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## **Future Development of E-Commerce in Russia and Germany**

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## **I. INTRODUCTION**

The development of the Internet and the emergence of electronic commerce cause significant changes in the economy and lead to a change in the traditional matters of economic theory and practice. Information and communication technologies cover distance and time, and are thus the main driving force of globalization. Distance between trading counterparties disappears. Technology and standards of data transfer over the Internet have become a universal medium of business information exchange and in many ways have defined business principles in the field of e-commerce.

In a broad sense, electronic commerce is an entrepreneurial activity that implements commercial transactions with the use of electronic means of data exchange. Moreover, e-commerce covers commercial transactions (or ways of interaction between a buyer and a seller), carried out with the help of information networks (global Internet), and accompanied by the transfer of rights to use a product or service (i.e. the process of sale is accompanied by an electronic document and an operation of electronic payment systems) (Laudon & Traver, 2007).

Information technology is a reality of modern economy, and an entrepreneurship is inconceivable without electronic trading methods, without sales promotion on the Internet. The use of the Internet radically transforms the processes of economic cooperation between the companies and their customers, partners, suppliers and even competitors. Methods and means of carrying out commercial transactions in e-commerce are somewhat different from those carried out in the real economy (Albadr, 2003).

Socioeconomic subject matter of e-commerce, its features, and innovative role in the modern economy relate to new, understudied areas of economic science. This fact determines the need for an objective study of organizational and economic foundations for the development of e-commerce to solve practical

issues of increasing the efficiency and competitiveness of Russian and German business.

Since economic relations on the Internet, as well as the Internet itself, are developing very fast, relevant scientific works on the subject are scarce. Studies that were carried out 5-7 years ago now are already irrelevant. Moreover, no research has been found that surveyed the differences of e-commerce in Russia and Germany. Therefore, this research aims at providing an important opportunity to advance the understanding of differences of e-commerce on the international stage.

Thus, the general objective of this research is to compare the state of e-commerce in Russia and Germany. Therefore, four specific questions were established in this research:

1. What is the current state of e-commerce on the global market and what is its percentage in total commerce?
2. What are the largest e-commerce companies in the world in general, and in Russia and Germany in particular?
3. Is a peak of e-commerce in Russia and Germany already reached? Is there room for big new players?
4. Are there differences on the international stage (Alibaba Group in Russia and Germany)?

In order to answer these research questions, this Master thesis has been divided into five main sections in order to explain the research. The first point is the Introduction, and the second is the Current Stage of E-Commerce that sets out a brief literature review of the main concepts of this research, and an overview of the main theories and studies that were carried out in this field earlier.

The following section is the Differences on the International Stage of E-commerce (Russia versus Germany) in which the differences of e-commerce in these two countries are described.

The fourth section, entitled Future Development of E-Commerce in Russia and Germany provides forecasts for future development of e-commerce in these two countries.

Finally, in the last section, the conclusions are explained, the problems that hinder the development of e-commerce are defined, and the suggestions for solving these problems are made. In addition, the limitations of this research are addressed and the suggestions for future research are made.

## **II. CURRENT STATE OF E-COMMERCE**

### **2.1. E-commerce as a subject matter**

Nowadays it is impossible to ignore the existence of the electronic market along with the traditional one. These markets are closely linked and interdependent, and the dynamics of the electronic market far exceeds the dynamics of the traditional one.

E-commerce as a sphere of activity, a sector of the economy and the scientific concept is a complex and multifaceted phenomenon of the current stage of globalization of world economic relations. E-commerce market is a very dynamic system, making it difficult to identify the regularities of its functioning.

It is important to note that e-commerce refers to business processes based on information technologies or commercial activity on the Internet. The term e-commerce should be seen as a narrow concept - a process of distant physical and non-physical purchase of goods and services via telecommunications networks (Sokolova & Gerashenko, 2010).

At the present stage of its development, e-commerce enables organizations to reduce significantly the financial and time resources, to improve competitiveness, to access to new markets, to obtain additional information about the needs of consumers, to respond quickly to changes in demand. Many companies use e-commerce capabilities to provide additional pre- and after-sales service (Isakova, 2014).

E-Commerce is implemented as a part of the Internet economy, which is often referred to as a network of the economy (the environment in which any company or any individual, being anywhere in the economic system, can contact easily and cost effectively with any other company or individual for collaboration, trade, or exchange of ideas) (Virin, 2010).



E-commerce is not just a trade, based on the use of new information and communication technologies on the Internet but it also represents a great set of various business operations.

Within the framework of e-commerce, there are several models of Internet business (Dianova, 2012):

- business-to-business (B2B) - hardware and software systems, which are tools for trading and purchasing activities in the electronic network;
- business-to-government (B2G) – for example, a system of electronic government procurement;
- consumer-to-consumer (C2C) - for example, online auctions and trading platforms where individuals trade with each other;
- government-to-business (G2B) - a set of software and hardware for online interaction between the executive and commercial structures to support and develop business. The model of G2B includes information web sites of the authorities, e-procurement systems and others;
- government-to-citizen (G2C) - interaction of state elements with citizens through electronic information technologies, such as electronic document management;
- business-to-consumer (B2C) - a form of e-commerce, which carries out direct sales of commercial organizations to the consumer. It is a complex of Internet technologies and tools, which enhances the transparency of the structure and nature of the enterprise, and facilitates its interaction with customers.

### **2.1.1. Business-to-consumer model, as the most frequently used model in e-commerce**

According to the Lithuanian researchers Jovarauskienė and Pilinkienė (2009: 85), who investigated different e-commerce models, the main principle of B2C model "... is connected with the efforts, which the company makes in order to

give complete necessary information about its production or services to present or potential consumers, allowing them to order goods, to pay for them and expect future services”.

In the framework of this model, it is important to highlight the following key market segments, each of which is characterized by its trends, problems, and prospects of development (Jovarauskienė & Pilinkienė, 2009):

- Sale of physical goods, that have to be delivered
- Sale of goods, that are the result of intellectual activity and the objects of copyright (software, literature, media, music, cinema)
- Online sale of services (booking of airline tickets, hotels, registration of insurance policies, the sale of coupon codes, and others).

This trade provides a number of benefits to all participants:

- It provides a global presence, allowing even the smallest businesses to entry into different markets, regardless of their location.
- It promotes competitiveness, enabling the companies to have a flexible pre- and post-sales support, providing the necessary information about the product and reacting quickly to customer requests. Therefore, the elasticity of demand in online markets is higher than in the traditional ones.
- It allows receiving as much information about the needs of customers and automatically proposing, developing and manufacturing products that are relevant to customer requirements.
- It improves flexibility of business dealing and ensures prompt response to changes in the external environment.
- It provides an opportunity to expand almost without restriction the and to increase sales granting well-established relationships with suppliers (expansion of the range does not lead to the need to increase the enterprise area).

- It simplifies the acquisition and processing of the order and payment, interaction with suppliers, and so on. This may also include the relative cost reduction of menu (expenses of sellers due to price changes).

### **2.1.2. Benefits of e-commerce for sellers**

One of the main advantages of e-commerce is reducing the cost of the organization and operation of the enterprise. For example, the cost of establishing the traditional commercial enterprises, including acquisition costs, repair, design, and equipment of the premises is much higher than the creation of its website. In addition, the costs of obtaining marketing information are reduced: the Internet is a relatively cheap source of it. When conducting market research through surveys and questionnaires there is no need to meet personally with a respondent, it is possible to reach a wider audience. It is also possible to reduce the cost of external communications. Automation of order entry and processing, and interaction with suppliers significantly reduces a load on the staff of commercial enterprise (Ovseyko, 2009).

In addition, normally the staff of commercial enterprise operating in the field of e-commerce is less than of the traditional one. Therefore, it is possible to employ workers living in regions with relatively low wages. In turn, the use of electronic document management for internal and external communications can also reduce the costs.

Moreover, in the trade on the Internet, there are much more efficient and less expensive opportunities for marketing research, rather than in the traditional trade. Big retailers spend a lot of money on merchandising study to determine an optimal location of the goods in the shop window, shop interior, which will lead a buyer to make a purchase. In e-commerce, the situation is different, modern systems of accounting and analysis of visitor performance of a website (such as Google Analytics and Metrika.Yandex) allow to obtain all the information about user behaviour on the site. Thus, with proper analysis of these

data it is possible to develop a version of the website where a conversion (the ratio of the number of users that make a purchase and the total number of visitors) will be maximum (Dianova, 2012).

The only expense of such studies is a salary of specialists. Theoretically, it is possible, as an experiment, to make an unlimited number of versions of the site and to show to each user each version separately. In the traditional trade, it is not possible, as representative focus groups are needed and there is always a certain error.

In addition, Internet advertising has an indisputable advantage. One of the founders of modern advertising John Wanamaker said, "Half the money I spend on advertising is wasted; the trouble is I don't know which half." (cited in Ershkowitz, 1998: 30). However, nowadays, Internet advertising makes it possible to identify quickly inefficient channels and stop their use, due to analytical systems.

At the moment, the most effective advertising tool is contextual advertising, also called search advertising. Its essence lies in the fact that the advertising message is displayed to users depending on their request entered into a search engine. The advantages are obvious: as this type of advertising is focused on users' interest and shows them exactly what they are looking for. With contextual advertising advertisers pay only when a customer visit a website, the price is calculated depending on the auction between advertisers. Thus, it is possible to calculate how much it costs to attract a buyer, that it is not possible in traditional advertising. Another advantage is the flexibility and the possibility of rapid changes in the advertising campaign based on the current situation (Sibirskaya & Startseva, 2010).

