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theRunet

From Russia with web

Vodka, caviar, balalaika, matryoshka nesting dolls, Putin, Medvedev, Yuri Milner and Yandex - how much more do Western professionals know about Russia and its Internet industry?

Alas, very little.

With TheRunet, we hope to change this situation for the better. Our aim is to introduce international readers to most recent developments in the Russian-speaking sector of the Internet, with its rapidly growing number of users, eCommerce and advertising market, innovative startups, major deals and more Russian players entering European, American and Asian web markets.

Today, when Russian giants such as Yandex and Mail.ru Group are among the largest companies in Europe, we see a great interest in Russian Internet business in the West, but we also see a great

shortage of information on the subject.

TheRunet is a blog dedicated to news and analysis on the Russian Internet Industry. Every day, we will bring you news on Russian companies, current research data and commentary from the leading experts.

We hope that the blog will prove useful to professionals from Paris to Hong Kong, from Dublin to San Francisco, to those representing large international corporations or small startup businesses, to investors, business angels, media managers and journalists.

Our experience in Russia includes organizing major professional events, such as the Russian Internet Week and managing popular publishing projects, such as The Internet in Numbers magazine.

Users

57,8 M [Ⓜ]
users monthly

44,3 M [Ⓜ]
users daily

Advertising

1.05 B € in 2011

Market growth 57% ↑

388,5 M € [Ⓜ]
display ads

639,1 M € [Ⓜ]
search ads

eCommerce

8 B € in 2011

Market growth 30% ↑

2,16 M € [✈]
airplane and train tickets

Mail.ru Group & Yandex IPO

**Russian companies
enter foreign markets:**

Ashmanov and partners (Vietnam), Yandex (Turkey),
Kaspersky Lab (USA, EU, China)

President Medvedev initiatives to
amend the legislation on copyright on
the Internet at G20

**Global companies and
leading VC funds started to
invest in Russian Internet
industry**



How many Internet users are there in Russia?

The Internet is well-known for its “measurability”, and maybe rightfully so. But being so easy to measure has plaid a bad joke on the virtual world, as too many people keep measuring it without coming up with any uniform methodology. Results of their research are then re-printed by the media, who make their own corrections and additions to the figures. Then a search engine blends it all together in a hodge-podge brew, and the truth is washed away by an endless stream of copy and paste. Just try entering “how many Internet users are there in Russia” in **Yandex’** search box, like we did. You will get results of all sorts, differing immensely and coming from a range of sources that are ranked by their level of “credibility”, following a criterion that seems to have little in common with reality.

When things are so messed up, the only way to discover the truth is to call a conference where various reputable companies that measure the Runet could share results of their own research. And, luckily, this is exactly what happened at the very first panel discussion at last months **RIF+KIB** Russian Internet Forum.

The organizers managed to collect a wide range of groups and experts on measuring the Internet, the only company missing was comScore. **TNS Russia, FOM foundation, WCIOM, Gemius, MASMI** and **ACVI** all sent their representatives to participate, and to form a combined vision of Runet’s current state. With a help of about a hundred graphs and visuals, trying to demonstrate how potent their methods are, the speakers did their best to entertain the audience. And, as the numbers and figures they presented differed dramatically, the speakers abstained from commenting on other’s reports. That is why we decided to do that for them and try finding the answer to the question: “How many people are the on the Runet?”

TNS Russia claims that almost 41 percent Russians go online at least once a month, and Internet penetration level us 65 percent, while FOM’s data suggests the Internet, which has a penetration level of 50 percent, is used each month by 57.8 percent of the country’s population. Something seems to be wrong, doesn’t it?

If we look for the source of this dramatic difference, it’s clearly the different calculation methods that were used, and, most importantly, the two groups’ different understanding of the general totalities. While TNS surveyed Internet usage by people of twelve years of age and older, and living in cities with over 100,000 population; FOM asked those above the age of eighteen, regardless of how large their city, town or rural township is.

