

Russian online retailer expects boom despite consumer gloom

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Distribution point for online retailer Ulmart, which was founded in 2008 in Saint Petersburg, adapting Amazon's model to Russia's logistics landscape

Russian retailers are being hit by consumers' loss of purchasing power, but Ulmart, the country's version of Amazon, expects to strengthen its position as people begin to count every kopeck.

"We are optimistic about this year," said Ulmart board chairman Dmitry

Kostygin.

"But for certain competitors it will be difficult," the 42-year-old entrepreneur told AFP.

Founded in 2008 in Saint Petersburg, Ulmart adapted Amazon's model to Russia's logistics landscape—bypassing the lumbering postal service to deliver to a network of pickup points located near its customers.

It put an emphasis on low prices for consumer electronics, and in less than seven years it operates in more than 200 Russian cities in the European part of the country.

Ulmart now counts more than eight million regular clients and 750,000 visits daily to its website, which also offers cosmetics, auto parts, books, music and even airline tickets.

Sales hit \$1.3 billion (1.16 billion euros) in 2014, an increase of 30 percent over the previous year, making Ulmart the top online retailer in Russia and the country's third-largest Internet firm after search engine Yandex and Mail.ru—a major email provider which also controls the country's top social-networking sites.

Ulmart turned adversity into advantage by developing its own logistics system to efficiently deliver products to customers.

Three regional warehouses feed 32 distribution centres that keep a stock of the most popular products at hand. At the end of the chain are more than 400 pick-up points located as close as possible to customers in order to be able to deliver products the following, if not the same day orders are placed.

Those without Internet at home can shop using terminals at the pick-up

points.



Ulmart's three regional warehouses feed 32 distribution centres, one pictured here in Saint Petersburg, that keep a stock of the most popular products at hand

Growth set to continue

After several sunny years of rapid growth in the retail sector, storm clouds are now on the horizon.

The plunging ruble due to the slump in global oil prices has led to a spike in inflation, further exacerbated by a Russian embargo on European Union and US food products in retribution over Western sanctions imposed on Moscow for its role in the Ukraine conflict.

Real wages were down eight percent year-on-year in January, leading to the first drop in retail sales in the country since 2009.

Higher prices and the lower [purchasing power](#) of Russians may lead to a drop in overall retail sales by eight percent this year, according to economists at Alfa Bank.

"Sales are dropping for the majority of retailers and we think three or four competitors will disappear," said Kostygin. "For us it is a good period."

Ulmart can take comfort from the fact that it managed well the collapse of the ruble at the end of last year: it had filled its warehouses before suppliers hiked prices and was able to sell cheaper than rivals.

It then took full advantage of a buying spurt by Russians as they got rid of their rapidly-weakening rubles.

After making losses for several years as it invested to expand its network, Ulmart is now profitable.



Ulmart managed well the collapse of the ruble at the end of last year: it filled its warehouses before suppliers hiked prices and was able to sell cheaper than rivals

Kostygin expects sales could climb by 30 percent in dollar terms to \$1.7 billion, and doesn't exclude a rise by more than half to \$2 billion.

This despite sales of electronic goods and home appliances dropping by 15-20 percent this year, according to estimates by market analysis firm Infoline-Analitika.

The firm's chief Mikhail Burmistrov said he believes Ulmart can achieve a 35 to 40 percent increase in sales in ruble terms, "a fantastic result and one of the strongest growth rates in the sector".

This he puts down to Ulmart's diversification of its product assortment, the efficiency of its logistics system and its ability to quickly dominate a product category.



A transporter line in a warehouse at a distribution point of Russia's online retailer Ulmart in Saint Petersburg on February 26, 2015

In order to fund further growth Ulmart is looking at listing on the London or New York stock exchanges next year, aiming for a market valuation of between \$5 and \$6 billion.

Such plans are also surprising given that Western investors are abandoning Russia due to the sanctions and poor economic outlook.



Computers allow customers in one of Ulmart's distribution points to look for products

"In April or May the situation will change as we will have the first quarter results and people will see that business isn't going that badly," said Kostygin.

"If you are a leader offering growth opportunities and it isn't prohibited to invest money then you will see demand," he said.

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