Advertisements related to social networks also have great prospects. It allows targeting a certain audience, focusing on demographic data, information about hobbies and interests of the user. With the ability to take into account the user's search query, and other information (for example, data about user's location, obtained from a smartphone), data from the social networks, provide

unprecedented opportunities to enhance advertising effectiveness and reduce costs of attracting a buyer.

### **2.1.3. Benefits of e-commerce for customers**

After analysing the recent works of different researchers, such as Chiu, Wang, Fang, and Huang (2014), Kacen, Hess, and Chiang, (2013), Giovanis and Athanasopoulou, (2014), who studied customers' attitude toward online stores and their satisfaction, it is possible to list a number of benefits of the use of online stores for customers as follows:

- Possibility of a "global choice": a buyer, located anywhere in the world can choose the products that he/she considers the most advantageous, irrespective of the country of origin and its location;
- time-unlimited access (around-the-clock), that is, users can make a booking or get information at any time convenient to them;
- Personalization of service, that improves its quality;
- Delivery of the goods to the buyer at a convenient time and place;
- Expansion of choice, increase of scope of information readily available information;
- Time saving in the choice of goods, products, commercial enterprises and ordering (in order to fulfil these benefits it is necessary to have established technology of trade and the minimum competence of a buyer in the algorithms of search and selection of goods);
- Variety of forms of payment: a buyer can use traditional forms of payment as well as payment systems of the Internet;
- Ability to exchange freely information about goods, trade enterprises and the quality of service to other customers, by communicating on the forums, resources, reviews, and other. In this case, it is important to be aware that manufacturers and retailers closely monitor feedback and actively form a positive opinion about themselves and negative about the

competitors, however it is difficult to affect the overall picture with a significant number of comments.

The above-mentioned advantages are in many respects interdependent. Thus, improving the competitiveness of the trading company is largely due to the personalization service, the increase in readily available information, reduced costs of trading companies; timesaving is largely due to global presence, the ability to expand a range almost unlimitedly, and automate trading processes.

#### **2.1.4. Cost reduction in e-commerce**

In e-commerce, there are powerful resources to reduce transaction costs. What is more, this applies to most of the previously described kinds of costs. Largely it is due to economies of scale. In a traditional trade company, the issue of increasing the scale of business is not easy as a lot of material and labour resources are needed. In the case of e-commerce, this task is simplified. The number of customers is almost unlimited, operating time is around the clock, the possibility of maintaining the range is much wider. There are much more random buyers in online shops than in the traditional ones (Eames et al., 2014).

Certainly, costs of information search are decreasing for the buyer as well as for the seller. On the website, it is possible to place the most complete information about the product, the publication of reviews, and comparative characteristics. All of this saves time of the buyer and allows making choices that are more conscious, and is a competitive advantage of the enterprise. On the other hand, the seller has ability to collect information about customers, conduct surveys, and carry out marketing research and promotions (Balabanov, 2008).

The costs of negotiating are absent or minimal due to the fact that the buyer, referring to a store employee (regardless of whether it is done on the Internet or in a traditional shop) has some initial data. This may be information about the terms of the transaction and a sample of standard form contract, placed on the Internet.

The ability to minimize the costs of the measurement depends on the particular product. So reading the product descriptions are obviously inferior to their visual contemplation. However, on the other hand, the presence of the image of the product and a detailed description of its characteristics can be more useful than real shopping. For example, looking at goods in the store it is difficult to remember all its parameters for comparison with an alternative product. While at the same time analysis of the characteristics of the goods in online shop will help to take into account all dimensions, and comparative market surveys, customer reviews posted on the site, will help to make choices that are more conscious and protect from errors.

According to the researchers Turban, King, Lee and Liang (2015) in their latest work on mechanism of e-commerce, there are many opportunities to optimize the costs associated with administrative barriers. This is largely due to two aspects: the first one is that it is difficult for public authorities to control a virtual trading market that is initially focused on the freedom and the second reason is that for example, in Russia there is still no right margin for the control of e-commerce. At this stage, only laws related to ordinary trading enterprises can be applied to online stores.

Reducing transaction costs is a significant competitive advantage of an entrepreneur. It allows changing priorities and market behaviour: to conduct a more flexible pricing policy, to make small deals, that were previously regarded as unprofitable, and others. Sales chart in an online store format allows an entrepreneur to receive substantial saving, especially in the long term. Thus, there is no need to maintain staff, which reduces the impact of human factors (errors in payment for goods, posting of price, conflicts of buyers and sellers). In e-commerce, money is invested in a highly intelligent product and more qualified specialist than in the case of a traditional store (Turban et al., 2015).

However, from a buyer's point of view a situation is not so clear. Certainly, there are some advantages for clients. Thus, it is important to mention a possibility of obtaining complete information about products, which cannot provide each seller, and consequently these data are less subjective than in the case of

personal contact with a consultant. A buyer may choose and compare products without any constraints of time and quantity. Sometimes a buyer may even, for some reason, feel uncomfortable, for example, because of excessive pushiness of a seller.

Nevertheless, a buyer can feel also disadvantages of a virtual visit of the store. Therefore, some people have a certain dependence on other people's opinions or it is difficult for them to make a choice and they need a piece of advice from a store manager. A considerable part of people is not psychologically ready for widespread use of new type of shopping. They often make a choice of the goods, using information posted on the Internet, but prefer to make the purchase in a traditional store (Chiu et al., 2014).

According to a study of PricewaterhouseCoopers, the most popular reason why people do not buy products online is a desire to see, touch, try on the goods personally, so answered 52.7% of the respondents. Other causes are distrust of electronic payment systems and anxiety about the safety of personal data. The most popular benefit of online purchases consumers find lower prices, so said 65% of respondents. The second most popular reason is the presence of feedback on products and stores and a possibility to have a home delivery<sup>1</sup>.

The development of e-commerce has a stabilizing effect on the economy and, therefore, a positive effect on the competitiveness of all market participants. It is possible to make such a conclusion due to the following reasons (Fang et al., 2014):

- Acceleration of the creation of a common information space: mechanisms of information exchange almost of all world market players are being developed, resulting in an increase of the speed of information exchange, and also market laws start to work faster;

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<sup>1</sup> 2012 Global multichannel consumer survey  
<http://www.pwc.com/gx/en/retail-consumer/retail-consumer-publications/global-multi-channel-consumer-survey/index.jhtml> [accessed: 15.07.2015].



- Decentralization of resources, enabling the development of independent market entities;
- Acceleration of the volume of financial resources due to the use of electronic payment systems;
- Reduction of the volume of venture capital (in the hands of the intermediaries, who are not the manufacturers) and, consequently, an increase of investment volume in the manufacturing sector;
- Creation of new kinds of services and facilities, taking into account the preferences of consumers;
- Creation of conditions for open competition in the markets of goods and services;
- Acceleration of market promotion.

## **2.2. BIRTH OF E-COMMERCE AND ITS EVOLUTION**

Electronic commerce in the form of the first attempts of electronic sales emerged after 1992. It was then that after the introduction of World Wide Web technology, the Internet became available to ordinary users, who did not have special skills for using the network. The use of the World Wide Web was significantly simplified and from a storage of different types of files, it has become a clearly structured space with which today we all can work without problems. At that time, the first electronic editions of newspapers and magazines emerged, which became the first e-commerce sites. They sold publication generally sent to users, not in a traditional, printed form, but in electronic form, as well as advertising space, which immediately opened up new sales prospects (Isakova, 2014).

One of the first known online purchases took place in 1994. It was a pepperoni pizza with mushrooms and extra cheese from an online pizza shop by Pizza Hut<sup>2</sup>. This was the beginning of the development of electronic commerce in the world. From this point on big businesses began to invest in the development of electronic commerce. At this stage, e-commerce was mainly a sale of advertising space, electronic publications, and software. It was a narrow area that did not attract a wide audience of buyers. However, with the development of network technology, new services became available, new forms of resources emerged the functionality of which has been focused on the sale of another type (Tian & Stewart, 2007).

Initially, e-commerce was not seen as a separate area of the economy. Traditional mechanisms of doing business were simply applied to the business on the Internet. The presence of conventional technology in a new direction

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<sup>2</sup> A BRIEF HISTORY OF Online Shopping, in <http://content.time.com/time/business/article/0,8599,2004089,00.html> [17.07.2015].

worked in favour of new Internet entrepreneurs, and consumers were eager to use new possibilities. For example, the first online stores implemented the common models of ordering goods by phone or e-mail. In fact, the existing offline business with its technology was applied to the Internet, even the first order form on the website looked exactly like the paper used in the traditional sales. Owners of the first online stores, working with such a scheme used the existing regulatory framework. Delivery of goods ordered from online stores, was carried out using the existing logistics infrastructure. Payment instruments for the first online stores became plastic cards (Damanpour, 2001).

At the same time, on a governmental level some important directives and standards were approved to regulate commerce on the Internet. In 1997 an OBI (Open Buying on the Internet) standard for e-commerce appeared. The standard declared principles, which must comply with software for e-commerce, supporting open Internet standards. Later in 2000 began to act a Directive 2000/31/EC of The European Parliament and of The Council on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market (Directive on electronic commerce)<sup>3</sup>. Therefore, it could be said that the European Union made all the necessary preliminary steps to set up a framework of rules for the development of e-commerce.

