

Russian E-Business

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Abstract — Electronic business, or e-business, is the application of information and communication technologies in support of all the activities of business. Commerce constitutes the exchange of products and services between businesses, groups and individuals and can be seen as one of the essential activities of any business. Electronic commerce focuses on the use of information and communication technologies to enable the external activities and relationships of the business with individuals. In the article are considered questions of electronic business in Russia.

Keywords — global e-business; Internet marketing; site; information and communication technologies

I. INTRODUCTION

E-business in a broad sense comprises global e-business marketing, including the promotion of traditional products and services. A special role is played by the fact that the overhead communication costs through the channels of modern networks of digital communication (first of all, of Internet community) is very low, and as a result, global markets are opening up for small and medium-sized businesses that can radically improve the competitiveness and diversity of offers in some markets.

II. THE DEVELOPMENT OF E-COMMERCE ON A GLOBAL SCALE AND ITS PENETRATION INTO VARIOUS AREAS OF ACTIVITY

E-commerce is not a new phenomenon. Generally, e-commerce can be defined as the execution of transactions (i.e. buying and selling of goods and services or negotiations regarding the purchase and sale) by electronic means through the Internet or through electronic networks. For the years the companies had exchanged business information via various communication networks, but all of them were private networks. The Internet has given an opportunity to introduce e-commerce into an integrated network of commercial activity carried out on a global scale between an ever-increasing number of participants (both corporate and individual, known and unknown). For traditional e-commerce the network is a data transmission means; for e-commerce over the Internet, the network is the market of the transactions implementation.

E-commerce is not limited to the business sphere. It also significantly changes the order of the state implementation of its functions. In many countries for several years, filing tax returns via the Internet has been resolved, but only recently the authorities have significantly increased the use of the Internet to conduct a dialogue with their citizens, as well as to increase the volume of services and information provided to them through the Internet. The spontaneous formation of communities of interest among Internet users has reduced the gap between producers and consumers, improving thereby the efficiency of the economy. There is no limit to the Internet; it provides the possibility of communication and business contacts for people anywhere in the world where there is access to the network [5].

According to a large-scale study conducted in the United States by the University of Texas and the company CiscoSystemsInc, only in 1999 the turnover in the field of activities related to the Internet amounted to 507 billion US Dollars, besides this sector provided jobs for 2.3 million US citizens [5].

This study confirms that, while the Internet economy in the US grew by 68% between the beginning of 1998 and the beginning of 1999, the amount of electronic transactions has increased over the same period by 127%.

III. FORMS OF E-COMMERCE

Economic activities carried out through the Internet, basically can be classified in four ways: "Business - Business" (B2B), "Business - Customer" (B2C), "Customer - Customer" (C2C) and "Customer-Business" (C2B). Such arrangements allow estimate more accurately the advantages and challenges of e-commerce for an adequate response.

A. Comparison indicators of e-commerce development in Russia and in the world

Business-Business (B2B) occurs when two enterprises carry out transactions over the Internet. For example, two companies can submit proposals via the Internet about the transactions, get quotes from its suppliers, enter into contracts, receive and pay bills. This area is probably the most promising area of e-commerce in Russia. Within the framework of the internal market, this direction will help to create new

commercial relations between the Russian producers, as well as greatly facilitate the process of acquisition of materials and equipment by Russian companies from each other as compared to importing the same materials and equipment from abroad. At the international level, it will allow Russian producers to participate more actively in the global market.

Let's consider the main problems related with the development of this business direction in Russia, taking into account the experience of foreign countries and the emerging new trends in this area.

The sharp decline of interest in the Internet has become a time of "natural selection" for all projects working in the field of e-business, including Russian one. One of the few Internet-based technologies, which future is of little doubt, is a networking enterprises by "business - business" (B2B) type. But in this case a very simple formula - 2BB - ToBeBusiness is also getting urgency when inspirational optimistic forecasts of future profits and capture of the markets are replaced by daily battle for the preservation of the current profitability. Analysis of the evolution of the abroad B2B sites will allow avoiding many difficulties for budding online businesses (which include the majority of Russian projects).

