

How We Did It...

The CEO of Ozon on Building an e-Commerce Giant in a Cash-Only Economy

by Maelle Gavet

At first I didn't want to have anything to do with Ozon. I was coming up for partnership at the Boston Consulting Group, and it was one of the firm's smallest clients. I couldn't see how it would help my chances for promotion, but a senior partner insisted that I lead the engagement.

A few months later I resigned from BCG to become Ozon's sales and marketing director—and a year and a half later, in 2011, I became its CEO.

Why did I take such a risk? To begin with, I had been an entrepreneur once before, and I missed the excitement. I also quickly realized that Ozon could become the Amazon of Russia. Not many e-commerce alternatives were around four years ago, and I could tell that the market was set to explode. Russians were going online at an extraordinary rate, with internet penetration rates increasing by 15% a year and reaching 55% in 2013.

In traditional retail, you're happy if you grow by 5%, so this rate of expansion was really exciting. I could make big changes

THE IDEA

Russia's economy is cash based, and its delivery networks are shaky. To drive growth in e-commerce, Ozon had to create a proprietary distribution system, a new logistics and customer service model, and a highly engaged team.



happen quickly. I loved working at BCG, where my expertise was in retail and logistics, but the opportunity to be part of a hypergrowth story was too good to pass up. Perhaps most important, I would get to lead a large team. Ozon already had hundreds of employees at that point; at BCG I would never be leading a team of more than 10 or 20.

Why did they offer me the job? I was only 32 and French. I didn't really know about e-commerce (unless you count buying stuff from Amazon). But age and nationality don't matter much at tech start-ups, and I spoke good Russian. I also had some technology in my background. Ozon's board understood that figuring out how to deliver goods to consumers in Russia, with its shaky distribution systems, was the key to unlocking the country's e-commerce market. It was the opportunity of a lifetime, and I seized it with both hands.

The Challenges of a New Market

People often accuse Ozon of being an Amazon clone. That's understandable. We started with books, expanded into movies and music, then moved into electronic items, and finally carried a full range of consumer goods—pretty much everything except groceries. All told, we now offer 3.5 million products, most of which we sell directly, though a growing number are sold on our site by third-party merchants. Like Amazon, we offer website platform services to independent retailers as well. We even have our version of Zappos: Sapato.ru, an online shoe boutique.

Yet our similarity to Amazon isn't why we've succeeded. To understand that, you have to look at the challenges of Russia's retail environment, which is very different from America's or Western Europe's. When I joined Ozon, Russia lacked a reliable, flexible, and speedy national delivery infrastructure, and no amount of web functionality can make up for a parcel's arriving late or not at all. When we started offering third-party products through Ozon.ru, the merchants on our site were failing to make delivery 50% of the time because they had

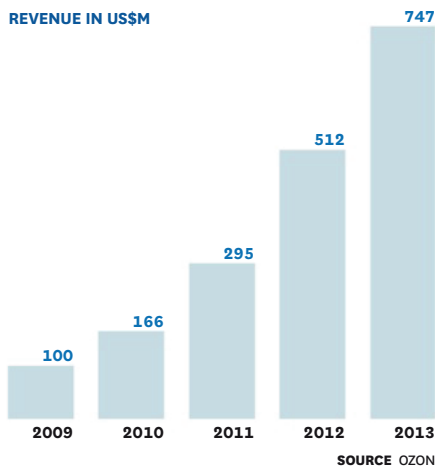
Ozon Facts & Financials

Founded 1998

Headquarters Moscow

Current number of employees 2,355

REVENUE IN US\$M



to rely on the Russian postal system; there were no nationwide couriers.

Russia is also a cash market. People don't pay until the parcel is delivered. That means if you don't deliver, you don't get paid—and you handle a lot of cash. In 2010 about 82% of payments were made in cash; 75% still are today. In a cash economy it's also harder to track customers and monitor fraud. People often think that Amazon identifies them through a login name and a password—but that's not entirely true, because you can register as often as you want. The one thing you cannot do is use the same credit card for two accounts, so your credit card number is your unique ID.

Russian consumers also have a strong need for personal contact; online customer service doesn't cut it. Even today, 5% to 10% of orders come in by phone, because some people use the website as a catalog rather than as a store. When I joined Ozon, we had a call center that was open weekdays from 9 AM to 6 PM Moscow time. I thought we should probably close it, because customers could migrate to the website. But after

spending a couple of days at the center listening to calls, I came back convinced that rather than closing it, we should invest in making it a 24/7 operation.

To succeed in Russian e-commerce, we needed more than website functionality. Our strategy hinged on logistics and customer support. We had to persuade people that they could get their purchases more quickly and reliably by ordering them online and having them delivered than by hoping to find them in stock at a shop. We needed a way to safely take and process the cash they paid with. Finally, we had to provide personal contact with customers and harvest data about their purchases and preferences. Put simply, we had to build an infrastructure from the ground up.

Creating Our Own FedEx

That sounded like a pretty daunting mission for what was still basically a tech start-up. When I joined as sales and marketing director, our delivery operation had just 100 people in two business units. One unit was focused on Moscow and Saint Petersburg, and the other on the rest of Russia. Each had its own IT platform for tracking orders. We also used the Russian post. The company was thinking about getting out of direct delivery by partnering with DHL and regional Russian delivery companies. We would focus on managing the interface with customers and tracking purchasing behavior.

After much debate the board and I made the decision to invest seriously in developing our own logistics capabilities. This would be a source of competitive advantage that could not easily be replicated; why give up control of such a key link in the value chain? If we went with an independent courier, that might prevent customers from making the personal connection with a retailer that is so important for generating brand loyalty; they'd be trusting DHL rather than Ozon. Besides, we had to solve the national delivery problem quickly, and we would waste time by negotiating with small regional delivery companies. Finally, we believed that we should control the

handling of cash directly; it would certainly be cheaper and would most likely be safer.

