

WIP
CROSS-BORDER E-COMMERCE LOGISTICS

**CHALLENGES OF PACKAGE DELIVERIES FROM FINLAND TO
RUSSIA**

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ABSTRACT

Purpose

Russia is Europe's largest internet market and have provided huge opportunities for foreign companies to increase their e-commerce sales. First, the paper highlights the state of e-commerce in Russia and logistics solutions from Finland to Russia before Russian invasion of Ukraine. Second, the paper updates the current situation in cross-border package deliveries in May 2022.

Design/methodology/approach

The paper is based on semi-structured interviews carried out in March 2021 that include three companies and one logistics service provider. In addition, data was collected through parcel tracking experiment, literature studies and an interview in May 2022.

Findings

Two major barriers found that affect companies when aiming for the Russian e-commerce market are lack of knowledge and language barrier. Companies would benefit from receiving more information about the delivery process and the practicalities related to it. However, after the Russian invasion of Ukraine the cross-border deliveries are radically reduced but not stopped. The sanctions of luxury goods and restrictions on money transfers have had the main impact on e-commerce deliveries. Also, the availability and increased costs of truck deliveries hamper the deliveries.

Research limitations/implications

The study is based on a limited number of interviews from Finland. However, the challenges may be similar from deliveries from other EU countries too.

Practical implications

The study provides updated information about Russian e-commerce market and current challenges of cross-border deliveries for e-commerce companies, logistics service providers and public organizations.

Original/value

The paper highlights the cross-border e-commerce logistics and its challenges between Finland and Russia. The paper provides up-to-date information about the impacts of sanctions.

Keywords: Russia, e-commerce, package delivery, sanctions, cross-border logistics

1. INTRODUCTION

The Russian e-commerce market has been growing rapidly during the past years and Russia has the largest online audience in Europe. During the last years, the market has presents opportunities for companies which hope to grow their e-commerce sales. Traditionally Russian consumers trust and value Finnish brands and products and have likely to purchase them using cross-border e-commerce, especially when the border was closed for tourism during the COVID-10 pandemic in years 2020-21. Even though Finnish companies have successfully incorporated e-commerce into their businesses with their domestic customers, only a very small percentage of them practice cross-border e-commerce in general.

Russia has been the sixth biggest export country of Finland accounted for 3.7 billion € in 2021. Industrial supplies accounted for approx. 45.5 %, capital goods 31.3 % and consumer goods 4.4 % and food and beverages 2.2 % of total export value in 2021 (Tulli, 2022). Exports from Finland to Russia has remained relative stable, when the Covid-19 pandemia hit the global economy. Border-crossing transport between Finland and Russia has been heavily concentrated to the South-Eastern parts of Finland. The most northern border-crossing points (Kuusamo, Salla and Rajajooseppi) have relatively small volumes. Passenger car transport has been suffered very severely from the pandemia, the reduction 2019-2020 was over 78%. By contrast, heavy vehicle crossings diminished by less than 9%. (Tulli, 2022).

On 24th February 2022, Russian invasion of Ukraine changed dramatically the cross-border traffic between Finland and Russia. The Council of the European Union amended restrictive measures in view of Russia's actions destabilizing the situation in Ukraine. Restrictions on exports to Russia have focused on "dual-use" technologies, including semiconductors, goods and services related to aviation, aerospace and oil and gas production, and luxury goods. In addition to the other restrictions, article 4j concerns about luxury goods as following: *It shall be prohibited to sell, supply, transfer, or export, directly or indirectly, luxury goods to any legal person, entity or body in Russia or for use in Russia. The prohibition referred shall apply good insofar as their value exceeds EUR 300 per item.*(EU, 2022). While "luxury goods" include articles (e.g. clothes, shoes, textiles) typically ordered from e-commerce the restrictions have a great impact on cross-border e-commerce deliveries. In addition, Russian and Belarusian trucks were stopped and denied entry to the Finnish border since 9th of April. As cross-border traffic was mainly handled by Russian trucks this has had a significant impact on logistics decisions.

The aim of the paper is to describe the challenges of cross-border e-commerce deliveries. First, the paper highlights the state of e-commerce in Russia and logistics solutions from Finland to Russia before Russian invasion of Ukraine. Second, the paper updates the current situation concerning cross-border package deliveries in May 2022. The paper is based on the study (Laakso, 2021) carried out in spring 2021 as a part of LOGOKA -project financed by CBC Karelia programme. The purpose of the study was to recognize the barriers companies face regarding the Russian e-commerce market and the cross-border e-commerce package deliveries.