The International Telecommunication Union has published a new rating of Measuring the Information Society (ITU) [1], which assesses the quality of the Internet in various countries by a scale on ten points. It also takes into account such aspects of access to a global network as speed, cost, number of connected subscribers, and the number of households which have at least one computer. With perfect performance in all respects, the country could get a rating of 10 points, but as naked-science.ru says no one was able to get close to it.

Ranking is headed by South Korea, which received 8.93 points, and then it is followed by Denmark (8.88) and Iceland (8.86). The UK, Sweden, Luxembourg, Switzerland, the Netherlands, Hong Kong and Norway continue the best ten. As it was expected, 23 lines at the bottom of the list are occupied by African countries located to the south of the Sahara, and it comes to an end with Chad with 1.17 points - 167th place. The average world level is 5.05 points. United States unexpectedly got only the 15th place; slightly (by one position) improved performance in comparison with 2010, according to ITU published the previous version of the ranking. Giant China looks particularly depressing, getting only 83th place and letting Brazil and the Dominican Republic go ahead. Belarus became the 36th, Ukraine - 79th. Russia gained 6.91 points, dividing the 45th and 46th place ranking with Poland.

This paper is devoted to the research of B2C businesses component, namely the Internet shops. The difficulties faced by entrepreneurs and ordinary customers in this area are very interesting from the point of view of regional specificity.

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Functionality:

- Selling of goods and services;
- Providing customers with the information about products and services;
- Providing on corporate business information;
- Establishing of clear relationship automation "customer-seller";
- Attraction of customers and partners;
- Establishing of the two-way communication with the visitors of the store;
- Creating of the image of an Internet shop owner.

Results:

- Increasing in sales of goods and services;
- Possibility of obtaining information on demand;
- Reduction of costs for the implementation of a unit of production;
- Possibility of obtaining the client's portrait;
- Increasing in the user base (the base of potential customers).

Since the Russian Internet got the first really serious money (it happened only seven or eight years ago) economy of ru-Net leaders grows very fast. Consolidated revenues of the ru-Net top 30 according to Forbes [2] in 2013 increased by 31%, to \$ 8.5 billion (in 2012 by 40%), while the share of Internet retailers accounts for about 65% of this revenue. The Forbes gallery describes more about the top 20 online shops in Russia.

- **Ulmart.** Profit: \$ 1.021 billion. Year of foundation: 2008. Website: www.ulmart.ru. Number of employees: 6500. Figures: 10 million users participate in loyalty programs. Owners: Creators - entrepreneurs A. Nikitin and S. Fedorinov (Saint-Petersburg). In 2008 A. Nikitin's company "Combrig" bought bankrupt Ultra Electronics' online system and opened its first store "Ulmart". Two years later, "Ulmart" attracted investors. Now 60% shares are owned by the former co-owner "Lenta" D. Kostygin and A. Meyer, and 40% shares are owned by A. Nikitin and M. Vasinkevich. S. Fedorinov holds the post of general director. Business: Sells "everything that works on electricity", the product can be ordered in the catalog on the website, by telephone or via terminals in stores. For the year: More than 400,000 orders have been delivered directly to customers.
- **Citilink.** Profit: \$ 868 million. Year of foundation: 2008. Website: www.citilink.ru. Number of employees: 3000. Figures: 277 258 people a day - an average attendance of the site. Owners: "Citilink" is retail project Merlion computer equipment distributor (profit is 121.1 billion rubles, it had the 40th place in the Forbes ranking of the largest private companies in 2013). The beneficiaries are not disclosed, it is known

that one of them is the owner of Growth Bank Oleg Karchev. In his the only interview to Kazan portal "Business-Online" he admitted that Merlion has three shareholders: "Everyone has a blocking stake, the exact distribution is closed information". *Business:* The Company is positioning itself as an "electronic discounter" where an order can be made by phone, website or electronic terminals in "Citilink" and "Citilink-mini" centers. *For the year:* The company opened 90 new places of reception and delivery of orders.