The second stage of the development of e-commerce can be considered as a mass duplication of existing commerce entities in reality to the virtual world. The main task of this phase of development of e-commerce was the process of creating electronic business forms. Due to free access to Internet technology, more and more new forms of commerce activity were opening their online representation, thereby obtaining additional sales of their products and increasing their profits (Tian & Stewart, 2007).

Once retailers have found a new niche for the implementation of their own products, various commercial areas appeared on the Internet, their essence

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<sup>3</sup> DIRECTIVE 2000/31/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL, in [http://www.wipo.int/wipolex/ru/text.jsp?file\\_id=181678](http://www.wipo.int/wipolex/ru/text.jsp?file_id=181678) [17.07.2015].

reduced to the following, the implementation of sales and services for a customer. It should be noted that the prospects for the positioning of the company on the Internet were quite attractive. First of all, sales geography expanded significantly, as customers did not have to go anywhere to see a product. It was enough to get in the site and find all the necessary information, which had an impact on future cooperation. Secondly, some online shops emerged, the main feature of which was absence of a physical store (Chan, 2001). Amazon.com is an example of a successful development of a store without retail storefronts.

E-commerce began to develop at full speed. Just in a few years, the worldwide network was flooded by different resources that were in the best way possible adapted for sale. They also included a variety of services that allowed transferring funds to the account of the seller with minimum complexity.

As it is known, the process of buying and selling is impossible without money. The demand for electronic means was met immediately as soon as it arose. There were a number of payment systems, which made operations with electronic money with a possibility of input and output with the help of banking institutions. Transfer was carried out instantly and that was important for users. Accordingly, such areas as currency exchange and other finance operations began to develop. Such course of events was completely predetermined. Expansion of sales geography quite naturally led to the need for the emergence of electronic money to make payments, because bank transfers between countries are not always the most convenient payment option, as they do not operate at the required speed. All the factors stated above have served to move to the third and the current stage of development of e-commerce (Tian & Stewart, 2007).

At this stage, we see e-commerce as a big business that is getting bigger every day with e-commerce sales worldwide reaching \$1.5 trillion in 2014 (Nielsen, 2014). E-commerce continues its evolution according to online customer purchase behaviours, customers dictate which services and offerings are the most important, as a customer is an engine of e-commerce evolution. Thus,

customers can get goods delivered during the same day of order, or have a wide range of payments to choose. Moreover, even the newest service of online personal shoppers has lately become available in the USA. Therefore, it is possible to say that e-commerce develops according to current trends and tries to respond in time to customers' demand, as Weitzel (2014: 6) said, "eCommerce will continue to evolve, and marketers will find innovative ways to use online ordering to reach new markets and create new selling occasions".

### **2.2.1. The Biggest E-commerce Markets**

The global e-commerce market, overcame last year the milestone of \$ 1 trillion, is rising at a rapid rate. It is expected that this year it will add another 20%. Among the leaders of growth are the countries of Asia and Eastern Europe. Although young Chinese market will grow by 65%, more mature markets of the Great Britain and Germany are not going to stand still; the growth forecast for them is 14% and 13%, respectively. Impressive figures raise questions about the sources of growth and Russia's place in this picture of the rapid development of global e-commerce<sup>4</sup>.

At the moment, a leader by volume of e-commerce is the United States of America. In 2014, the volume of the e-commerce market was \$ 268.5 billion. Experts say that such a rapid development of the market "digital trade" in the United States is due to the massive use of credit cards, which makes it easier to shop in online stores, as well as the development of logistics infrastructure, with a help of which products are delivered to customers within days (Lella & Lipsman, 2015).

Among developed countries, e-commerce occupies the most part of the Great Britain economy. The volume of e-commerce market in 2014 was estimated at

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<sup>4</sup> Forbes: Электронная коммерция: китайский путь для России, in <http://www.forbes.ru/mneniya-column/konkurenciya/234201-elektronnaya-kommertsiya-kitaiskii-put-dlya-rossii> [accessed: 09.07.2015].

£132.05 billion (\$ 204.91 billion)<sup>5</sup>. Its e-commerce market occupies the third place in the world after the USA and China. The share of online sales in the UK retail sector exceeded 13% in 2014 and continued growing steadily. Moreover, it is forecasted to exceed 18% by 2018<sup>6</sup>. What are the reasons for such success? Firstly, it lies in the traditional British innovative business activity. Second, the British society is very modern. The British quickly realized the convenience of e-shopping: low rates, remote service, timesaving and a range of choice.

A completely different dynamics is noted in China and India. The main factor of a successful development of e-commerce is huge increase in the number of Internet users. Whereas India is still at the very beginning of e-commerce with 137 million users (11% of the population), in China more than 40% of the population (538 million people) already use the Internet. In both countries, a traditional retail is poorly developed, and modern formats cover less than 10% of all trade. Undeveloped basic infrastructure does not allow a traditional retail to grow rapidly. The Internet penetrates into the lives of people faster than modern highways and airports. As a result, e-commerce in China has been doubled the last year volume and will grow by 65% this year. A traditional Chinese retail is growing slightly more than 20% per year<sup>7</sup>.

In China, from 642 million Internet users<sup>8</sup>, 270 million (50%) will make purchases online this year, and in India only 18% (25 million from 137 million). Online customers in India usually buy books and small electronics. Other categories of products, such as household appliances, that are favourite in Russia, hardly are in demand. However, in China a situation is quite different, online customers buy everything, a set of categories is almost the same as in the UK. Thus, it is

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<sup>5</sup> Centre for Retail Research, in <http://www.retailresearch.org/onlineretailing.php> [accessed: 11.07.2015].

<sup>6</sup> E-commerce share of retail sales revenue in the United Kingdom (UK) from 2011 to 2018, in <http://www.statista.com/statistics/285978/e-commerce-share-of-retail-sales-in-the-united-kingdom-uk/> [accessed: 11.07.2015].

<sup>7</sup> Электронная коммерция: китайский путь для России, in <http://m.forbes.ru/article.php?id=234201> [accessed: 11.07.2015].

<sup>8</sup> Internet Users by Country, in <http://www.internetlivestats.com/internet-users-by-country/> [accessed: 12.07.2015].

possible to note the stages of Internet evolution. In markets where there is small number of Internet users, online shopping is just beginning: as only small Internet audience share becomes an online buyer, buying mostly small electronics and books. With the Internet usage growth, increases not only the number of Internet users, but also a share of buyers, demand extends to a larger number of categories, and purchases become more frequent. E-commerce is rapidly becoming a significant part of the economy and online retail will occupy more than 10% of the total retail market of the country by the end of 2015 (KPMG, 2014).

The number of online buyers in China in 2014 reached 361 million<sup>9</sup>. This number exceeds the number of digital shoppers in the USA (196 million)<sup>10</sup>. As Jack Ma, founder of Alibaba, recently said, "... in the U.S., e-commerce is just online shopping. In China, e-commerce is a lifestyle." <sup>11</sup>

E-commerce in China has a number of unusual features that distinguish it from similar markets in Western countries. Firstly, thanks to cheap work force there is no problem with cheap delivery. For example, in Shanghai for just five yuan (\$ 0.73) a courier on a scooter is ready to bring goods in any part of the city in an hour.

Secondly, due to high competition, online retailers offer much lower prices (sometimes even 20% lower) than traditional stores. According to Shier (2014), there is no such a big difference in prices in any other country in the world.

Many analysts and experts believe that the Chinese e-commerce market will continue growing and will be larger than e-commerce markets of the United States, Britain, Germany, France and Japan combined (KPMG, 2014). One of

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<sup>9</sup> Number of online shoppers in China from 2006 to 2014, in <http://www.statista.com/statistics/277391/number-of-online-buyers-in-china/> [accessed: 12.07.2015].

<sup>10</sup> Number of digital shoppers in the United States from 2010 to 2018, in <http://www.statista.com/statistics/183755/number-of-us-internet-shoppers-since-2009/> [accessed: 12.07.2015].

<sup>11</sup> E-commerce in China: Gain entrance into a completely different world, in <http://www.ptl-group.com/blogs/e-commerce-in-china-gain-entrance-into-a-completely-different-world> [accessed: 12.07.2015].

the giants of e-commerce market in China is Alibaba Group, whose income has exceeded \$ 222.9 billion (Forbes, 2015).

### 2.3. THE BIGGEST PLAYERS OF E-COMMERCE

In view of the growing importance of e-commerce for the first time, consulting firm Deloitte published in its annual report (2015) the rating of 50 the world's largest online retailers. More than three-quarters of them are at the same time in the group of the 250 largest retailers in the world. Most of the 50 largest online retailers are based in the United States (28) and Europe (17), and only five companies in the industry are based in developing markets. We are going to look closer at top three e-retailers (See Figure 1).

Top e-retailer sales rank FY13	Top 250 sales rank FY13	Name of company	Country of origin	FY13 e-commerce retail sales (US\$ mil)	FY13 e-commerce retail sales % of total retail revenue	FY13 e-commerce growth rate	Comments
1	15	Amazon.com Inc.	U.S.	60,903.0	100.0%	17.7%	Online direct sales; excludes third party sales
2	92	JD.com, Inc.	China	10,826.8	100.0%	66.2%	Online direct sales; formerly known as Beijing Jingdong Century Trade Co., Ltd. and 360buy Jingdong Inc.
3	1	Wal-Mart Stores, Inc.	U.S.	10,000.0*	2.1%	29.9%	

Figure 1. Top three e-retailers (Deloitte, 2015).