Researches from both companies had their reasons for choosing this or that age group and community size, and they did name their reasons in comments to their reports. In Web Index, TNS's main Internet research project, people between the ages of 12 and 54 are taken as the general totality. But the issue of Runet's population is explored not in Web Index, but in another study, but in the so-called establishment survey. This research has no upper age limit, while still limited to communities with a population above 100,000.

Russian Internet population size according to age and community size, in thousands

	Russia, Total	Urban population	100k or less	100–250k	250–500k	500k–1m	1m+	Rural population
Age	142'961	105'582	36'168	14'391	13'162	15'688	26'173	37'379
0-12	18'253	13'643	5'244	1'741	1'593	1'898	3'167	5'316
% of total	12,80%	12,90%	14,50%	12,10%	12,10%	12,10%	12,10%	14,20%
12-54	89'516	66'030	22'161	9'095	9'915	9'915	16'541	22'457
% of total	62,60%	62,50%	61,30%	63,20%	63,2%	63,20%	63,20%	60,10%
Internet users*	39660							
54+	35'193	25'675	8'530	3'555	3'875	3'875	6'465	9'102
% of total	24,60%	24,30%	23,60%	24,70%	24,70%	24,70%	14,70%	24,30%
0-18	27'978	20'255	7'483	2'648	2'422	2'887	4'816	8'295
% of total	19,60%	19,20%	20,70%	18,40%	18,40%	18,40%	18,40%	22,20%
18+	114'983	85'094	28'452	11'743	10'740	12'801	21'357	29'083
% of total	80,40%	80,60%	78,70%	81,60%	81,60%	81,60%	81,60%	77,80%
Internet users**	57'492							
12-18	9'725	6'611	2'238	907	829	988	1'649	2'979
% of total	6,80%	6,30%	6,20%	6,30%	6,30%	6,30%	6,30%	8,00%

* TNS data, internet penetration at 65% ** FOM data, internet penetration at 50%

Of course, the statistical companies are entitled to decide what the design of their own survey will be, but the problem is that such design may not satisfy the reader's needs. And so, to bring harmony between, so to say, demand and offer for Internet statistics, we decided to re-count everything. When doing this, we also used data from **Rosstat** (the Federal State Statistics Service), who (we're in luck!) recently updated their demographic figures from the 2010 national census.

We did encounter some problems while re-calculating, but none that weren't possible to solve. Ros-

stat's idea of what age range should be studied differs from that of TNS or FOM's. The fact that fresh data appears on Rosstat's endless tables gradually (figures on the population's age structure came from 2009, and those on territorial structure – from 2011), complicated the task even further. To overcome this technical difficulty, we used linear approximation in all cases, assuming that age and territorial population structure didn't change. In order to combine figures from different years in one table, we multiplied the older data by the 2011 to 2009 population ratio. The ratio, by the way, is different in case of urban (1,018) and rural (0,965) populations.

In the table below, we present our re-calculation of Rosstat's data on Russia's population in various age ranges and different (in terms of number of residents) communities. We also added the figures from TNS and FOM, taking into account their estimation of Internet penetration, in order to find out the number of Russian Internet users.

As you can see, the figures match, as our calculation model allowed, with a slight margin of error, to combine the data from both FOM and TNS. And now, we can propose our own version of how large Runet's population is.

Both TNS and FOM, for different reasons, did not include one group in their calculations: people between the ages of twelve and eighteen living in small towns (less than 100,000 residents) and rural communities. As we can see from the table above, this group is quite sizeable (5,217 people). Let us as-

sume that Internet penetration level there is 50 percent. Internet penetration level among young people is higher than the average, and lower than the average in smaller communities, and so we can assume that the level is average for the group in question. Thus, we need to multiply the number of Internet users according to FOM by 2.609 million people, to get a result: **60.41 million** people above the age of twelve, regardless of where they live.

Naturally, the number will further rise, especially in small towns, as many speakers at RIF+KIB pointed out. Rosstat's data shows that small towns and rural townships have an important growth potential, as their combined population matches that of major cities.