- **Wildberries.** *Profit:* \$ 530 million. *Year of foundation:* 2004. *Website:* www.wildberries.ru. *Number of employees:* 4500. *Figures:* 2.5 million customers. *Founders, owners:* English language teacher T. Bakalchuk decided to earn on resale of clothing from German catalogs Quelle and Otto. In 2004 she with her husband Vladyslav opened an online fashion store. Today Wildberries is the country's largest online store for clothing and footwear. According to reports in SPARK, 100% Wildberries shares belong to T. Bakalchuk, but the company says that it has three owners - spouses Bakalchuk and S. Anoufiev. *Business:* The store site contains about 100 000 models and over 1,000 brands. It has more than 150 places of own expense and free shipping goods across Russia. *For the year:* In July the online store came to Kazakhstan.
- **Ozon.** *Profit:* \$ 350 million. *Year of foundation:* 1998. *Website:* www.ozon.ru, www.sapato.ru, www.ozon.travel. *Employees:* 2270. *Figures:* 1.7 million air and railway tickets were sold by Ozon.travel for the year. *Owners:* Holding was founded by St. Petersburg software company RekSoft and the publishing house TerraFantastika. But now the main owners are BaringVostokCapitalPartners, IndexVentures, ru-Net, Rakuten, IntelCapital, Holtzbrinck and Cisco investors. In late 2013 it was reported that BaringVostok was seeking a buyer for a blocking stake. *Business:* Ozon sells 2 million items of various goods through the Internet, and also acts as an online agency for booking tickets and hotels in Russia. Gross turnover of the holding increased 1.5 times (to \$ 750 million) in 2013. *For the year:* Ozon has completed the integration of online shoe store Sapato.ru, and began to trade clothing too. The company announced its intention to invest 1 billion rubles in the loyalty program for 2-3 years.
- **Biglion.** *Profit:* \$ 334 million. *Year of foundation:* 2010. *Website:* www.biglion.ru. *Employees:* 1500. *Figures:* 5,000 orders of goods a day. *Owners:* The main owners are V. Vinogradov, O. Savtsov and I. Savtsova. They founded the company, after leaving their positions of the top managers of the RBK holding. O. Savtsov was deputy general director; V. Vinogradov headed the service RBK Money. Minority shareholders are investment funds ru-Net by Leonid Boguslavsky and TigerGlobalManagement. *Business:* Biglion was created as a clone of the popular foreign discount service Groupon, where users buy discount coupons, and the site gets a commission from the service providers. A few years ago Biglion began discount selling of electronics and household goods. *For the year:* The share of trading in the company's revenue increased from 30% to 50%.
- **Holodilnik.** *Profit:* \$ 310 million. *Year of foundation:* 2003. *Website:* www.holodilnik.ru. *Number of employees:* 755. *Figures:* \$ 10-15 million investment, according to experts, was gained by the store in 2013. *The founders, owners:* Till 2013, the head of the company B. Kovalev owned 71% of "Holodilnik", another 29% belonged D. Fomichev (SPARK). Now 100% of the company referred to the Cyprus offshore GelanceEnterprisesLtd, and the share owners are not known. In 2013 investment fund "Media Capital" acquired the minority share of the company. *Business:* The Company began with an offline trading household appliances in 1993. Now it brings only 30% of revenue. Most of the revenue comes from Moscow and St. Petersburg, but in 2013 the company started active regional expansion. *For the year:* A separate website Superholodilnik.ru presented 3D images of 10 000 products.
- **Technopoint.** *Profit:* \$ 260 million. *Year of foundation:* 2011. *Website:* www.technopoint.ru. *Figures:* 90 000 website visitors per day, according to LiveInternet. *Owners:* Technopoint was created by DNS electronics retail chain owners from Vladivostok who were previously addicted to computer assembly. According to SPARK, the main owners of Technopoint in the corresponding legal entities that make up the regional network are the general director of the resource S. Meschanyuk and DNS top managers D. Alekseev and U. Karptsov. *Business:* The company Technopoint sells digital and household appliances from "warehouse" (storage of the goods plus terminal), taking orders online or by terminals. The range accounts 18,000 items of goods. Strategy: the lowest price in town. *Over the year:* Technopoint opened storehouses in 22 cities, starting its expansion in the Far East.
- **Enter.** *Profit:* \$ 207 million. *Year of foundation:* 2011. *Website:* www.enter.ru. *Employees:* 2300. *Figures:* 3.7 million orders for the year. It's 2.7 times more than in 2012. *Owners:* President of the group of companies "Svyaznoi" M. Nogotkov and S. Rummyantsev, the general director of Enter, who previously headed the MTS retail network. *Business:* Enter sells non-food products (48 000 items) from household trifles to furniture, combining online and offline sales. Orders over the Internet bring more than 60% of revenue. The region accounts for 51% of sales. Enter opened 128 offline stores with total area of 10 000 sq. m. *For the year:* Enter opened its own warehouse. Its area is of 62 000 sq. m and began its work in Southern and Volga federal districts.

