Russian Federal State Statistics Service, retail turnover in the Russian Federation in May fell by 19.2% in annual terms. If compared to April, the retail turnover increased by 6.7%. Non-food products sales in May decreased by 29.2% in annual terms, while by April it had increased by 12.3%.” [5].

The changed rhythm of social life has led to downturn in the national economy. The reduced incomes of the population, limitations of traditional activities and self-isolation made enterprises change their business models in the shortest possible time and revise the strategic directions of business development. It is the supply of digital services in the retail sector, that is becoming a priority area of development in the current environment, allowing to reduce the cost of doing business and at the same time continue to interact with the target audience.

The development of digital commerce ensures the availability of goods and services for the end user, balances the territorial difference in terms of analog services availability. In its turn, the retailer’s success in the market no longer directly depends on the size of the company itself, and the costs of opening and operating a

digital retail enterprise are significantly lower, which is also an incentive for the active development of this segment of the national digital services market.

On the one hand, certain clear-out in the national market is a negative factor, as this leads to increased unemployment and deteriorated economic situation of the population. On the other hand, the crisis phenomena caused by the epidemiological situation contributed to the national market structure improvement due to withdrawal of economically inefficient and uncompetitive companies.

To develop the digital commerce segment, it is necessary to increase the level of digital and financial literacy of the population, create conditions for small business development and improve infrastructure. Another important point is the guaranteed protection of consumer rights when using digital services. For most consumers digital security, both in the process of choosing a product or service, and when paying for them, is important.

The RF authorities are in the process of the core tasks implementation for the digital transformation of the national economy. In July 2020, at the Council for Strategic Development and National Projects meeting, the decision was made to integrate the national projects tasks, including the “Digital Economy” national project, into the National Plan for economic recovery and implementation extension up to 2030. This decision results from the economic downturn and the need to develop and implement a number of anti-crisis measures.

#### **4. DISCUSSION OF RESULTS**

Based on the results of the retrospective analysis and assessment of the current situation, a number of trends can be identified, which will be typical for digital commerce segment in the near future:

- transformation of the existing digital market structure. More specifically, some companies are facing bankruptcy because of financial difficulties and low level of competitiveness. A number of online stores and platforms operating offline or even not existing before the pandemic will be growing.

- a key factor affecting competitiveness will be the changed business model through the development of online trading platforms to provide online services.

- after the COVID-19 coronavirus pandemic is over, a slight decrease in online sales is expected, as online transactions in the digital market are becoming common.

To develop the digital commerce segment, the authors propose the following activities.

First, to improve the regulatory framework controlling digital security of all market participants, and also the process of digital services provision.

Second, to promote companies’ active development on the Internet, to create a convenient and user-friendly trading platforms interface, to employ modern online marketing tools.

Third, to provide synergistic cooperation between entities engaged in tertiary sector for mutual promotion and

market share increase. One of the tools to create a synergistic effect is co-marketing. It enables companies to maintain or even increase their market share, as well as to ensure loyalty of the target audience by providing the opportunity for the customers to get other services on certain conditions. A striking example is the loyalty programs of credit organizations. According to the rules of such programs, a client can receive cashback or accumulate and spend bonuses in the partner network stores.

Fourth, to ensure government support for domestic digital retailers to develop competition in the global digital services market. This refers to providing certain benefits, elaboration and implementation of the strategic documents to support the national digital retail businesses in order to develop a competitive national digital services market in the medium term perspective.

## 5. CONCLUSION

The pandemic will be over, the economic situation will improve and digital services will be even in greater demand with the population, as they do not only provide opportunities to save time and cut costs of finding and buying the necessary goods, but also create a new consumer, more focused on a higher quality of services. In the context of crisis economy, the national digital services market development is a key and mandatory direction of transforming Russia in the near future.

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