Digital Advertising in Russia

Reach 100 Million Customers that your Competition doesn’t know about.
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The Digital Marketing industry is one of rapid maturation; gone are the days where the same ten professionals spoke at every conference, exact match Search campaigns were the only reliable vehicle for acquisition, and it was considered ‘advanced’ to optimize for clicks over impressions. In conjunction with the technology from which this industry was spawned, the digital marketing industry has undergone an accelerated evolution.

A by-product of the evolution has been an increase in competition. There are more devices, more advertising channels, and certainly more advertisers.

This White Paper is for the International Digital Marketer seeking an advantage.

Russia is home to 146 million consumers, and with 100 million Internet users Russia is the 7th largest Internet audience in the world. It’s a country of great size, great wealth and tremendous opportunity for the savvy Digital Marketer.

This White Paper is intended to serve as an introduction to one of the world’s most intriguing, unknown and promising markets — Russia.
2. Introduction to Russia

Spanning more than 6.6 million square miles, Russia is the largest country in the world; its eleven time zones stretch across eastern Europe and northern Asia, bordering Finland in the West and the Northern Pacific Ocean in the east. For comparison, continental Europe in its entirety extends just over 3.9 million square miles.

Primarily for logistical and operational reasons, Russia is divided into seven Federal districts. Each District has a Presidentially-appointed ‘Plenipotentiary Representative of the President of the Russian Federation’, whose primary responsibility is to communicate the message of the Russian President.
2. Introduction to Russia

The Russian population is approximately 146.5 million, with ethnic Russian people comprising greater than 80% of the population. In 1991, the population of Russia peaked, and then continuously declined every year until 2009. Due to conflict, disease, high adult male mortality rate and many other reasons, significant population fluctuation is common to Russia’s long history. However, recent advancements in health care, growing birth rates and decreased emigration suggest a more stable future.

The Russian language is one of the most spoken languages in the world, and one of the six designated official languages by the United Nations. Russian is a Slavic language, and utilizes the Cyrillic script. From double negations to varied sentence structuring to six different noun form cases to the role of inflection and behavioral delivery, Russian is an extremely difficult language to learn for non-native speakers. Perhaps most complexing for English speakers, unlike English where word order usually communicates subject, object or indirect object of a sentence, the concept of ‘regular’ word order in Russian is more often non-existent.

Surprisingly — and emblematic of the Russian presence on the web — trailing only English, Russian is the second most prominent language on the web.
3. Russian Advertising Market

Market Size

With more than 82 million Russians over the age of 18 accessing the Internet each month, Russia is home to the 7th largest Internet audience in the world, and the largest in Europe. However, perhaps the most appealing aspect of Russia’s Internet audience as an investment opportunity isn’t its size, but rather its potential. Russia’s Internet penetration sits at just 70%, so as the country continues to invest in the necessary infrastructure to bring more Russians online, the market size is expected to maintain its steady ascent.

Most of the other large European markets have a much higher penetration rate, so the discrepancy in audience size between Russia and other European markets is likely to increase.
3. Russian Advertising Market

Most promising for International advertisers is the growth in Cross Border Sales. The adjacent chart shows a steady increase in the amount of goods being purchased cross border. International brands often experience great success in Russia because they’re viewed as trusted, reliable, authentic and carry an associated social status.

**Over 30% of the cross-border sales are from US Companies!**

So now that we know the market exists, it’s a market thirsty for International products, and a market with an auspicious future, let’s take a look at the comprising audience.

Let’s get to know your future customers.
3. Russian Advertising Market

Audience Demographics

If we dive into the demographics a bit more we get a clearer image of the 79 million Russians accessing the Internet each month. Reviewing the audience on an age scale reveals much higher penetration in all age demographics under 44 years of age. It’s important to note that the 79 million users referenced in the data above does not include those users younger than 18. So, as the 12-17 year old using population — and their purchasing power - continue to mature, it is reasonable to anticipate natural increase in both online users and spend, regardless of accessibility improvements.