- **220 Volt.** *Profit:* \$206 million. *Year of foundation:* 2002. *Website:* www.220-volt.ru. *Number of employees:* 900. *Figures:* About 700 people simultaneously inflicted a tattoo-logotype “220 Volt” within the framework of advertisement campaign. It entered Guinness’s record Book. *Owners:* “220 Volt” is a subsidiary of TH “Severo-Zapadnii”, that engages in the wholesale trading of building instrument. The proprietors of trade house through an industrial building group “System” are listed L. Andreeva and the firm “Mercury’s World Limited” (Norman islands). They are meant to have equal stakes. *Business:* Brand “220 Volt” incorporates a retail network and online store. It is said that a profit yield from online trade excels a profit yield from retail. The store is specialized on the sale of electro-instrument, garden and building technique, lighting devices, tourist commodities, systems of safety. An assortment counts more than 6000 items.
- **Utkonos.** *Profit:* \$200 million. *Year of foundation:* 2000. *Website:* www.utkonos.ru. *Number of employees:* 3000. *Figures:* 30 000 items of goods in a catalogue; *Owners:* Structure is closed, however it is known that “Utkonos” is controlled by A. Mordashov, an owner of “Severstal” (Mordashov holds the 11th place in the list of the richest Russian businessmen of Forbes). At the beginning the project was developed by S. Rasumov, a former “Severstal” top-manager. He owns 24% shares of “Utkonos” distributive center, according to SPARK. *Business:* Trading in food and consumer goods by an internet-catalogue. In 2013 the company fully gave up off-line selling and closed the last 49 places of reception and delivery of orders. During reorganization “Utkonos” sales fell down. And in 2013 a profit appeared on one third less than in a previous year. *For a year:* Closing retail stores resulted in laying off the “Utkonos” staff on 40%.
- **KupiVIP.** *Profit:* \$190 million. *Year of foundation:* 2008. *Website:* www.kupivip.ru, www.shoptime.ru. *Number of employees:* 1100; *Figures:* About \$125 million are intended to be attracted by O. Khartmann, the founder of the site, in the case of realization of IPO. *Owners:* KupiVIP is created by O. Khartmann. It was the copy of the French internet-company VentePrivee opened in 2001. KupiVIP has more than 10 investors, such as Intel Capital, Accel Partners, Mangrove Capital Partners, Acton Capital Partners and etc. *Business:* KupiVIP.ru offers clothing, shoes and accessories from old collections of the known brands with discounts within the framework of short-term actions. Holding unites a shopping club KupiVIP.ru, on-line-boutique of KupiLuxe.ru, online shop of ShopTime.ru and other projects. *For a year:* Shopping club offered their customers the American brands with delivery straight from Los Angeles and New York.