According to the latest data provided by Deloitte in 2015, the leader of B2C e-commerce is Amazon.com with 2013 net product sales of nearly \$61 billion. Therefore, Amazon is the world's largest company among the companies selling goods and services on the Internet. Amazon.com Company was established in 1994 by an American entrepreneur Jeff Bezos, and in 1995, its site was launched. First, this site sold only books. Now, the service Amazon.com covers 19 departments, including electronic books, electronics, toys, clothing, household goods, sport goods, and many others. Lately, in March 2015 Amazon launched a new on-demand service for all sorts of housework that is called Amazon Home Services<sup>12</sup>.

<sup>12</sup> Amazon Company Info, in <http://phx.corporate-ir.net/phoenix.zhtml?c=176060&p=irol-mediaKit> [accessed: 15.07.2015].





On the second place of the Deloitte ranking is the Chinese company J.D.com with e-commerce retail sales of \$10.8 billion. J.D.com is the largest online direct sales company in China. It was founded in by Richard Liu in 1998, and the website was launched in 2004. Initially, it sold magnetic and optical carriers, and then expanded its range, selling electronics, cell phones, computers, and others<sup>13</sup>.



The next place occupies Wal-Mart Stores Company with online product sales of \$10 billion (Deloitte, 2015).It is the world's largest retailer that was founded in 1962 in Rogers, Arkansas by Sam Walton. In 2000, Walmart.com was founded, allowing U.S. customers to shop online. Walmart online store sells clothing, jewellery, electronics, home accessories, books and more<sup>14</sup>.

### ***The biggest e-marketplace sites***

Along with the largest e-commerce retailers, it is also necessary to take into account the biggest e-marketplace sites that have become an important driver of growth for e-retailers (See Figure 2).

Company	Country of origin	Year founded	IPO date	2013 parent company net revenue (US \$mil)	2013 parent company net profit margin	2013 retail GMV* (US \$mil)
Alibaba Group Holding Limited	China	1999	2014	8,537	44.6%	272,826
Taobao C2C marketplace		2003				190,718
Tmall B2C marketplace		2008				82,108
Amazon.com, Inc.	U.S.	1995	1997	74,452	0.4%	140,610*
Amazon Marketplace		2000				73,500*
eBay, Inc.	U.S.	1995	1998	16,047	17.8%	76,431

**Figure 2.** Top e-marketplace sites (Deloitte, 2015).

<sup>13</sup> Corporate profile, in <http://en.jd.com/> [accessed: 15.07.2015].

<sup>14</sup> History Timeline of Walmart, in <http://corporate.walmart.com/our-story/history/history-timeline> [accessed: 15.07.2015].



Therefore, according to the table above, the leader of e-marketplace sites is Alibaba Group Holding Limited. It was founded in 1999 by Jack Ma, with the value of all merchandise sold of almost \$273 billion in 2013. This e-marketplace consists of two major e-commerce sites Taobao and Tmall, on the first one consumers sell products and services to other consumers, whereas on the second one retailers sell goods directly to consumers (AlibabaGroup.com, 2015).



On the second place is the world's largest e-retailer Amazon with the value of all merchandise sold of \$140.6 billion. It sells not only its own production, but also gives a possibility to third-party sellers to sell on its e-marketplace site.



On the third place is an American company eBay.Inc with the value of all merchandise sold of \$76.4 billion. This company consists of three different business units, such as eBay that gives a possibility for people and enterprises to buy and sell, PayPal that gives a possibility to make electronic payments and eBay Enterprise enables commerce, retailing, and digital marketing for merchants. It was founded in 1995 in San Jose, California by a programmer Pierre Omidyar<sup>15</sup>.

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<sup>15</sup> eBay Who We Are, in [http://www.ebayinc.com/who\\_we\\_are/one\\_company](http://www.ebayinc.com/who_we_are/one_company) [15.07.2015].

### **III. DIFFERENCES ON THE INTERNATIONAL STAGE OF E-COMMERCE (RUSSIA VERSUS GERMANY)**

#### **3.1. Current State of B2C E-Commerce in Russia and in Germany**

E-commerce in Russia and in Germany as the basis of electronic business at the current stage contains a number of issues and problems, so the analysis and the identification of its structural elements, the basic trends, and patterns of development of two markets is a prerequisite for the further development of Russian and German business as a whole.

Currently, e-commerce market in Russia is under intense development. According to the E-Commerce Europe, the turnover of the Russian B2C e-commerce market of goods and services in 2014 amounted to \$24.8 billion, whereas in 2013 it amounted to \$19 billion. Therefore, it could be stated that the growth of online sales of goods and services for 2014 amounted to 25%, and this rate makes Russia the fastest riser in 2014 in Europe (E-Commerce Europe, 2015).

As to the German e-commerce market, it is possible to say that it is one of the most developed e-commerce markets in the world. According to the latest report published by E-Commerce Europe (2015), Germany is on the second place in the European Union after the UK with B2C e-commerce turnover of \$94.5 billion in 2014, which represents an increase of 11% in comparison with 2013 that amounted to \$84.2 billion. However, this rate is not as high as it was forecasted by analysts of E-Commerce Foundation in 2014, they expected that the growth rate would be 20.6% (Global B2C E-Commerce Report, 2014).

The graph of B2C e-commerce in turnover (See Table 1) immediately shows the gap between the Russian and German B2C e-commerce markets. The turnover of the German B2C e-commerce is almost four times bigger than the Russian one. However, the Russian market shows a greater growth.

Countries	2013	2014	Growth
Russia	\$19 billion	\$24.8 billion	25%
Germany	\$84.2 billion	\$94.5 billion	11%

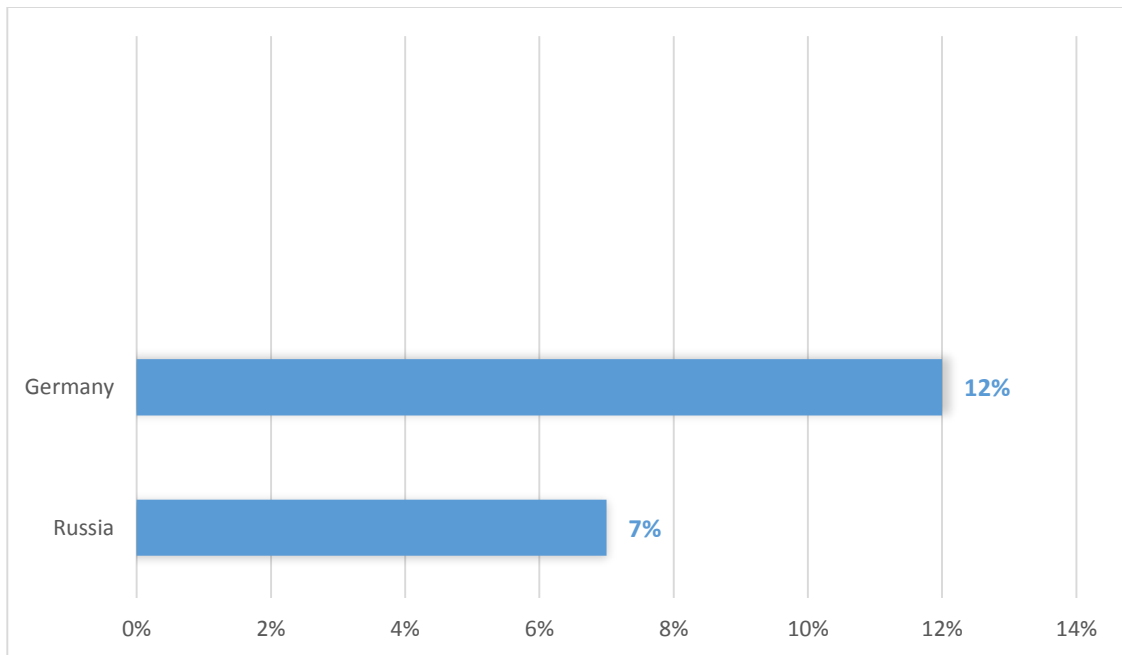
**Table 1.** B2C e-commerce in turnover.

In 2014, only 20% of the Russian population regularly purchased goods on the Internet. This indicator is closely linked to the percentage of Internet penetration in the country. In Russia, the number of Internet users in 2014 was 85 million that amounted to 59.2% of the total population. At the same time in Germany, 70.1 million people were internet users that amounted to 86.8% of the total population and 77% of them regularly performed transactions with e-commerce companies (E-Commerce Europe, 2015). Comparing these figures with Germany it could be noted that the index of Internet penetration in Russia is quite low, as well as the number of regular online shoppers (See Table 2).