Furthermore, today's "poselok" (Russian for a large village or rural township – TheRunet) are far more developed than they were twenty years ago. Real estate agents in Moscow cannot say that living in or out of the city is an important criterion for their clients today. The market's current trend is that living in rural suburban areas is becoming increasingly prestigious, and this trend is spreading from the capital to Russia's provincial regions. And, considering that most rural areas are now well covered in mobile networks, and that Internet connection technology using a mobile or stationary phone, or a mobile modem is getting more and more accessible, we see a huge reserve that many overlook or underestimate.

Or do they? WCIOM estimate Internet penetration level is higher than that of FOM: 55 and 50

percent, respectively. Who are the five percent? They did not appear because of different general totalities the two companies used; they actually used the same totalities and surveyed the same territories. And it has nothing to do with error margin, which does not, according to WCIOM, exceed 3.4 percent. But where do these people come from?

This seems to be easy to understand, as WCIOM surveyed 1,600 people (and that was supposed to be a nation-wide research!), while FOM had 39,000, and TNS – 120,000 respondents. But, in terms of margin of error, the difference matters not. WCIOM's 1,600 participants are quite enough to get the declared 3.4 percent margin. Increased sampling doesn't level reduce the margin of error, what it allows is narrowing the survey's focus and represent it not on all-nation level, like WCIOM does, but on the level of Federal Districts or separate major cities, as is the case of TNS.

The difference in figures presented by the companies can be explained by the difference in what questions the respondents are asked, and, most importantly, how the questions are put. And although researches treat their questionnaires as their commercial secret (and quite reasonably so), we can often see some of the questions in their presentations.

WCIOM's graph, for instance, shows that out of 55 percent of all Internet users, 36 answered "every day", 13 – "a few times a week", 5 percent – "a few times a month", and 1 percent "occasionally, at least once every six months". The remaining 45 percent "don't use" the Internet at all.

So, WCIOM understands Runet's monthly audience as those who "use the Internet at least a few times a month", while FOM's idea of the same is people who "have used the Internet at least once in the past month". Unlike FOM, WCIOM also leaves

a loophole for those who go online rarely, allowing them to pick the "occasionally, at least once every six months", and be counted. The difference may not seem to be important, but it accounts for as much as 5 percent. And, taking the 5 percent into account, the total number of Internet users in Russia can be estimated as **63.43 million** people.

So, what do we have? We have "reconciled" the figures from different companies, which enables us to use any of their results according to our needs and how the design of each research fits them. Furthermore, we now have a detailed table that allows us, even though roughly, estimate the size of Internet audience in various age groups and communities of all sizes. The estimates are approximate; because we were only given average national figures that didn't take local peculiarities of different regions into account (more precise data according to region would require additional research). We can also expect that, in the future, the questionnaires offered to survey participants will evolve and become more detailed, so the research results can tell us more about "online lifestyles" of our society, and not just how often they use the Internet. We should also expect the very question about how many Internet users there are to become a mildly interesting anachronism, just like the question of how many people use mobile phones has become. X

Runet's top ten advertisers in 2011

Adindex advertiser ranking is based on figures provided **TNS Russia** and **ESPAR-Analitic**, with the consultative participation of the **Association of Communications Agencies of Russia (ACAR)**. The ranking only takes into account the media where complete independent monitoring is available: TV,

radio, press and outdoor advertising. Advertising placed on the Internet is harder to estimate, as no industry monitoring data is available. Attempts to estimate digital advertising budgets have been made, however, including the latest one, done by **Havas Digital**, member of **ADV Group** association.

Procter & Gamble (P&G) remains Russia's largest advertiser in terms of traditional media ad placement. In 2011, P&G's advertising spending increased by 18 percent, reaching 8.92 billion ruble. **Renault-Nissan**, with 750 million ruble budget, tops the Internet advertisers list. Car manufacturers generally remain the key advertiser, with accumulated market share of 24 percent.

no.		Internet media ad spending, in million rubles, incl. VAT	Traditional media ad spending, in million rubles, incl. VAT	Overall ranking
1	Renault-Nissan**	885	2267,0	8*
2	Procter & Gamble	590	8914,70	1
3-4	Nokia	472	232,53	154
3-4	MTS	472	3371,21	8
5-6	Samsung Electronics	448,4	1231,95	35
5-6	MegaFon	448,4	2977,65	10
7	Vympelcom	413	2086,27	19
8	Unilever	342,2	3837,87	4
9	Sberbank	295	2160,46	18
10	Microsoft	283,2	136,03	240