- **Pixel24.** *Profit:* \$150 million; *Year of foundation:* 2009; *Website:* www.pixel24.ru. *Figures:* 2218 estimations of clients on “Yandex.Market”, about 7% from them are negative. *Owners:* Pixel24 is a “dark horse” both for investors and for experts. The website of the shop indicates that it conducts the activity as LLO “F-Store”. According to SPARK, its owners are in the equal stakes. And they are of A. Frolov and S. Chechetkin. *Business:* Pixel24 is specialized on electronics. A large part in an assortment is occupied by photo- and video technique and accessories. In Moscow Pixel24 has one point operating on self-delivery and courier's delivery. *For a year:* An online shop was connected to the system of crediting “KupiVkredit”, that allows the clients to take a credit up to 200 000 rubles in the online mode.
- **E96.** *Profit:* \$144 million. *Year of foundation:* 2006. *Website:* www.e96.ru. *Number of employees:* 400. *Figures:* 145 000 items of products in 300 categories can be chosen on a website. *Owners:* E96 was founded by the Ekaterinburg businessmen B. Lepinskikh and D. Pivovarov. In autumn 2012, 51% of online shop was bought by the U. Kasimov’s venture fund of IQ One. Owners have 49% in equal stakes. *Business:* Company does a rate on the sales of large appliances and is based in a few regions - Ekaterinburg, Tyumen, Chelyabinsk, Perm, Ufa, Novosibirsk and Rostov-on-Don. *For a year:* Profit of the company grew on 70%.
- **Lamoda.** *Profit:* \$140 million. *Year of foundation:* 2010. *Website:* www.lamoda.ru. *Employees:* 2000. *Figures:* 525 376 rubles were paid for the greatest order consisted of 187 things in a basket. *Owners:* In December, 2010 the German businessmen N. Tonzen, F. Yansen, B. Binder and D. Piker created the online shop of Lamoda (LLO “Kupishuz”) for Russians. They are managing directors. Their stake does not open up. Several funds such as AccessIndustries, JPMorganChase&Co, a group PPR and other also invested in Lamoda. *Business:* “Lamoda” is specialized on the sale of clothing, shoes and accessories. Website presents 1 million goods from 1000 brands. “Lamoda” has a ware-house complex in the Moscow area and delivery service that works in 25 cities of Russia. *For a year:* In June “Lamoda” attracted \$130 million investments from the L. Blavatnic’s fund of AccessIndustries, and at the beginning of 2014 obtained €10 million from IFC included in the group of the World bank.
- **Vse instrumenti.** *Profit:* \$135 million. *Year of foundation:* 2006. *Website:* www.vseinstrumenti.ru. *Employees:* 850. *Figures:* 25 000 items of instrument in an assortment. *Owners:* Online store “Vse Instrumenti” was created by three students of Moscow Institute of Physics and Technic – A.Goltsev, N. Gudovskich and V. Kuznetsov. They are still joint owners. In 2011 as a result of a few rounds of investments a stake was got by a company ZoomCapital owned by V. Kurin and G. Berenshtein. *Business:* An online store is specialized on a building instrument, climatic equipment, and garden technique. Points of delivery of the goods and shops “VseInstrumenti” are opened in 53 regions of Russia. *For a year:* A discount-center is opened in Balashikha

