

E-COMMERCE IN RUSSIA: THE ROLE OF FASHION INDUSTRY

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Introduction

Contemporary fashion industry is an independent industrial sector which includes design, production and sales of apparel, accessories and footwear. Fashion industry is extremely dynamic as the speed of change in all processes is rather rapid and there is fierce competition among numerous fashion brands. (Macchion et al., 2015)

E-commerce has become of strategic importance for many international businesses worldwide. In 2022, the global market value of e-commerce fashion industry amounted to USD 775 billion, making it the largest e-commerce sector in the world (Rosen M., Orendorff A. 2023). This astonishing growth is attributable to high penetration rates, defined as the share of active customers and burgeoning e-commerce's share in retail fashion. Research in the overlapping area between fashion and Information and Communication Technologies (ICT) – often referred to as 'digital fashion' – is growing and attracting the interest of both academics and practitioners (Noris et al., 2021). The intense usage of ICT by the fashion industry have created a completely new environment in which businesses transcend national borders and connect with customers and suppliers all over the world (A et al., 2016), and it is confirmed that electronic retailing (e-tailing) can help fashion retailers generate new competitive advantages (Vannucci & Pantano, 2022). E-commerce evolved to the predominant business model of fashion retailers during the era of COVID-19 pandemic.

The development of fashion retail market in Russia

Since the collapse of the Soviet Union, Russian fashion retail market has gone through several crisis stages, having received great experience of survival, rapid adaptation, and recovery.

During the 1990s Russian fashion retail market entered a chaotic and turbulent period, which was exacerbated by the financial crisis of 1998. 1998 – 2014 was a period of extensive market growth for the industry. It was characterized by the integration with global fashion market, the transformation from gray schemes to white market, the growth of investment in modern retail real estate and construction of shopping centers, changing shopping preferences of the customers. The next period of 2014 – 2020 was a period of stagnation for the Russian fashion retail market due to economic sanctions and the COVID-19 pandemic. Among the main features of the period are the declining standards of living, the strengthening of state control, the development of import substitution, digitalization. The COVID-19 pandemic boosted e-commerce sales in Russia, including the apparel segment. The period of adaptation and recovery after the pandemic ended up by a more severe crisis in 2022 caused by unprecedented raise of sanctions pressure after Russia's invasion of Ukraine.

Before 2022, the fashion industry market in Russia had been transformed into a saturated and highly competitive one, offering a wide range of fashion products in all segments, maturing in terms of e-commerce infrastructure and categorized by extensive penetration of foreign brands and sophisticated customers demanding high-quality fashion products. The market was dominated by international networks; however, domestic brands had been gradually emerging. The rapid and successful expansion of international fashion retailers in Russia had been facilitated by the fact that 85 percent of Russian customers had strong brand awareness about the foreign brands and were thus inclined to purchase them.

In 2022 over 1,000 global companies have publicly announced they are voluntarily curtailing operations in Russia to some degree beyond the bare minimum legally required by international sanctions — but some companies have continued to operate in Russia undeterred (The Yale School of Management, 2022). The Russian consumer market immediately reacted with a spike in prices, especially for imports and industrial durable goods.

Over 100 fashion retailers left Russian market. Among the companies decided to initiate a process of winding down the business in the country are Swedish Hennes & Mauritz (the brands

H&M, COS, Arket, & Other Stories, Monki, Weekday), Spanish Inditex (the brands Zara, Bershka, Pull&Bear, Stradivarius, Oysho, Massimo Dutti), British Marks & Spencer, etc.; in luxury market segment it is worth noting the exodus of the French group of companies LVMH (Louis Vuitton, Christian Dior), Kering (the brands Gucci and Balenciaga), Chanel, etc.

In the early days of companies closing stores Russians were seen to be panic-buying, queueing for brands. Russian shopping malls lost up to 30 percent of their footfall following the exodus of Western brands.

At the same time, a search for an alternative to Western brands is already underway: shopping center owners are considering cooperation with brands from China, Turkey, India, and Iran. Sanctions also enforced extensive development of local players. For example, Melon Fashion Group, a Russian company that owns the brands Zarina, Befree, Love Republic and Sela, has all chances to replace Inditex. The other Russian brands attracting more and more customers are Gloria Jeans, Lime, TOPTOP, Ostin, Zolla, etc.

As a countermeasure to Western sanctions, Moscow switched to pushing a so-called "parallel imports" scheme (without the trademark owner's permission) to help Russian consumers maintain access to a host of foreign products in the face of tough punitive sanctions imposed by the West over the conflict in Ukraine. Thanks to parallel imports, for example, European goods are brought to Russia not directly from Europe, but from third countries.

New conditions and terms of work are causing the transformation of logistics schemes in fashion industry. Many companies redirected their purchases of fabrics and other raw materials for the production of clothing to the markets of Turkey and China. It should be noted, that Russian textile production has been in decay over the past decades. Low production rates contributed to the trade deficit, resulting in dependence on apparel imports. The value of clothing imported into Russia has increased since 2015, with the exception of 2020. While China is Russia's major import partner of apparel, Italy is the leading apparel supplier of European origin (STATISTA, 2022).

In 2022 consumers cut down their spendings on clothing up to 31%. Consumer demand has reoriented towards the lower price segment (with a relatively unchanged quantitative ratio of purchases, reorientation towards the lower price segment has a direct impact on the market volume in monetary terms). If in 2021 the share of mass-market clothing was 65%, in 2022 it increased to 72%. The middle price segment lost 5 p.p. in the fashion retail structure, the premium segment — 2 p.p., amounting to an 8% market share (Shalina E., 2022).