* Aggregate budget

Internet media advertising spending by product category, percentage

	2011	2010
Cars	24	27
FMCG	19	17
Services	16	15
Communication services	10	12
Retail	10	8
Finance	7	7
Real estate	5	6
Media and events	4	5
Other	3	2
Pharmaceuticals	2	1

ACAR estimates that in 2011, aggregate Internet media advertising spending comprised 18.1 billion rubles, including VAT. The amount is smaller than the three largest advertisers (P&G, L'Oreal and Mars Russia) spent on ads in other types of media. Contextual advertising costs comprised 31.27 billion rubles, which roughly equals the budget of the top-seven advertisers in four major types of media.

When assessing the budgets of leading media

advertisers Havas Digital also considered the results of TNS Media Intelligence monitoring and market players expert estimates. Average market discounts and other characteristics, such as average price per a thousand views, seasonal ratios and weekly traffic were also taken into account, the agency notes. According to Havas Digital, the ten top Internet advertisers spent 4.65 billion ruble, or 17 percent of their combined media advertising costs in 2011. X

Russian eCommerce & ePayments: main accents

Among the many topics discussed during last week's **RIF+KIB 2012** conference, the biggest yearly event in Russian Internet business, eCommerce was a dominating theme.

On the very first day of the forum, participants of the panel dedicated to online retail were introduced to a document entitled **Electronic Commerce Industry Convention**. **Mikhail Osin**, Digital Retail Director at **OZON.ru**, presented the draft agreement, designed by **Russian Association for Electronic Communications (RAEC)** Commission for eCommerce.

The treaty's main aims are to consolidate honest eCommerce market players, promote trust in their industry in government officials and the general public, and speed up further development of the electronic market. The draft has already received support from many major companies, i.e. **OZON, Webmoney, Oborot.ru, Utinet.ru, Wikimart, Boutique.ru, Softline, LiveTex, CPANetwork**, and others.

The online retail-themed panel, which also discussed electronic and mobile payments market, featured speakers from leading market players, who

shared their work experience in the past year and their vision of the industry's future development.

eCommerce trends

Fedor Virin of **Data Insight**, spoke about the trends that his research company believes will dominate the market in the coming three or five years. One of the most important trends is market regionalization, Mr.Virin said, noting that market revenue is growing twice as fast in provincial Russia that in Moscow or St. Petersburg. Another important trend is diversification of investment: there are major projects appearing in all the segments of electronic market, with some companies arriving from offline trade, and some being born out of mergers of smaller players.

Product range and quality will soon become the key factors of an online shop's success, Virin believes. Stronger market players will bank on improving their product range and their brand image. Retail models that will manage to combine all the benefits of both online and offline trade will gain momentum, as many Russians still have little trust in "virtual" sales. Seeing this, Virin said, more and more online retailers will open customer pickup points.

Mobile commerce is also expected to develop. By "mobile commerce" Data Insight mean not just mobile websites and apps for buying or tracking your order status, but also solutions that help search for the best offers and compare prices while shopping offline. The latter option is already becoming tradi-

tional retailers" nightmare: customers come to their shop to see a product, then browse online stores on their gadgets and eventually buy the product they need from a vendor offering the lowest price, usually an online retailer.

Coupons remain one of the market's main drivers. And, while coupon trade began offering mostly discount on services mostly, more and more offers are now made for discounted products. Thus, coupon services are competing with the usual online stores. The greatest positive effect that coupon sites have on eCommerce in general is that, when people buy coupons, i.e. expensive ones, they are getting used to advance payment.

Mr. Virin predicts that in the coming four years, Russia's eCommerce market will be 2.3 times bigger. In 2011, market value was 310 billion rubles (\$ 10.5 billion). This year's expected growth is 25 percent. As of today, sales of airline tickets, clothing and footwear, and children's products are the most dynamic market segments. In the coming years, groceries, other FMCG's, DIY goods and tour packages may start booming.