Countries	Population	Internet Access	Online Population	Regular e-Shoppers
Russia	143.7 million	59.2%	85 million	20%
Germany	80.7 million	86.8%	70.1 million	77%

**Table 2.** Internet Penetration in 2014.

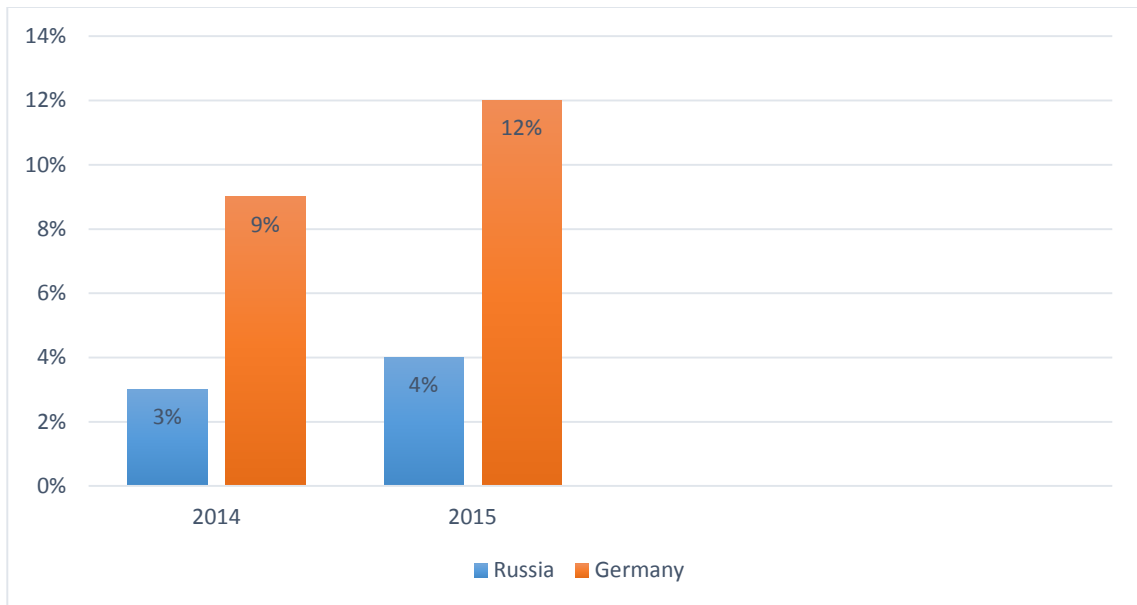
According to the experts of the company J'son & Partners Consulting, a compound annual growth rate (CAGR) of the Russian B2C e-commerce in 2009-2014 was equal to 42.5%. In 2013-2018 CAGR is expected to reach 7% per year. It is predicted a decline in the market in 2015 by 5% due to the severe macroeconomic situation. Then a slight recovery is expected in 2016 and a growth of the market by more than 20% by 2017 (J'son & Partners Consulting, 2015). At the same time, the German B2C e-commerce market has a compound annual growth rate of 12 percent for the period 2013 to 2018. This fact makes Germany a country with the greatest e-commerce customer potential in Europe (Germany Trade & Invest, 2015). Comparing these two markets, it is possible to see that the German B2C e-commerce market has a bigger CAGR than the Russian one (See Figure 3).



**Figure 3.** A compound annual growth rate of the Russian and German B2C e-commerce markets in 2013-2018.

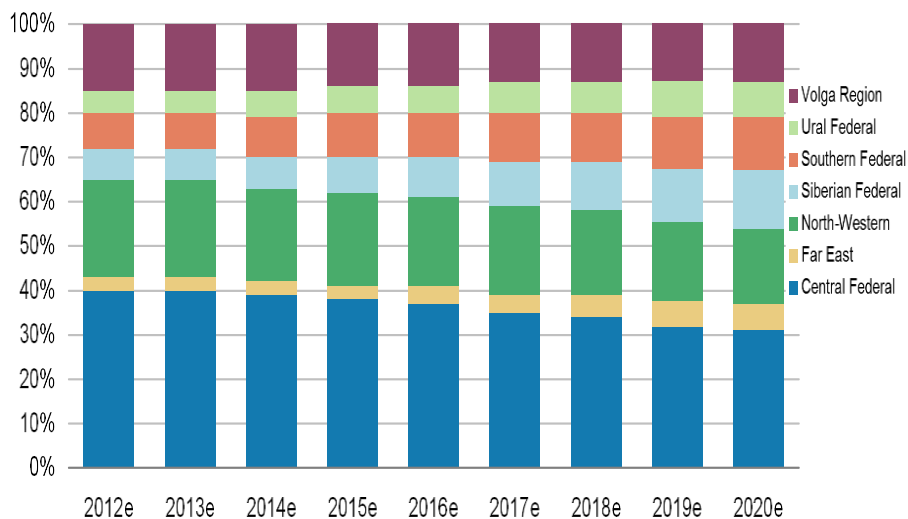
However, the segment of e-commerce in the Russian economy has become evident only in recent years. Until 2011 the share of sales via the Internet was less than 1% of the total volume of trade in Russia, in 2014 is about 3%, and in 2015 will be 4%. Similar rates were noted in the United States of America and the United Kingdom in 2003 and 2005, and now, the share of e-commerce in these countries occupies more than 10%, and this fact suggests the possibility of further growth of e-commerce market in Russia. According to experts, the segment of e-commerce in 2020 will amount to about 7% of the total trade in Russia (Analytical Bulletin InSales, 2015).

Germany's B2C e-commerce sector represented 9% of the nation's total retail industry (€457 (\$603) billion) in 2014 with the tendency positive. Moreover, it is forecasted that it will grow by 12% in 2015 (Germany Trade & Invest, 2015). Therefore, comparing figures of B2C e-commerce markets of Russia and Germany it could be stated that the market share of B2C e-commerce in total trade in Germany in 2014 is three times bigger than the Russian one (See Figure 4).



**Figure 4.** The market share of B2C e-commerce of total retail trade in Russia and Germany.

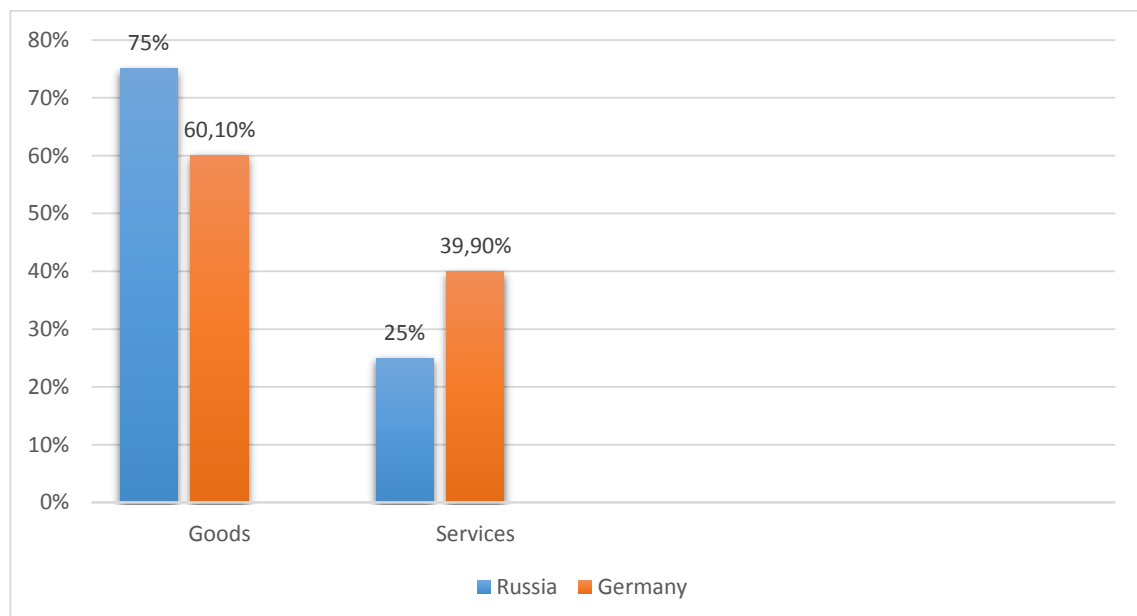
It should be noted that in Russia there is an imbalance in the development of e-commerce market by region (See Figure 5). Over 60% of online stores are located in Moscow and St. Petersburg, where live about 15% of the total population of Russia. According to the experts of Morgan Stanley, in 2020 online sales in capital cities will grow by 30%, while in the other regions the average growth will be of 55% (Morgan Stanley Research, 2013).



**Figure 5.** Forecast of sales distribution over the Internet in the Russian regions (Morgan Stanley Research, 2013).

In Germany, however, there is no such tendency, and e-commerce market is developed almost equally throughout all the territory of this country.

Currently, the largest share of the B2C e-commerce market occupies a sector of goods. Thus, in 2014 analysts of E-Commerce Europe (2015) estimated that a sector of goods occupied 75% of the total B2C e-commerce market of the Russian Federation, and a sector of services 25%. However, it is forecasted the segment of goods will be reduced from 75% to 60% in 2017 (Shiptor, 2015). At the same time, in Germany a sector of goods was 60.1% and a sector of services 39.9% (See Figure 6) (E-Commerce Europe, 2015).



