

ENGLISH SUMMARY

A research into The Economy of Runet

The economy of Internet services and content markets in Russia in 2011 and 2012

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With support of:

Google, Mail.ru Group, OZON.ru, Fast Lane Ventures

And assistance from:

Boston Consulting Group, Russian Communication Agencies Association

Media Partners:

The Internet in Numbers Magazine, www.TheRunet.com

Moscow, October 2012
www.therunet.com/en/2012
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About the project

Up to this day, there has been no sole, authoritative and regular research into Russian Internet economy, a study that both business entities and state authorities could cite and use in their work; and, importantly, a study that would work as a guide in Russia for Western experts, analysts, investors and entrepreneurs.

So far, experts' opinions of Russia's Internet economy have differed, with estimates of its size ranging from 0.5% to 2% of the country's GDP.

Both Russian and international experts, however, agree on one thing: Runet is the fastest-growing Internet economy in Europe, and one of global leaders in terms of growth rate.

For us, representatives and consolidators of Russia's web industry, and also for researchers studying Runet, it is obvious that the Internet has not just penetrated all areas of life of the public, business and government, it has become the very innovation economy that was so often mentioned recently, the industry that is expected to be the driver of Russia's whole new economy.

As we rightfully take pride in the achievements of our national Internet business, we must make them known to the public, both in Russia and abroad. To present Runet's history as an inspiring success story of a national scale, to see the ways in which its further development can be supported and stimulated, to find ways to remove and overcome obstacles.

These are the goals that we, initiators of this research, have set ourselves.

The Russian Association for Electronic Communications have long been working in this direction, and the current study was conceived as one of the most important steps to help achieve these goals. The study must become, in a manner of speaking, a 'theoretical basis' for demonstration of Russian Internet segment's achievements, and for defining the priorities for its future development.

The Economy of Runet in 2011 and 2012.

Results.

In the course of this research, we have received data and expert evaluation of the most rapidly evolving segments of Russian Internet economy.

The value of Runet's software as a service (SaaS) solution market was estimated at 1,89 bn rubles, as of 2011.

Three major segments of Russia's electronic commerce industry were studied:

- retail (309.4 bn rubles);
- electronic payments (166.7 bn rubles);
- sales of digital content and games (8.24 bn rubles).

The experts have evaluated the most active and prominent markets of the Internet advertising industry:

- the value of Russian contextual advertising reached 24.24 bn rubles in 2011;
- media advertising market volume comprised 15.83 bn rubles.

Emerging and rapidly evolving new markets of advertising and marketing services were studied separately:

- video advertisement market (0.8 bn rubles);
- social media marketing (SMM, 2.98 bn rubles).

Search engine optimization (SEO) market value comprised 8.65 bn rubles, and web development market reached 9.83 bn rubles.

The experts estimated the hosting and domain registration services market at 5.23 bn rubles.

The markets singled out in the findings of the research are part of a broader Internet economy that includes electronic commerce, advertising and marketing services, hosting and domain sales, SaaS solutions markets.

Total value across the eleven studied markets comprised 553.79 bn rubles in 2011, with expected growth rate of 30%, based on the results of 2012.

Special characteristics of the studied markets

The research showed that, in a developing Internet economy, experts and players may have different views on the structure and boundaries of particular markets.

For instance, all segments related to advertising and marketing are intertwined and integrated. Contextual and media advertising, video ads and SMM, SEO, and most of the web development markets must be viewed as segments of one, larger Digital Marketing industry.

Building on this understanding, we managed to interpret the study findings correctly.

One of the future tasks of The Economy of Runet research will be to reveal the full market structure and interlaced segments that form markets, as well as mapping the links between the various branches of Russia's Internet economy.

It is important to mention that our study did not take into account the Internet service providers market, which we view rather as part of the telecommunications industry.

Although many providers and mobile network operators are increasingly becoming players in the markets the research looks into, we do not find it possible to see communication services as part of Internet economy.

The same can be said about system integrators, who were not included in the study as well. Cloud technology B2B and B2G services are gaining an increasing share in the market, but this segment differs dramatically from the SaaS segment in terms of competition structure, player composition and pricing.

These segments, however, may be included in the study in the future.

Although electronic trading and public purchasing can formally be classified as electronic commerce, their inclusion in the study would have expanded the field of study manifold, resulting in our inability to evaluate the development of this particular segment of Internet economy.

Growth Rates

10 out of the 11 markets we studied, based on the data from 2011, showed a growth rate of more than 20%, and average growth rate across all markets was 33%:

- The fastest-growing segments, with growth indicators of over 50%, were contextual advertising on the Internet and video advertising (+53% each).
- Growth of over 40% against the volumes of 2011 was seen in the SaaS solutions segment (+46%), social media marketing (+43%) and media advertising (+41%).
- Electronic payments market grew by 34% in 2011, online retail market — by 30%, and digital content and games market — by 26%.
- Web development market added 31% if compared to the volumes of 2010, while hosting and domain services market grew by 25%, and search engine optimization market — by 18%.

We estimate that all the markets we looked into will maintain the positive growth dynamics as result of 2012. Experts have predicted some markets will be able to improve their 2011 growth rate indicators.

- By the end of 2012, video advertising market may have grown by 59% (+3%), and electronic content market — by 27% (+1%).
- Hosting and domain registration market, as well as web development market, will both lose 4% (down to 21% and 27%, respectively).
- Experts believe that two markets will lose momentum most drastically by the end of 2012: the media advertising market growth will slow down by 8% (33%), and contextual advertising by 14% (39%).

By the end of 2012, average growth rate across all the studied market segments will be at least 30% up from the volumes of the previous year, surpassing the growth rate of general Russian economy and some of its sectors.

Research Context

This study looks into the economy of Internet services and content markets that together form a part of Internet-dependent markets ecosystem that also includes segments such as Internet access services, electronic trading and investment in Internet projects. The accumulated value of Internet-dependent markets, including the studied markets, exceeded 2.52 bn rubles at the end of 2011, or equivalent of 4.62% of Russia's GDP in the same year.

Content and services markets: 553,8 bn rubles.

Internet access market: 200 bn rubles.

Investment market: 70 bn rubles.

Electronic trading market: 1700 bn rubles.

As result of this study, we have received volume indicators on 11 key, most active Internet economy markets, as well as their growth rate indicators in 2011 and expected growth rate in 2012.

These figures can be found in the table below.

Market / Segment	Market volume in 2011, billion rubles	Gain from 2010, %	Expected 2012 growth rate, %
SaaS	1,89	+46	+46
E-Commerce: payments	166,7	+34	+32
E-Commerce: retail	309,4	+30	+27
E-Commerce: content and games	8,24	+26	+27
SEO	8,56	+18	+19
SMM	2,98	+43	+40
Video advertising	0,8	+53	+59
Media advertising	15,83	+41	+33
Contextual advertising	24,24	+53	+39
Web development	9,83	+31	+27
Hosting and domains	5,32	+25	+21
TOTAL	553,79	+33	+30