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Internet Penetration</th>
</tr>
</thead>
<tbody>
<tr>
<td>12-17</td>
<td>96%</td>
</tr>
<tr>
<td>18-24</td>
<td>97%</td>
</tr>
<tr>
<td>25-34</td>
<td>92%</td>
</tr>
<tr>
<td>35-44</td>
<td>85%</td>
</tr>
<tr>
<td>45-54</td>
<td>69%</td>
</tr>
<tr>
<td>55-64</td>
<td>48%</td>
</tr>
<tr>
<td>65+</td>
<td>21%</td>
</tr>
</tbody>
</table>

Source: AITC and J’son & Partners, 2016

Contact Brendan McGonigle, Director of US Business Development @ bmcgonigle@yandex-team.ru or 617.398.7870
Another interesting component of the Russian Internet audience is the variance by city size. As previously noted, Russia is an enormous country and, just as it has been in the US, accessibility in the urban areas has been prioritized. So, as the rural markets become more demanding and the technology more affordable, we should begin to see the penetration numbers in the more rural outlets approach those of major cities like Moscow and Saint Petersburg.

### Internet penetration, % of population 18+

<table>
<thead>
<tr>
<th>City Size</th>
<th>Penetration</th>
<th>Variation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moscow</td>
<td>79%</td>
<td>21%</td>
</tr>
<tr>
<td>Saint Petersburg</td>
<td>79%</td>
<td>21%</td>
</tr>
<tr>
<td>Cities 1M+</td>
<td>72%</td>
<td>28%</td>
</tr>
<tr>
<td>Cities 500k - 1M</td>
<td>71%</td>
<td>29%</td>
</tr>
<tr>
<td>Cities 100-500k</td>
<td>71%</td>
<td>29%</td>
</tr>
<tr>
<td>Cities &lt;100k</td>
<td>68%</td>
<td>32%</td>
</tr>
<tr>
<td>Villages</td>
<td>57%</td>
<td>43%</td>
</tr>
</tbody>
</table>

Source: FOM, October 2016
3. Russian Advertising Market

Albeit trailing in their prevalence, many of the macro trends seen globally are relevant to Russia, as well. ‘Mobile is coming’ – this warning/slogan seemed to lead every US Digital Marketing conference from 2008-2012. Well, that same credo has been sponsoring Russian Digital Marketing scene in recent years, and the mobile revolution will soon be realized. So, while Google confirmed in 2015 that mobile search queries had surpassed desktop search queries in ten countries including the US, desktop still leads the way in Russia for now.

This is true for a combination of reasons including, but not limited to, lesser smartphone penetration and lesser availability of high speed connectivity.

For comparison, most projections for US smartphone penetration set the current market penetration between 65 and 70%. Forecasts suggest that Russia will reach that same 65% by 2021.

In terms of Mobile Operating Systems, Android remains the heavy leader in Russia. In the US the discrepancy between Android users and iOS users sits in the neighborhood of 10%, while there is nearly a 40% gap in favor of Android in Russia.

Source: AITC and J'son &Partners, 2016

Expected number of smartphone owners (millions)

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4. The Russian Digital Landscape

Search engines are the foundation of any market’s digital ecosystem. For any readers of this White Paper, it’s probably safe to assume a familiarity with international giant, Google; however, while Google is certainly a prominent player in Russia, it’s not the market leader — this distinction belongs to local alternative, Yandex.

In 1997, mere months before Google was introduced to the Western world, Yandex.ru rolled out in Russia. The next twenty years would see rapid growth, a NASDAQ IPO, product expansion and continued market dominance.

Today, Yandex.ru is the most visited site on the RuNet (Russian Internet), and Yandex operates the most widely used search engine in Russia.

Yandex has a near $10 billion market cap and 6000+ employees working in 16 global offices. In addition to operating a Search Engine, Yandex owns and operates a full suite of offerings, including but not limited to:

- Yandex.Browser: A Web browser
- Yandex.Taxi: An online taxi booking service
- Yandex.Metrica: A free Web Analytics platform
- Yandex.Mail: An Email Service Provider
- Yandex.Market: An eCommerce Marketplace

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The Yandex SERP is structured similarly to most alternatives with a blended presentation consisting of Organic results and Paid results. Many contribute Yandex’s in-market success to its fuller understanding of the Russian language, and its superior ability to match both organic and paid results against user intent.