**Figure 6.** The structure of the B2C e-commerce market in Russia and in Germany.

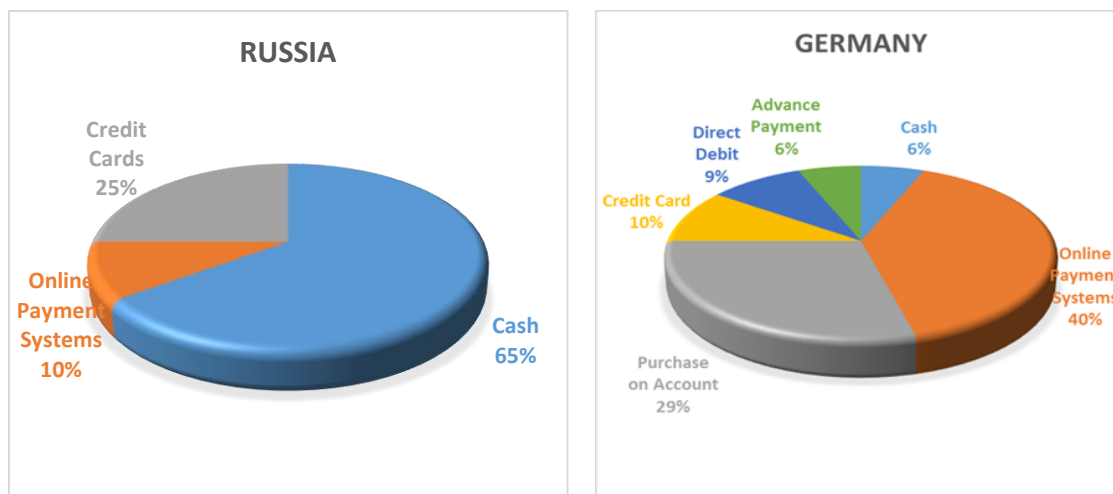
According to the Global B2C E-Commerce Report (2014), the most popular segments of the online shopping of goods in Russia and in Germany are:

Top 5	Russia	Germany
1.	Electronics and Technics	Clothing
2.	Clothing and Shoes	Books
3.	Auto Parts	Home Electronics
4.	House Goods and Furniture	Shoes
5.	Children Goods	Cosmetics

**Table 3.** Best online selling items.

Comparing data from Table 3, it is possible to state that in Russia as well as in Germany the best online selling items are Clothing, Shoes and Electronics.

Another important feature to analyse is the use of different payment methods. In the Russian e-commerce market very important is a role of cash. Currently, the average bill purchasing goods in online stores is \$66 with more than 65% of customers prefer to pay for purchases in cash (See Figure 7); this fact hinders the development of Internet commerce. It should be noted that in Russia there is a low confidence of consumers in electronic payment systems in terms of their legitimacy and reliability. Another current problem that refers not only to e-commerce but also to any other activities on the Internet is the lack of a clear and comprehensive legal framework for doing business in this sphere. However, in the first half of 2014 compared to the same period last year there was a sharp turnaround in consumer preferences, which increased the share of electronic payments in 2 times. There is a further downward trend in the share of cash in the structure of payment methods in the market of online trade of the Russian Federation (J'son & Partners Consulting, 2015).



**Figure 7.** Payment methods in Russia and Germany in 2014.

In Germany, however, the situation is quite different (See Figure 7). An average spending per German e-shopper is \$ 2,105 (Global B2C E-Commerce Report, 2014). There are much more payment methods available for customers purchasing online than in Russia. While in Russia, there are only three types of



payment, such as Credit Cards, Cash and Online Payment Systems (PayPal, Webmoney, Яндекс Деньги), in Germany customers have possibility to pay with those three methods, plus such methods as Purchase on advance, Advance Payment, and Direct Debit. The most frequently used payment method is online payment services, such as PayPal, giropay and sofortüberweisung. However, only 6% of online customers prefer to pay in cash. It is also stated that German consumers have developed greater trust in online payment systems (Germany Trade & Invest, 2015).

It is also important to notice that Germany has a powerful cross-border e-commerce. They sell not only to neighbouring countries, but also to countries from other continents, such as China, the USA, and Brazil. Russia, however, has severely restricted cross-border trading in order to stimulate its own online market (Global B2C E-Commerce Report, 2014).

Thus, the overall level of development of B2C e-commerce in Russia largely remains behind the indices of development of Germany, where the B2C e-commerce market has already become mature. The negative effects of the economic crisis, lack of access to modern telecommunications networks in most regions of the country, low prevalence of modern electronic payment systems prevented the timely development of the Russian market. Nevertheless, in general, now in the field of IT solutions for e-commerce, a favourable environment is formed where a growing demand stimulates a proposal.

### **3.2. Alibaba Group in Russia and Germany**

The company Alibaba Group was founded in 1999 by Jack Ma in Hangzhou, and 17 co-founders. The aim of this project was to help promote the Internet for small and medium-sized businesses. Jack Ma and his team were on the crest of a wave of online communications. The Chinese market in this case is unique. Its development began much later than in Europe, America and even in Russia, however, the pace of China's development has allowed getting ahead quickly. In the context of this, Internet-boom companies had to learn somehow, to

promote their products on the Internet, as retail point of sale dramatically receded into the background (AlibabaGroup.com, 2015).

As there was not any type of practice of selling online, the idea of Jack Ma came in handy, and eventually allowed him to achieve a tremendous success. Initially, the project was meant to develop a B2B direction that was the site alibaba.com itself. However, gradually along with the expansion of the company other directions were developed, such as C2C - Taobao.com, B2C - Tmall.com, and AliExpress.

At the beginning of its history, Alibaba was a small office, hosted at home. Now it is a huge corporation, which employs more than 24,000 employees worldwide. Alibaba Group consists of some successful projects: Taobao, AliExpress, Tmall. In addition, Alibaba Group has its own payment system Alipay and such Internet services as taxi, mobile applications, cloud storage, e-learning, music service and even microblogging. Each of these projects is unique and is aimed at a specific group of partners and customers. Moreover, in September 2014, Alibaba Group came out on IPO in New York. The company has managed to attract a total \$25 billion. As of June 1, Alibaba Group's capitalization was \$222.9 billion (Forbes, 2015).

Alibaba Group has been working for several years in Russia, mainly through online stores Taobao and AliExpress. With a \$14.5 billion e-commerce market, Russia has a few local players, including Ulmart.ru and Ozon.ru (local e-retailers), but there is still room for Alibaba to sweep in and provide a selection and price. Products on AliExpress are cheaper than most products in Russia and with millions of products across more than 20 categories, it offers a wider selection for Russian consumers. Therefore, the Chinese online retailer Alibaba Group opened its representative office in the country (Borison, 2015).

In addition to offices in Russia, Alibaba Group has a department that deals with the Russian market in the Chinese head office. This team is responsible for the internalization of AliExpress to the Russian market and preparation of thematic proposals.

Among the services of Alibaba Group, the most popular in Russia is an online store AliExpress. According to the results of 2014, AliExpress became the largest international online shop in Russia. The average monthly number of Russians buying anything in the store during the second half of the last year reached 15.6 million people, while eBay had 3.7 million and Amazon – 1.4 million customers (Forbes, 2015).

Generally, the project AliExpress is focused on international markets. The project was launched in 2010, and later in 2012, it entered the Russian market. In the first quarter of 2014, the Russians carried out 43% of the total number of transactions on the site. In total for this period, they made 20 million purchases (Mitrav.com, 2015).

According to the data of the Alibaba Group, the audience of active users of AliExpress in Russia at the end of June 2014 amounted to more than 4 million people. In August, this trading site entered the top 10 sites in Russia with the figure of 16 million visitors (Aliexpress.com, 2014). As a comparison, the site of the Russian retailer Ozon.ru for the same period was visited by 8 million users.

According to the data presented by Similarweb, Russia gives AliExpress 62.43% of the total traffic (Similarweb.com, 2015). For example, in the group of AliExpress in the most popular Russian social network "VKontakte" there are more than 1.7 million people.

In 2013 fiscal year, which ended March 31, 2014, Aliexpress.com provided revenue of \$ 151 million - its growth in the international segment of the retail was 139%. The main reason for this, as pointed out by Alibaba in its statements was an increase in the number of buyers in Russia, the USA and Brazil. However, in the latest report on financial results of Alibaba Group for the full fiscal year 2015 it is stated that "the lower year-over-year growth rate 53% compared to the 110% year-over-year growth in December quarter of 2014 mainly resulted from decreased consumer demand due to the significant depreciation of currencies in certain of our major international markets during the period, including Russia and Brazil" (Alibaba, 2015: 6).

In September 2014, it was reported that Alibaba Group is in talks with several logistic companies sending goods from China to Russia, one of them is the Pony Express. According to "Kommersant.ru", Pony Express is going to build a logistics network in Russia till 2016, the project will need about \$ 600 million (Kommersant.ru, 2014).

Moreover, in May 2014 specifically for Russian users Alibaba Group launched a social network "for shopaholics" iTao. The site users can share their online shopping experience and leave comments. iTao is promoted directly on the site of AliExpress, in addition to the space on the front page, social network gets a promo on the pages of specific goods. Thus, recently iTao overcame a mark of 200 thousand registered users from Russia.

In Germany, however, the situation is quite different. As a mature e-commerce market, Germany already has strong players such as Amazon.de, Otto.de, Zalando.de, eBay.de, and others, that there is almost no room for new big players. However, after going out on IPO in New York in September 2014, Alibaba Group decided to invest money in its German website<sup>16</sup> and to come in the German market. Therefore, now there are such websites as [german.alibaba.com](http://german.alibaba.com) and [de.aliexpress.com](http://de.aliexpress.com). However, Alibaba's premiere in the German market created a furore in the German mass media (Bild, die Welt, Focus), and unfortunately not by its success, but by enormous quantity of mistakes on its German website. The pitiful translation attempts of Alibaba sometimes are even not understandable for the German customer. Thus, a popular German magazine *Bild* came to a conclusion that the Chinese online-shop with the mega IPO seems to be not sufficiently prepared for the German market<sup>17</sup>. Alibaba's websites in Germany and in Europe in general, are so unprofessional that they find little support among European consumers, and

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<sup>16</sup> Alibaba verkauft „Körperteile“ in Deutschland, in [http://www.focus.de/wissen/videos/peinliche-uebersetzungsfehler-alibaba-verkauft-koerperteile-in-deutschland\\_id\\_4157068.html](http://www.focus.de/wissen/videos/peinliche-uebersetzungsfehler-alibaba-verkauft-koerperteile-in-deutschland_id_4157068.html) [accessed: 24.07.2015].