However, e-commerce fashion industry has been rapidly developing despite the decline in the purchasing power of the population. While offline business experienced an outflow of buyers, online fashion retail continued to attract them. Online marketplaces and shops attracted buyers by the expanding offer and sales of outgoing brands collections.

The role of e-commerce

According to the Association of Internet Commerce Companies (AKIT), e-commerce in Russia in 2022 increased by almost 30% compared to 2021, amounting to 4.98 trillion rubles (Figure 1). Its share in total retail in Russia reached 11,6% (9.6% in 2021), while in other countries, such as the United Kingdom and China the corresponding figure is around 30% AKIT (2022). The role of online sales in non-food retail is significantly higher than in grocery segment: 19.9% and 3.1% respectively (Levinskaya A., 2023).

According to the estimates of Fashion Consulting Group, online share of Russian fashion market is 27%. The leading categories by purchasing frequency in online fashion market are 1) clothes and shoes for adults, 2) bags, belts, accessories, 3) children's clothes and shoes. Every fourth purchase of clothes and shoes is being made online (Fashion Consulting Group, 2023).

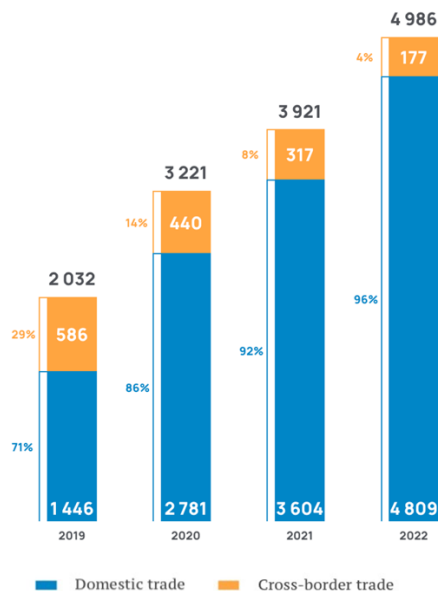


Figure 1. E-commerce in Russia

Source: AKIT (<https://www.akit.ru/analytics/analyt-data>)

In 2022 73% of the population over the age of 12 across Russia visited e-commerce sites at least once a month, 37% did it daily. Most often, purchases are made by people 25-34 years old (Suhanova I., 2022).

Though the majority of customers still prefer to shop offline, fast development of e-commerce is rapidly transforming the sales structure of the fashion industry, even though interregional differentiation in the distribution of electronic purchases in Russia remains high and e-commerce is mostly developed in regions with high percentage of users of computers and smartphone as well as the regions with highest levels of gross regional product per capita. Thus, in Moscow 76% of the population shop online, in cities with a population of over 500 thousand people - 66%, and in small towns and settlements it reaches 48% (Suhanova I., 2022). Moscow accounts for 19.4% of all e-commerce purchases in Russia, St. Petersburg takes the second place with a share of 7%, it is followed by Krasnodar Territory (4.7%), Rostov region (2.6%), Sverdlovsk region (2.6%), Nizhny Novgorod region (2.1%), Voronezh region (2%), Samara region (2%), Krasnoyarsk region (1.8%) (Ministry of Digital Development, Communications and Mass Media of the Russian Federation, 2023).

The most popular product categories purchased online in Russia are electronics and household appliances (22% of total sales), followed by furniture and household goods (18.3%), clothing and footwear (14.5%), groceries (13.2%), health and beauty products (7.7%) (Ministry of Digital Development, Communications and Mass Media of the Russian Federation, 2023).

The main share of online sales falls on Russian online platforms – 96.4%. The spendings of Russians in foreign online retail dropped dramatically over the year: if at the beginning of 2022 purchases from foreign retailers accounted for 13% of the market turnover, then at the end of the year they decreased by more than three times, to 3.6% (Levinskaya A., 2023).

The collapse of cross-border trade was influenced by several factors. After the start of anti-Russian sanctions, the largest payment systems Visa and Mastercard announced their withdrawal from the country. This made it impossible to pay for purchases on foreign sites. At the same time, large marketplaces such as Asos, MatchesFashion, Farfetch, Yoox, iHerb stopped shipping to Russia. In fact, all cross-border trade purchases in Russia in 2022 were concentrated on the marketplace "AliExpress Russia", a joint venture between the Chinese Alibaba Group, VK, USM and the Russian Direct Investment Fund.

Marketplaces and multi-brand online stores have been the driving force to expand e-commerce fashion industry in Russia. The top online marketplaces by reach in Russia in 2022

were Wildberries, Ozon, Avito, AliExpress, Yandex.Market. Lamoda is the largest Russian online store of clothes, shoes, accessories and beauty merchandise; offering express delivery.

Despite the clearly growing interest of the consumers to online purchases, Russian fashion industry players do not plan to massively switch to the e-commerce channel or attack marketplaces. In the current situation, the majority of them, on the contrary, prefers to invest first of all in the development of physical retail outlets (Klyjenko L., 2023). The retailers are embracing the trend to omnichannel.

Concluding remarks

The global apparel industry is likely to continue to feel the knock-on effects of the Ukraine-Russia conflict into 2023 and beyond. None of the fashion market players in Russia dares to make forecasts for the year, but in general the situation does not look so dramatic. Russian market players show amazing flexibility and adaptation to the new conditions. Contrary to expectations, the unprecedented international sanctions that have been ramped up in proportion to Russia's aggression against Ukraine haven't wrecked the Russian economy or consumer market. But they created a burden on consumers.

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