While there have been some fluctuations, the Search market share splits have remained relatively static over the last year. According to Yandex.Radar, the divide as of September 2017 shows 56.45% for Yandex and 38.60% for Google.
4. The Russian Digital Landscape

In addition to its search engine, Yandex operates a content network (Yandex Advertising Network) similar to Google’s Display Network. And while the Russian digital landscape is notoriously littered with link farms and junk sites, Yandex manually white lists each site that participates in their Content Network to ensure that only reputable sites comprise the network. Of course, advertisers can promote their offerings via the Yandex Advertising Networks in many formats, including, text, text & image and image.

**By advertising on Yandex Search and Yandex Advertising Network, advertisers can reach over 87% of the entire Russian Internet audience.**

The adjacent chart shows Total DAILY Audience for Yandex Search and Yandex Advertising Network.
The consumer market often refers to Yandex as ‘The Gateway to the Russian Internet’, but you can see why digital advertisers more often reference Yandex as the ‘The Gateway to the Russian consumer’.

International advertisers can promote products and services in Russia via Yandex’s self-service English language interface, Yandex.Direct. Additionally, in an attempt to make entry as seamless as possible for non-Russian speakers, Yandex has an International team to offer full assistance.

For qualifying advertisers, Yandex can provide everything from keyword research and development to creative translation/localization — all at no cost.
4. The Russian Digital Landscape

KEY TIPS WHEN ADVERTISING IN RUSSIA

1. **The Russian language is complicated!** The various cases, compositions and genders of the Russian language create situations where — for example — three simple words in English (“Run”, “Ran” and “Running”) have over 100 variations in Russian. Relying on machine translated keywords or ads won’t adequately communicate your message.

2. **Cyrillic makes it even more complicated.** The second important element to remember is that a Russian user searching for your products is likely using a Cyrillic keyboard. This impacts the query of English language brands (such as “Adidas”), so Russian users often transliterate (type in the Cyrillic alphabet to represent the phonetics of the English spelling) - resulting in “Адидас” being the search query rather than “Adidas”. The volumes of transliterated searches can be significant depending on the category and brand recognition. Adidas, for example is searched twice as often by Russian users in its the transliterated form than its true English brand name:

   Additionally, the practice of transliterating produces a high level of spelling mistakes, and variations of brand; in fact, over 30% of queries on Yandex are misspelled. Recognizing these misspellings is recognizing potential.
3. And Russians then add their own complication.

The third essential aspect of keyword creation for a western advertiser is to understand that Russian users often mix their English and Russian when searching online. The graph below shows common fashion brands and the searches related to them. You can see that search behavior differs tremendously by brand in terms of the language used. The brands on the left side of the graph tend to be predominately searched for in English; while the ones on the right side are searched predominately in Russian. Since there is enough search volume in both English and Russian, both languages need to be considered when constructing campaigns.
5. Industry Trends

The Russian economy has endured a fair amount of volatility in recent years, but 2017 can be characterized as stable and the future is promising. Of course, economic trends impact industry trends, but the occurrences are not mutually exclusive. Technological advancements, market maturation, changes to the competitive landscape and consumer desires can all shape industry trends.

Let’s take a look at the current trends in three industries reliant on digital marketing:

- Travel
- Fashion
- Website Builder and Hosting
5. Industry Trends

Nearly all segments of travel have seen significant YoY growth in 2017, with political variables as a primary catalyst. Late in 2015, the Russian government introduced a moratorium on Russian charter flights to Turkey, a long time favorite travel destination for Russians. Well, in late 2016, the travel ban was lifted, Russians flocked to Turkey once again, and most in the industry have benefitted.

User interest in Travel categories (Russia)

Strong growth in accommodation due to interest in Turkey

[Graph showing user interest in various travel categories for Q2 2016 and Q2 2017.]