<sup>17</sup> Blamabler Start der deutschen Webseite, in <http://www.bild.de/geld/wirtschaft/alibaba-com/alibaba-auf-deutsch-37986086.bild.html> [accessed: 24.07.2015].

cannot compete with Amazon and eBay, that are the most popular foreign e-retailers in the German e-commerce market (Bild, 2014).

Moreover, it is stated that the German version of Alibaba page is not only bad translated, but also attracts scammers from around the world, as the legal part of this website is very unclear<sup>18</sup>. German customers cannot be sure whether they buy something directly from a Chinese fabric or from a fraud. In addition there is no possibility to get their money back (die Welt, 2014).

In addition to all said above, Alibaba.com and Aliexpress.com have a very long delivery of almost 4 weeks from China. If for the Russian customers, it is not a problem to wait so long in order to get a better price, for the German e-shoppers, it is unacceptable, as usually local, and foreign e-retailers deliver a purchase in 1-3 days.

Another feature that plays not in favour of Alibaba is the Chinese quality that has a bad reputation in comparison with the German one. Traditionally, German customers prefer buying goods made in Germany.

However, recently, in March 2015 in Hannover, Germany Alibaba presented its new payment system with a face recognition<sup>19</sup>. It is hoped that this innovation of Alibaba can attract German customers to Alibaba online shop, as they are fond of high technology and innovations (Bild, 2015).

Generally, it is important to note that Alibaba Group has a bad reputation in the German mass media, and if German e-shoppers want to find out some information about or read some comments on the experience of shopping with Alibaba in Germany, they will find negative reviews, and will not dare to try.

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<sup>18</sup> Hier kaufen Sie Körperteile und Jungfrauenhaar, in <http://www.welt.de/wirtschaft/webwelt/article132241499/Hier-kaufen-Sie-Koerperteile-und-Jungfrauenhaar.html> [accessed: 24.07.2015].

<sup>19</sup> CEBIT FEIERT ALIBABA-GRÜNDER Ni hao, China!, in <http://www.bild.de/regional/hannover/cebit/ni-hao-china-40168672.bild.html> [accessed: 24.07.2015].

## **IV. FUTURE DEVELOPMENT OF E-COMMERCE IN RUSSIA AND GERMANY**

The current growth of e-commerce in Russia is 25-30% per year, the current share of the Gross Domestic Product (GDP) is less than 1%. If by the number of Internet users (85 million) in 2014, Russia surpassed Germany, and was ranked the number one in Europe, by the number of regular online shoppers, Russia was far behind with 20% against the German 77%. Thus, there is an indication that the growth of Internet users will be layered by the growth of the share of customers and frequency of purchases, as it was in the case with China. E-commerce will penetrate more and more into the remote corners of the Russian economy and will show 40-60% growth (E-Commerce Europe, 2015).

In future, according to forecasts of Morgan Stanley, the market will grow by 30-40% and the rate of growth of e-commerce share in traditional retail will grow by 7% in 2020<sup>20</sup>. However, despite the impressive growth, the e-commerce share of retail trade in Russia is only 3%, that is three times less than in Germany (9%).

Trade on the Internet will develop the most actively in the Russian regions. This is largely due to the fact that the Internet is actively penetrating into the cities with population over 100 thousand inhabitants. According to the Sociology Institute of the Russian Academy of Sciences, Russia's Internet penetration rate could reach 75% by 2020<sup>21</sup>. However, Internet penetration in the region will be faster than the growth of e-commerce. This is due to several factors: consumers,

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<sup>20</sup> Russian eCommerce, in <https://money.yandex.ru/i/forms/ecommercejan2013.pdf> [28.07.2015].

<sup>21</sup> E-COMMERCE AND CROSS-BORDER SALES IN RUSSIA, in <http://www.edostavka.ru/website/edostavka/upload/custom/files/about/cdek.pdf> [accessed: 29.07.2015].

especially in regions, do not trust in e-commerce and are facing difficulties with payment and returns, as well as with delivery.

By 2020, Russia may reach the level of the UK figures today – 5.61% of the total GDP (\$168 billion (€127 billion), online retail - 10-12% of traditional retailers (E-Commerce Europe, 2015). This is an increase by seven times, from \$ 24.8 billion to \$170 billion by 2020<sup>22</sup>. However, another source states, that taking into account the current state of e-commerce in Russia this forecast is too optimistic, and that it is possible to expect the growth of the Russian e-commerce maximum to \$50 billion by 2020<sup>23</sup>.

As to Germany, according to German experts, online trade will reach the mark of €100 (\$132) billion by 2020<sup>24</sup>. In addition, analysts of EHI Retail Institute forecast a growth rate of online sales of at least ten percent and a maximum of 15 percent by 2020<sup>25</sup>.

A distinctive feature of the development of the Russian e-commerce market is a widespread use of "grey schemes" that allow unfair sellers to receive a significant competitive advantage by offering goods at a lower price. The main way to get this kind of advantage is a purposeful non-payment of taxes with the help of fly-by-night companies. The use of such schemes produces the difference in price between 50% and 70%. Therefore, it is important to solve this problem on the governmental level.

In addition, a problem of the Russian e-commerce that needs a solution in the near future is the lack of development of online payments. This is due to several reasons, including distrust of citizens in relation to the banking system in

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<sup>22</sup> Электронная коммерция: китайский путь для России, in <http://m.forbes.ru/article.php?id=234201> [28.07.2015].

<sup>23</sup> Osell составил долгосрочный прогноз российского рынка в области электронной коммерции, in <http://b2blogger.com/pressroom/181827.html> [28.07.2015].

<sup>24</sup> E-Commerce, in <http://www.gtai.de/GTAI/Navigation/EN/Invest/Industries/Digital-economy/e-commerce.html> [accessed: 29.07.2015].

<sup>25</sup> Marktanteil Onlinehandel wächst weiter, in <http://www.ehi.org/presse/pressemitteilungen/detailanzeige/article/marktanteil-onlinehandel-waechst-weiter.html> [accessed: 29.07.2015].

general, and non-cash payments, in particular, because of the unstable economic situation in the country. However, Data Insight Research Agency (2015) states that from 2010 to 2014 in Russia the number of users who pay with credit cards increased by more than 80%.

One of the main challenges of online commerce in Russia is actually the lack of a properly functioning system of delivery. About 20 years ago in post business occurred revolutionary changes. It was connected with the fact that the nature and flow of correspondence changed. Whereas previously most of the correspondence was letters and the press, now it became a package. It was typical for all posts of the world, first fax, and then e-mail and mobile communication mostly eliminated paper correspondence, that is to say, communication between people switched to "paperless" basis.

The main element of postal development in the world today is a delivery of packages. Worldwide, their volumes are skyrocketing and reaching the turnover that a few years ago seemed impossible. In Germany in 2014, the quantity of packages delivered amounted to 2.7 billion packages (Bundesnetzagentur.de, 2015)<sup>26</sup>. That is 33.4 packages per capita. In Russia, however, the quantity of packages delivered in 2014 amounted to 139 million<sup>27</sup> that is 1.03 packages per capita (See Table 4).

Country	Packages delivered	Packages per capita
Russia	139 million	1.03
Germany	2.7 billion	33.4

**Table 4.** Packages delivered in 2014 in Russia and Germany.

Therefore, it is important for future development of e-commerce in Russia to enlarge and develop a logistic system, as along with the growth of quantity of packages delivered, a price of a delivery falls, because an increase in quantity

<sup>26</sup> Jahresbericht 2014 Netze ausbauen. Zukunft sichern in Infrastrukturausbau in Deutschland, in [http://www.bundesnetzagentur.de/SharedDocs/Downloads/DE/Allgemeines/Bundesnetzagentur/Publikationen/Berichte/2015/Jahresbericht14barrierefrei.pdf?\\_\\_blob=publicationFile&v=6](http://www.bundesnetzagentur.de/SharedDocs/Downloads/DE/Allgemeines/Bundesnetzagentur/Publikationen/Berichte/2015/Jahresbericht14barrierefrei.pdf?__blob=publicationFile&v=6) [accessed: 27.07.2015].

<sup>27</sup> "Почта России" в 2014 году увеличила число доставленных посылок почти на 40%, in <http://www.interfax.ru/russia/427251> [accessed: 27.07.2015].



reduces the cost of package delivery, it increases the productivity of post workers and the speed of delivery.

Germany, however, is not going to be satisfied with what has already been achieved. Being the largest delivery market in the EU, its biggest delivery companies, such as Deutsche Post DHL, Hermes, DPD, GLS Germany and UPS Germany, are going to invest more money in development of its logistics, as next-day delivery of parcels becomes more and more a standard service offer<sup>28</sup>.

Another problem that is presented in the Russian e-commerce market and that must be solved in future is the use of pirate digital content. Prospects for sales of digital content do not look very positive, and its share in the market of e-commerce is minimal, the same situation is with digital music sales and software. Unfortunately, according to the reports, more than 80% of the users are not ready to give up the consumption of pirated content<sup>29</sup>.