1.1. The state of Russian e-commerce

The Russian e-commerce market has been growing steadily over the past ten years and Russia has the largest online audience in Europe currently. The Russian ecommerce market size amounted to USD 32 billion in 2019 (Vinogradova, 2021). However, It was estimated that 2020 only 5% of Russia's total retail sales come from the e-commerce market, which leaves a lot of room for growth in the future (Korobkin, 2020). Electronic goods and home appliances (31% of total domestic sales value) and clothing and footwear (23% of total domestic sales value) have the most significant demand in the e-commerce market in Russia. Other

considerable product categories for ecommerce sales include car parts, groceries, homeware, and health and beauty. (Korobkin, 2020.)

According to the study by Rebiazina et al (2020), there are different barriers and drivers for the development of e-commerce in Russia. Drivers include things such as more competitive prices, good delivery options and better assortment of products, especially unique ones. Barriers in turn include mistrust in online purchasing and mistrust in using credit cards over cash. (Rebiazina et al., 2020.)

Russian online trading generally follows the main global development trends but has a number of features and difference in comparison to other countries. The biggest online store is Wildberries.ru following Citilink.ru, Ozon.ru etc. (Statista, 2022). International players have well positioned in Russian e-commerce market, and the largest market share is occupied by Chinese online stores as the largest AliExpress. Smaller share of the cross-border volume has gone to west - only 5 % in parcels and 27 % in money. (Vinogradova, 2021).

There are many cross-border logistics operators in Russia, but huge part of the parcels is transported by the Russian Post – more than 90 % of the shipments. Russian Post is the only logistics operator delivering throughout the country. There were 39 000 pick-up points (post offices, specialized grocery stores) throughout the Russia in 2020. Moscow and St. Petersburg are the main centers of e-commerce affecting the warehouses' location and the hyper-concentration of retailers in the two cities. A poor knowledge of English limits the Russian customers when making purchases from abroad. In Russia, pay after deliveries is very popular. For cross-border parcels, the preferred one has been online payment by credit card. (Vinogradova, 2021)

2. METHODOLOGY

The empirical analysis of the study was conducted as qualitative research in March 2021. A qualitative research method was chosen for the study in order to gain a deeper understanding on cross-border package deliveries. The research method was based on semi-structured interviews with three company representatives from the Northern Ostrobothnia and Kainuu regions that practice cross-border e-commerce with Russian consumers, and a company representative from a company WCargo that specializes in parcel deliveries to Russia. (Laakso, 2021) The representative from WCargo company was re-interviewed by phone in May 2022.

3. FINDINGS

3.1. The barriers of companies face when aiming for the Russian e-commerce markets in 2021

Two major barriers that affect companies when aiming for the Russian e-commerce market were discovered: lack of knowledge and language barrier. The lack of knowledge of the market is the biggest barrier as it creates false preconceptions that stop companies from trying to enter the Russian e-commerce market. Due to lack of knowledge the potential of the Russian e-commerce market is not often recognized, and even if it is, false preconceptions created by lack of knowledge might stop companies from placing their focus on the Russian e-commerce market. (Laakso 2021)

The language barrier is the other significant barrier as it stops companies from starting to target Russian customers and providing the best customer service possible. As knowing how to speak English is not as common in Russia as it is in Finland, it is hard for Finnish companies to find a common language with their Russian customers. This in turn affects the quality of customer

service provided by the companies and makes it harder for them to target Russian consumers as the companies are not able to, for example, create marketing or webstores in the local language. The language barrier could be overcome by offering moderately priced translation services to companies in which the company webstore. Companies also have an option to outsource their Russian e-commerce sites. (Laakso, 2021)

The process regarding returning or exchanging delivered products seemed to be problematic as there were no clear procedures in place. The process was expensive and unclear to the customer, the company and even the logistics service provider (Laakso, 2021).

3.2. The cross-border delivery process by WCargo in 2021.

WCargo established in 2003 is a logistics service provider specialized in parcel deliveries to Russia. In year 2020, the company delivered 600 000 parcels to Russia. The customers are international e-commerce companies shipping packages to Russia. In addition, also private people can send parcels via internet solution. Since 2018, the company has been co-operating with Russian Post. In figure 1, is presented the delivery process of Russian e-commerce using wCargo. The company has a terminal near Russian border where export declaration is done and parcels are scanned into Russian Post system. Then the shipments are consolidated and transported by trucks to the terminal of the Russian Post situated near St. Petersburg. The Russian Post is delivered to parcels to the final Russian customers. It takes only 2-4 working days to delivery parcels to Moscow or St. Petersburg, but around week to more distant places.

WCargo provides a service where an add-on is included in their customer's webstore which automatically prints out a label when an order is made. The company then needs to package the order and add the label after which the package is sent to the terminal. WCargo handles all the necessary customs procedures, such as the export declaration and works together with Russian Post to deliver the parcel over to the company's customer. If the package is not picked up or it needs to be returned to the company, WCargo handles all the necessary arrangements and customs issues (Laakso, 2021).