Source: wordstat.yandex.ru, Russia

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5. Industry Trends

Much of the travel continues to be domestic, but the combination of fewer restrictions and a strengthening Ruble value have driven the growth internationally.

User interest in domestic hotels and other types of accommodation decreased by 3%, while interest to international destinations increased by 60% in Q2 2017 compared to Q2 2016. The interest in Turkey has a strong influence on the growth of international trends.

International destinations include CIS.

wordstat.yandex.ru. Russia
The calculation of mobile queries was changed in March 2016. Moreover, in June 2016 new mobile platforms were added.
5. Industry Trends

Not surprisingly, most Travel-related purchases continue to occur on Desktop. As previously noted, the Russian mobile market is less sophisticated; as such, high ticket items are more comfortably purchased on larger screens with less impulsive intent. As the audience matures and greater familiarity with mobile is established, it is reasonable to expect some movement in the data shown at right.

The industry growth hasn’t been ignored, and more and more international businesses are investing in Russia. A large and maturing Internet population and a strengthening economy is a winning equation for the travel industry advertiser.

Mobile share of user interest in Travel categories

Russia

<table>
<thead>
<tr>
<th>Category</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accommodation</td>
<td>33%</td>
</tr>
<tr>
<td>Generic</td>
<td>36%</td>
</tr>
<tr>
<td>Tours</td>
<td>31%</td>
</tr>
<tr>
<td>Plane tickets</td>
<td>37%</td>
</tr>
<tr>
<td>Train tickets</td>
<td>33%</td>
</tr>
<tr>
<td>Carpooling</td>
<td>50%</td>
</tr>
<tr>
<td>Car rental</td>
<td>43%</td>
</tr>
</tbody>
</table>

CIS

<table>
<thead>
<tr>
<th>Category</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accommodation</td>
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<tr>
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<td>30%</td>
</tr>
<tr>
<td>Carpooling</td>
<td>37%</td>
</tr>
<tr>
<td>Car rental</td>
<td>39%</td>
</tr>
</tbody>
</table>

wordstat.yandex.ru, Period: Apr 2017 — Jun 2017
5. Industry Trends

Russians love fashion. The fashion industry in Russia is booming, and those best equipped online are capitalizing. Russians are spending more than 25 minutes a day shopping online, and the demographics for those doing so are the fashion industry’s classic target demo: 25-34 years old, female and employed. Russians know fashion. Russians appreciate fashion. Russians spend on fashion. Securing a presence in Russia can catapult a brand’s identity.

Recent years have seen an influx of international brands prioritizing the Russian market, and the industry itself remains one the largest spenders in online promotion.

The graphs show a steady increase in user interest in Fashion 2017 over 2016. The trends also show the clear seasonality of the industry, with the down season in the summer months, and peak corresponding with back-to-school and the holiday season.

Of course, much of the increase in interest is spawned from an improving economy. Like many consumers, Russians are interested in clothes that look great, but don’t carry a significant price tag. As such, there is value and comparison shopping by the Russian consumer. Also, because there is a high level of appreciation for international clothing brands, the knock-off market and affiliate offerings have a strong presence.

The calculation of mobile queries was changed in March 2016. Moreover, in June 2016 new mobile platforms were added wordstat.yandex.ru: Worldwide.

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5. Industry Trends

When we segment the Fashion industry, it’s ‘Clothing’ that is responsible for nearly 55% of the queries. Clothing is a rather inclusive segment, so it’s valuable to layer that down (see chart).

As you can see, Women’s Clothing and Children’s Clothing drive interest. Children’s Clothing has long been a department where Russians spend money, and there has been a recent increase in competition in that space. It’s also interesting to note that ‘Sport Clothing’, or more commonly referred to in the US as ‘Athletic Wear’, has grown to be a top contributor. The rise in the Athletic Wear market in Russia coincides with an increase in appreciation for a healthy and active lifestyle in Russia.

After Clothing, it is the ‘Shoe’ segment that drives much of the fashion interest. And within that segment, similar to Clothing, we see Sport shoes, Women’s shoes and Children’s shoes driving the interest.