As to Germany, iBusiness Agency has drawn up a detailed development forecast, which provides a more likely scenario, how e-commerce in Germany will look like in 2020<sup>30</sup>. According to this forecast, a particularly strong growth in online trade will have the market of telecommunication, mobile phones, and accessories. It is expected that it will have an online share up to 50 percent in 2020. Home electronics is also expected to continue to grow and may reach almost a half of the total market in 2020. The online book market is one of the oldest market segments in the German e-commerce. It has already risen sharply, especially in recent years. At the same time the importance of e-commerce is increasing in the book industry, therefore it could reach 46% by

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<sup>28</sup> Design and development of initiatives to support the growth of e-commerce via better functioning parcel delivery systems in Europe, in [http://ec.europa.eu/internal\\_market/post/doc/studies/20140828-wik-markt-support-e-commerce\\_final-report\\_en.pdf](http://ec.europa.eu/internal_market/post/doc/studies/20140828-wik-markt-support-e-commerce_final-report_en.pdf) [accessed: 27.07.2015].

<sup>29</sup> Свыше 80% пользователей не готовы отказаться от пиратского контента, in <http://ria.ru/technology/20110929/446235797.html#13671480726293&message=resize&relto=register&action=addClass&value=registration> [accessed: 27.07.2015].

<sup>30</sup> Prognose: So groß wird der deutsche ECommerce-Markt 2020 wirklich, in <http://www.ibusiness.de/members/aktuell/db/996243SUR.html> [accessed: 29.07.2015].

2020. However, such e-commerce market segments, as clothing, will develop much slower, and will get not more than 15% share of e-commerce in the overall market by 2020. Such segments as furniture, food, office supplies, and pet supplies will have a slight overall increase in the coming five years, but will remain below the line in the niche. In addition, Internet penetration rate could reach 95-100% by 2020 (See Table 5).

	2014		2020 (Forecast)	
	Russia	Germany	Russia	Germany
<b>E-commerce share of retail trade</b>	3%	9%	7%	20%
<b>Turnover of e-commerce</b>	\$24.8 billion	\$94.5 billion	\$50 billion	\$132 billion
<b>Growth rate of online sales</b>	25%	11%	30%	10-15%
<b>Internet Penetration</b>	20%	77%	75%	95-100%

**Table 5.** E-commerce in Russian and Germany in 2014 and 2020.

In addition, there are some other possible scenarios for the development of e-commerce not only of Germany but of Russia as well, proposed by Deutsche Post DHL in its study *Global E-Tailing 2025*<sup>31</sup>. According to this forecast, there are four possible scenarios:

1. *Hybrid consumer behaviour in convergent worlds of retailing*

According to this scenario, in developed countries, technological progress is moderate; people constantly use smartphones and tablets. Retail companies sell their goods and services in online and in traditional stores. However, traditional stores are used mainly as showrooms.

<sup>31</sup> Global E-Tailing 2025, in [http://www.dpdhl.com/content/dam/dpdhl/global\\_etailing\\_2025/pdf/dpdhl-study-global-e-tailing-2025.pdf](http://www.dpdhl.com/content/dam/dpdhl/global_etailing_2025/pdf/dpdhl-study-global-e-tailing-2025.pdf) [29.07.2015].

2. *Self-presentation in virtual communities*

According to this scenario, in online retailing there is a boom. As a result, the volume of packages delivered by the logistics companies has increased significantly. Some people live in different virtual lifestyle communities that are served by small and innovative online retailing platforms. Large online retailers and platforms serve the mainstream market. Traditional retailing is focused on “experience” shopping.

3. *Artificial intelligence in the digital retailing sphere*

According to this scenario, technologies have been highly developed. Online retailers use intelligent avatars to consult customers, they predict the needs of customers analysing precise customer data and regularly send some goods before the customer has ordered them. Packages are delivered same day, and often by drones.

4. *Collaborative consumption in a regionalized retailing landscape*

Whereas previous three scenarios could be evaluated as positive and optimistic, the fourth one is rather pessimistic, as according to it the global economy is stagnating. People usually buy in local shops, and generally they prefer to share or lease things. Therefore, online platforms have transformed their retailing businesses in leasing services.

As it is seen, there are many possible scenarios of e-commerce development, but only future will show how exactly e-commerce will look like in 5-10 years. Anyway, it is predicted that in the next ten years e-commerce will gain even more importance, and not only in mature markets, as Germany for example, but in emerging markets, as Russia, as well. CEO Post - eCommerce - Parcel at Deutsche Post DHL, Jürgen Gerdes thinks that “Logistics will play a key role: it provides companies important competitive advantages, such as deliveries within a few hours on the day of ordering, flexible receiving and return times”<sup>32</sup> .

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<sup>32</sup> Global E-Tailing 2025 – E-commerce and logistics globally set for growth, in [http://www.dhl.com/en/press/releases/releases\\_2014/group/dp\\_dhl\\_global\\_etailing.html#.VboLPvntmko](http://www.dhl.com/en/press/releases/releases_2014/group/dp_dhl_global_etailing.html#.VboLPvntmko) [accessed: 28.07.2015].

At any case, e-commerce will be more complicated and more competitive, companies should focus more on the needs of customers, and they should be more flexible and innovative.

## V. CONCLUSIONS

Internet and e-commerce are the new realities of the modern economy. Therefore, the present study is aimed to analyse the current state of e-commerce, and to determine the differences of two e-commerce markets, the Russian and the German one.

Returning to the questions posed at the beginning of this study, it is now possible to state that now, the leaders of the volume, and pace of development of e-commerce are such countries as the United States of America, China and Germany. As to the share of e-commerce in GDP and the total volume of trade, the country that is leading is the United Kingdom. As to the e-commerce sales in the total retail, it accounts for 5.9% worldwide in 2014, or \$1.316 trillion<sup>33</sup>.

In addition, this study has shown that neither in Germany nor in Russia a peak of e-commerce is reached. Moreover, there is plenty of room for big new players especially in the Russian e-commerce market.

At this moment, the biggest players of e-commerce market in the world are Amazon.com Inc., JD.com Inc., and Wal-Mart Stores Inc., Alibaba Group Holding Limited and eBay Inc. The biggest players of the German e-commerce market are Amazon.de, Otto.de, Zalando.de, and eBay.de. In Russia, however there are a few big local players, such as Ulmart.ru and Ozon.ru, and a foreign one Alibaba Group.

The most obvious finding to emerge from this study is that Germany has a mature e-commerce market in comparison with Russia, where e-commerce market could be called an emerging one. In addition, this study has found that

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<sup>33</sup> Retail Sales Worldwide Will Top \$22 Trillion This Year, in <http://www.emarketer.com/Article/Retail-Sales-Worldwide-Will-Top-22-Trillion-This-Year/1011765> [accessed: 13.08.2015].

Alibaba Group is very popular in Russia and at the same time has no success in the German e-commerce market.

Moreover, the present study was designed to determine the problems that hinder the development of e-commerce in two analysed countries and to suggest possible ways of solving these problems. In Russia, there are the following problems:

1. Undeveloped system of online payments, because of the low level of public confidence in it.

In order to solve this problem it is necessary for government to encourage people to use electronic systems. In addition, it would be a good idea to offer tax incentives for businesses when paying by credit card.

At present, a national payment system is under the development, but its future effectiveness is questionable.

2. The factual absence of delivery systems.

Radical changes are necessary in the Russian Post. It is necessary to create a logistics system, taking into account regional needs and international experience.

3. A large gap between import duties for local stores and duties on import parcels from abroad, consequently prices in Russian e-shops are 1.5-2 times higher than in foreign ones, even considering shipping.

In order to make Russian prices in online stores competitive, it is necessary to reduce the cost of imported dutiable goods from 1000 euros to an amount equal to the average cost of an order from a foreign online store.

4. Lack of a good legal framework that could regulate relations on the Internet.

In the framework of tax issues, in particular, it is important to discuss the following issues: the classification of income and the allocation of profit to a

permanent establishment of electronic commerce, the indirect taxation of goods, works, and services on the Internet.

5. High level of distribution of unlicensed content and software.

In order to solve this problem, it is necessary to tighten control over the use of unlicensed software in organizations and bring them to justice.

In Germany, however, in comparison with the situation in Russia, there are no such obvious problems. As its e-commerce market is already the mature one and it only has to go further in already established direction. That is to say, to make a delivery faster, for example, during the same day.

Although the study determined the differences on the international level of e-commerce, we are conscious that a number of limitations need also to be noted here. First, the research analysed only two countries, Russia and Germany. Second, a clear limitation to this study is the analysis of only B2C model of e-commerce in these two countries. Third, this research analysed only one e-commerce company, Alibaba Group in Russia and Germany. Finally, this study was also limited by the very few recent academic literature and official statistical sources, therefore the data of market research consulting companies, marketing agencies and reports of major market players, as well as expert evaluation were used for this Master Thesis.

A future research may be addressed to analyse other models of e-commerce, for example B2B model. Alternatively, it would be interesting to carry out a similar investigation comparing for example Russia with the European Union, or Germany with Spain.

The findings of this study have a number of practical implications. Firstly, small and medium-sized enterprises (SME) can take profit of this research. As it contains the latest data about the current state of the e-commerce market in Russia and Germany and a forecast how these markets may look like by 2020. For instance, SME that is already profitable in one country, for example in Spain, having an idea to expand internationally may use the information from this

research to assess where it may be better to launch a foreign website (Russia or Germany) or what language to add to already functioning site and to what country to sell. Secondly, existing German e-commerce companies may find this study interesting to expand to the Russian market, as it has a great potential for a rapid growth. Thirdly, the results of this study may be useful for the Russian government institutions, which could take into account some problems of the Russian e-commerce market that are outlined in this investigation, and will try to solve them out in the nearest future.



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