in Moscow suburbs. It sales unpacked, defective goods or exhibition goods with discount.

- **Sotmarket.** *Profit:* \$111 million. *Year of foundation:* 2005. *Website:* www.sotmarket.ru. *Number of employees:* 900. *Figures:* 10 000 calls every day are processed by operators of “Sotmarket”. *Owners:* “Sotmarket” appeared, when B. Strakh, the 11th form student, bought USB-cables and began to sell them through an own website. He sent orders by mail. And then step by step with the gained profit he began to extend an assortment. In 2012 Ulvi Kasimov’s venture fund of IQ One bought 51% of “Sotmarket”. *Business:* The online shop specialized on a retail business electronics, accessories and small household appliances. 85% sales are made in regions. There are 120 000 goods in an assortment. *For a year:* Kasimov declared about intention on an association of “Sotmarket” with other assets engaging in e-business, - “Utinet.Ru” and “E96”.
- **Vasko.** *Profit:* \$90 million. *Year of foundation:* 2004. *Website:* www.vasko.ru. *Number of employees:* 150. *Figures:* It takes up to 3 hours on VIP-delivery of the good. *Owners:* Project “Vasko.ru” is founded by businessmen worked earlier in “Mitino” and “Gorbushka” markets. Their offline company with the same name was selling household appliances from 1991. According to SPARK, the owner of legal entity “Vasko” is V. Akhlestin, a general director, and the owner of a new legal entity “Strategiay” is U. Ivanov. *Business:* Company sales electronics, household appliances, furniture, garden goods and other via the internet. *For a year:* The points of delivery of orders are opened in Saint Petersburg and Nizhny Novgorod.
- **Notik.** *Profit:* \$79 million. *Year of foundation:* 1999. *Website:* www.notik.ru. *Number of employees:* 110. *Figures:* More than 1500 models of notebooks, plane-tables and smartphone in stock. *Owner:* Store in equal stakes is owned by A. Shatrov, a general director, and U. Zhizhin. *Business:* “Notik” began with trading in the used notebooks through a web-site on the free hosting of Bestnotebook.narod.ru. A website “Notik” was opened in 2002. In 2004 delivery service was created. Besides notebooks and plane-tables “Notik” sells monoblockes, telephones, e-books and accessories. The shops of the company are opened in 5 cities, a partner network works more than in 100 cities. *For a year:* For a year the turnover of goods in warehouses decreased from 30 days to 22, and it is important at the market, where producers can change the line of goods 3-4 times per a year.
- **Utinet.** *Profit:* \$72 million. *Year of foundation:* 2004. *Website:* www.utinet.ru. *Number of employees:* 300. *Figures:* Over 2 million users in a month. *Owners:* M. Ukolov, a student of the Moscow Economics and Statistics Institute together with O. Rubalov and D. Galoyan opened an online store in the middle of 2000th. In four years it conquered 10% of notebook market in ru.Net. In 2010, 51% was bought by

Kasimov’s fund of IQ One, and in a year the company placed 9, 1% of shares on MOEX. Ukolov with his partners have 44, 3%, IQ One has 46, 4%. *Business:* Internet-supermarket offers 60 000 items of electronics and household appliances. *For a year:* “Utinet” is chosen as a base company for joining of other assets of IQ One – “E96” and “Sotomarket”.

- **Softkey.** *Profit:* \$61 million. *Year of foundation:* 2001. *Website:* Softkey.ru. *Number of employees:* 183. *Figures:* 8000 orders are recorded every day. *Owners:* In 1998 a programmer F. Muchnik, taking the idea of American service of DigitalRiver for basis, wrote the program for internet-service that grew into the shop of software. In 2006 70% of “Softkey” were purchased by IBS Group. Besides a general director (F. Muchnik) and his partner (D. Rumyantseva) MaxLamborDirector LTD is also entered the list of shareholders. *Business:* “Softkey” is the largest internet supermarket and distributor of software in Russia. There are more than 15 000 programs in the catalogue of “Softkey”. *For a year:* Purchases in “Softkey” are now available through “Eleksnet” and PayPal.

B. Basic results and discussion

It can be noted by presenting the data in a table 1, that basic leaders of sales are salespeople of electronics and household appliances as well as clothing.

TABLE I.