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5. Industry Trends

Russians have long been said to be interested in fashion, and their search behavior supports the suggestion. And while that notion is likely applicable to most Russians, it’s no more relevant than it is in the Central Federal District of Russia, where Moscow and Saint Petersburg are located.

The share of interest by Russian regions
Q2 2017, Desktop & Mobile queries

- Central Federal District: 44%
- Northwestern Federal District: 8%
- Southern Federal District and Republic of Crimea: 12%
- North Caucasian Federal District: 16%
- Volga Federal District: 8%
- Ural Federal District: 9%
- Siberian Federal District: 2%
- Far Eastern Federal District: 2%
5. Industry Trends

As the Internet in Russia continues to grow in accessibility, so does the infrastructure on which the Internet is dependent. More users mean more demand, and more websites to satisfy said demand. As has been an international trend in recent years, the website builder, domain registration and hosting markets have all seen growth in Russia. These trends are expected to continue.

Dynamics of the category ‘Website development’ (total)

Queries

- Aug 2016—Jul 2017

+6%

7.1m
7.5m

wordstat.yandex.ru. Region: Russia. Data for the last 12 months.
The calculation of mobile queries was changed in March 2016. Moreover, in June 2016 new mobile platforms were added.

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5. Industry Trends

**Dynamics of the category ‘Domain name registration’ (total)**

Queries

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>0.60m</td>
<td>0.66m</td>
</tr>
</tbody>
</table>

0.60m +9%

| 0.66m |

‘Hosting’ (total)

+7%

| 2.71m | 2.90m |

wordstat.yandex.ru. Region: Russia. Data for the last 12 months. The calculation of mobile queries was changed in March 2016. Moreover, in June 2016 new mobile platforms were added.
5. Industry Trends

The breakdown by device is the interesting component. The data shown is specific to the Website Development space, but in congruence with the entire Web Services industry. Representative of the Russian Internet audience, we continue to see the vast majority of queries attributed to desktop activity over mobile.

With most advertisers considering desktop users more valuable than their mobile cohorts, it is easy to see why Web Services providers have flocked to Russia. Many international advertisers recognize the opportunity that exists, and the relatively affordable/efficient path to market presence.

Device splits for ‘Website development’

<table>
<thead>
<tr>
<th>Month</th>
<th>Desktop</th>
<th>Mobile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug</td>
<td>12%</td>
<td>88%</td>
</tr>
<tr>
<td>Sep</td>
<td>12%</td>
<td>88%</td>
</tr>
<tr>
<td>Oct</td>
<td>12%</td>
<td>88%</td>
</tr>
<tr>
<td>Nov</td>
<td>12%</td>
<td>88%</td>
</tr>
<tr>
<td>Dec</td>
<td>13%</td>
<td>87%</td>
</tr>
<tr>
<td>2017</td>
<td>13%</td>
<td>87%</td>
</tr>
<tr>
<td>Feb</td>
<td>13%</td>
<td>87%</td>
</tr>
<tr>
<td>Mar</td>
<td>12%</td>
<td>88%</td>
</tr>
<tr>
<td>Apr</td>
<td>12%</td>
<td>88%</td>
</tr>
<tr>
<td>May</td>
<td>13%</td>
<td>87%</td>
</tr>
<tr>
<td>Jun</td>
<td>13%</td>
<td>88%</td>
</tr>
<tr>
<td>Jul</td>
<td>14%</td>
<td>86%</td>
</tr>
</tbody>
</table>

wordstat.yandex.ru. Region: Russia. Data for the last 12 months
The calculation of mobile queries was changed in March 2016. Moreover, in June 2016 new mobile platforms were added.
6. Concluding comments

The Russian market is full of opportunity. There is no denying that doing business requires unique considerations, but the marketers that are savvy and diligent enough to think big will be rewarded.

Key Takeaways

- **Consider the audience.** Localize the offering.
- **Recognize the landscape.** Appreciate the local acquisition streams.
- **Take advantage of the free assistance.** Work with Yandex, and other local leaders like the social network VK.com to reach full potential. Yandex can do most of the heavy lifting for you.
- **Be patient and remain committed to testing.**

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