E-currencies and mobile payments

Research by FOM foundation shows that only 16.7 percent adult Russians, or 9.7 million people, currently buy things online, and as few as 5.8 percent choose to pay for their purchases online. Russians tend to be more relaxed about paying for services via the web, but when it comes to buying goods 65 percent prefer to pay in cash.

Shoppers who make advance payments with their credit cards or e-wallets tend to spend more, spending 5,879 and 4,705 rubles, respectively. People who chose post-payment spend, on average, 3,803

rubles. Russians don't mind making a pre-payment in larger online stores whom they believe they can trust. When buying from smaller and less-known vendors, they like to see the product first and pay cash on delivery.

Another research, carried out by TNS in February and March 2012, about 27 percent Russians (3.9 million people) between the ages of 18 and 45 and living in major cities, use e-currencies at least once every six months. 15 percent of those asked by TNS use Yandex.Money, which remains the country's most popular e-currency system to date.

Payroll debit cards make up to 80 percent of all bank cards in Russia, and 90 percent of all card transactions are cash withdrawal, said Victor Markelov, Product and Business Development Director at Vypelcom. Most people still chose to withdraw their salaries from their cards within a few days after being paid and don't use their cards to pay for services or anything else. In an attempt to change this, Vypelcom (known under its Beeline brand) was the first operator to offer its customers an alternative option: Beeline subscribers can now use their mobile account to pay for their Internet connection, public utilities, fines, tickets and things they buy in online stores. Beeline's mobile apps and the special RURU.ru web portal allow users to easily transfer money from their cards to their mobile accounts for no fee, and pay for products and services from their phones. The more money a subscriber has on their mobile account, the more they tend to spend on both third-party and the mobile operator's services, Mr. Markelov added.

PrivatBank's Tatiana Ignatenko told participants of a new system that allows entrepreneurs acquire payments from Visa and MasterCard accounts anywhere with a help of iPay app installed on a smartphone and a portable terminal that can be

plugged into a phone, laptop or other device.

Mobile terminals are becoming increasingly popular with small and medium businesses. The system now has 3,000 users in Russia, i.e. taxi drivers, web stores, delivery services, and doctors, among others. The era of magnetic stripes is fading out, said Ms. Ignatenko, and the future belongs to Near Field Communication (NFC) technology, enabling no-touch payments.

Google was one of the first major companies to promote NFC in the mass market. According to a forecast made by IMS Research, sales of smartphones that support NFC will reach 80 million items, or even 100 million, if rumours that the new generation iPhone will also support e-wallets are true, analysts say.

Large trading platforms vs. small online shops

More and more larger web portals show a tendency towards protecting their information, Ichiba e-trade platform's Anton Terekhov said in his presentation. Social networking sites are closing their content from search engine indexing and don't seem to want to let their traffic out, turning into an "Internet inside the Internet" for their users. In order to view third-party content, VKontakte users now don't have to actually leave the network's page, and Facebook has introduced different prices for ads that lead to third-party pages or allow users to view the content via Facebook page.

Thus, powerful segments and clusters are appearing on the global web, and this applies to large trading platforms as well. In this situation, smaller online retail businesses have no choice but to try to be present on all major trading platforms. Ozon.ru, who now has 150 partner merchants, plans to add a few more thousand by the end of 2012. In order to do this, Ozon will open the opportunities of its logistics system to the partners and even introduce its own web-currency.

It is possible, Mr. Terekhov says, that social networking commerce boom will take place in a few years. Mikhail Ukolov of Utinet.Ru agrees: social networking sites have an immense customer base that cannot but interest millions of online sores. What remains to be done is to design an infrastructure and a correct CRM that will help retailers and their customers find each other. And it seems like Facebook has already made the necessary steps in this direction, introducing Open Graph that allows receiving detailed information on any subscriber and segmenting the site's audience. X



Russian Internet Forum 2012

April 18–20th

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From Russia with web



Main Events 2012

RedApple MIXX 2012

/ September 19-20th

Russian Internet Week 2012

/ October 17-19th

The Runet Awards 2012

/ November 23th