Company	Profit	Year of foundation	Number of employees	Business
Ulmart	\$1.021 billion	2008	6500	Electro-instrument
Citilink	\$868 million	2008	3000	Discounter
Wildberries	\$530 million	2004	4500	Clothing
Ozon	\$350 million	1998	2270	Goods, tickets
Biglion	\$334 million	2010	1500	Coupons on a discount
Holodilnik	\$310 million	2003	755	Household appliances
Techno point	\$260 million	2011	unknown	Digital and household appliances

This data is confirmed by questioning of network users of GW blog [3] on fig 1.

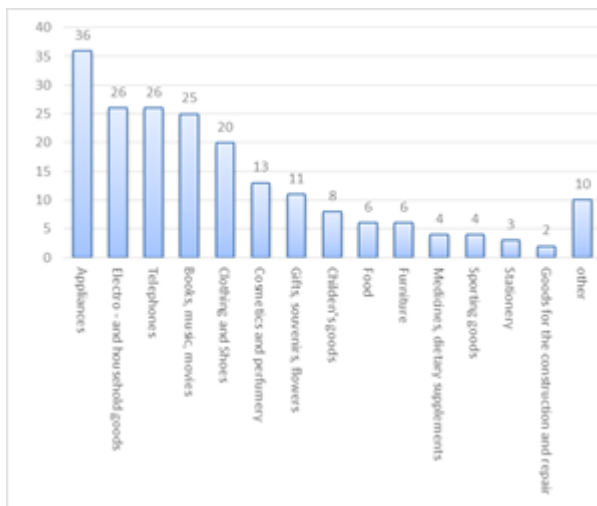


Figure 1 - What you most often buy in online stores?

So we can conclude that to sell over Internet Stores successfully it is needed:

- Conduct a market assessment.
- Estimate the level of competition.
- Availability of goods.
- Level of margin.
- Seasonality of demand.
- Risks connected with storage and consumption (perishable foodstuffs, fragility of goods etc.).
- Market expansibility.

And these points connected only with the marketing. We didn't mention logistic, connection with suppliers, way of delivery and so on. But these facts have a great influence on sales and trust of clients.

Logistic became a very big problem of the Russian customers that bind their expectations to the internet-purchases. So, it happens that postal mail going from China to Irkutsk can do stopping at Germany! (Fig 2).

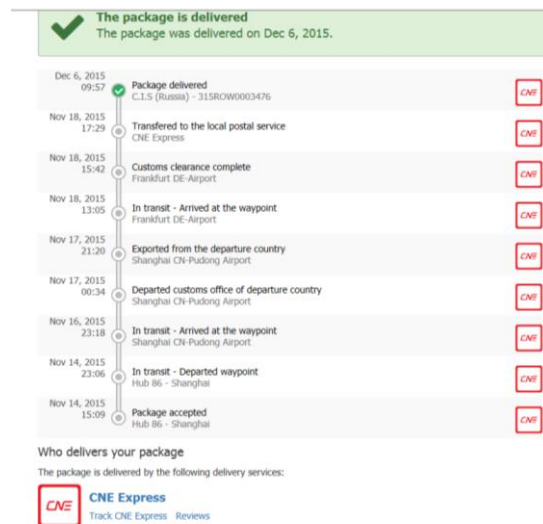


Figure 2 - Logistic of good delivery from China to Russia

Such difficult route increases the time of delivery to month and reduces desire to do an order in future, or another way - you can do as in Russian saying "Prepare sledges in summer, and cart in winter".

Conclusion

So, it is possible to conclude that not all regions in Russia are ready to the wide use of B2C electronic business. But according to Jack Ma statement (he is an expert of electronic trade) in 2015 [4]: "Russian economy is not in the best state now - so, it's a high time to enter the market". The founder of Chinese e-commerce giant Alibaba, Jack Ma, in his interview to RBK [4] told about such topics as the reason why holding came to Russia, its difference from competitors and the correct way to line up relationships with a government. Russian market is already in three leading markets on a group. Thus there are still difficulties with delivery, and many Russians don't know a lot about Alibaba and are not aware of the opportunity not only to buy, but to sell the thing on-line.

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