3.3. The impact of Russian invasion of Ukraine on the cross-border deliveries

Since February 2022, WCargo has continued its e-commerce parcel deliveries. Nowadays usually one to two trucks per week are delivered to Russian side. The availability of trucks and increased transportation costs have complicated the deliveries since March 2022. The main customers are still international companies and private people delivering packages to private consumers in Russia. According to the company's representative the main reason for stopping the deliveries by the customers are the restrictions concerning the money transfer and complicating checking process of parcel deliveries by Finnish customs offices.

The delivery process as such is similar to than a year ago. The contents of parcels must comply with EU's restrictions. Finnish customs are making lot of checking to ensure that the content or destination of deliveries are not under the EU's restrictions. The inspections procedure by Finnish customs is quite bureaucratic and slow. If there is some ambiguity concerning the content, the decision of shipping permission is moved to the Ministry of Foreign Affairs of Finland. Thus, the process to get permission for a single parcel can take even months.

4. CONCLUSIONS

During the last years Russia has been one of the fastest growing e-commerce markets in the world. Many foreign companies have been interested in entering Russian e-commerce markets. As the market has developed, logistics has improved, and logistics companies and market

platforms have provided a channel to reach Russian consumers by Finnish and other European companies. Finland as a neighboring country has provided an effective logistics route for parcel deliveries. However, Russian invasion of Ukraine has dramatically changed the cross-border business, even if the parcel deliveries are still going to Russian consumers. It is evident that the growth of Russian e-commerce market is stopping, and the Chinese companies are strengthening their position in the Russian cross-border e-commerce markets. Also, the international companies having parcel deliveries to Russia, are looking for new transportation routes via non-EU countries. The year 2022 has shown that companies planning cross-border e-commerce operations need to consider possible logistics risks very carefully and especially understand the importance of maintaining resilience in their supply chain operations.

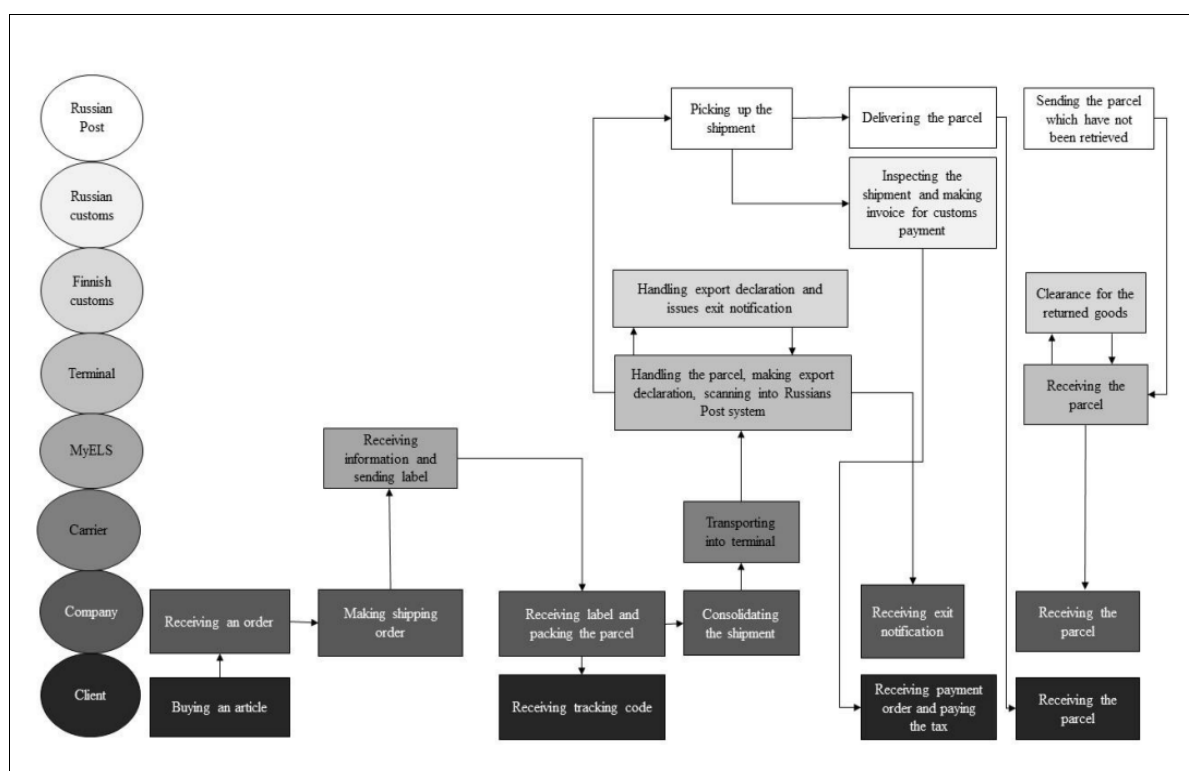


Figure 1. The process of e-commerce deliveries by WCargo.

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