Our first step was to combine the two logistics business units to create an integrated national hub-and-spoke network, targeting 2,000 pickup points. (See the exhibit “Ozon’s Growing Footprint.”) For the most part, we arranged franchiselike deals with shopkeepers who had well-located properties. In return for a cut of the sales, they took delivery of packages and exchanged them for customers’ cash payments, which we collected at frequent intervals. We contracted with air-freight companies for long-haul transportation to hub airports and managed local transportation ourselves. This involved hiring and training staff and leasing vehicles.

But 2,000 points is a pretty big network to serve. We’d need five times as much

volume as we then had if we were to make delivery quick and reliable enough to gain customers’ trust. If you’re sending a plane every day (or two or three times a day), the customer won’t notice if you miss one plane. But if you deliver once a week, a missed plane means a week’s delay in the order’s arrival. We quickly realized that to get sufficient volume to run the network efficiently, we would have to deliver for third parties. That would also solve our problem with the merchants that sold through Ozon.ru. If we could improve their delivery rates as well, we would attract more retailers, more customers for them, and more volume for us.

But this posed a really big technical challenge. We couldn’t just merge and adapt our existing tracking software if we were going to handle other sellers’ packages as well as our own. We would have to rebuild

the entire system. It’s testimony to the members of our IT team that they enabled us to launch O-courier, a third-party delivery service, in September 2013. Their achievement also highlights the fact that the Ozon story has really been a team effort: Credit for the success of the company over these past three years belongs to our employees and our shareholders, because everyone has gone the extra mile to make our strategy work.

Communicating the Strategy

The most tangible consequence of our strategy was that we very quickly built up a large workforce. We now have almost 2,400 people on the payroll (up from about 900 when I joined). That doesn’t include the thousands of independent contractors, such as people who manage the pickup

Ozon’s Growing Footprint

Ozon developed this network of pickup points in the space of a few years. From January 2010 to April 2014 it opened nearly 2,000—more than half of them in 2013 alone. Naturally, most points are concentrated in heavily populated areas, such as Moscow and Saint Petersburg.

THE DARKER THE DOTS, THE MORE POINTS IN THAT AREA.

2010	5 PICKUP POINTS OPENED
2011	298
2012	392
2013	1,120
2014	91 (AS OF APRIL 9)



points or make deliveries from the hubs to the pickup points. All these people represent the Ozon brand, and how well they do so will determine whether we can stay on top of Russian e-commerce.

Leading people often seems to be an afterthought in the tech world. But even Facebook and Google are at least as much about their people as about their cool technology. You won't win in a competitive marketplace unless you have people who love their jobs and want to give their very best. Sometimes that means getting up at three in the morning or working over the weekend to fix a problem. Although this kind of firefighting is critically important, perhaps more important is that we make every contact with a customer a positive one. If customers have alternatives, companies don't. I spend probably 40% of my time on creating a highly engaged workforce. Making sure people are excited about the company they work for is extremely important—but we seldom talk about that in the internet world, and I don't understand why.

A big challenge we face is managing expectations around advancement and career development. Ozon has grown very rapidly, and we are able to attract great talent because people want to grow with the company. They'll get experience, more responsibility, and, of course, more money. But not everyone can grow as fast as the company, and someone who was perfect for her job a year ago may not be perfect for it anymore. You may have to promote someone behind her to be her supervisor. That's a hard message to deliver.

You're also asking people to be very comfortable with uncertainty, and a big part of management's job is to help people through that. With so much going on in the market, people may feel that you're constantly doing different things. You might be focusing more on the top line one year and on costs the next. In the C-suite we can see how it all fits together, but that understanding has to be communicated, which is one of the most important parts of our job.

We do that in several ways. To begin with, we have monthly onboarding

meetings at which I personally get together with new recruits and invite them to ask whatever they choose. But the big event is a quarterly meeting with all our employees. Everyone comes to a hotel in Moscow, and the other executives and I get up on a stage to explain our strategy, what we've been doing to implement it, how it's been changing, and so on. We have a one-hour Q&A session, during which people can and do ask hard questions: Why did we undershoot this or

who buy the fashionable shoes for sale at Sapato would probably never buy them at Ozon. But Sapato creates many synergies in purchasing and delivery for Ozon.

Getting into adjacent industries will be a major avenue for growth. We already have Ozon.travel—our version of Expedia—and bigger opportunities exist. When people are shopping with you and you're already handling their cash, consumer credit is a natural extension. It would give us a

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that target? Why couldn't we open more pickup points in such and such a city? The questions are submitted in advance, and they're anonymous. Sometimes we have to admit that we screwed up, which isn't great for the ego but does send a positive message about accountability, a key element of the culture we want to create.

I can't yet say that we are where we ultimately want to be in creating our culture and engaging the team. But I can say that we consider this to be a top priority and are 100% committed to doing what it takes.

Planning for Future Growth

Even as we expand, we'll stay geographically focused. Russia still has a long way to grow. Out of 140 million people, some 60 million to 70 million are online, but only about 20 million use the internet to shop. We're opening up in Latvia and Kazakhstan, but basically we'll stick to the home region.

We'll be looking for e-commerce customer acquisition opportunities that leverage our platforms. Sapato is a good example of how we'll do this. It might seem odd to take on a stand-alone brand. Why not sell shoes directly through Ozon.ru (which in fact we do)? The reason lies primarily in the fact that people in the online world still have expectations about branding. Those

lot more information about our customers, and the future of e-commerce is very much about understanding customer data. One of our shareholders, the Japanese e-commerce company Rakuten, actually has a bank and is well placed to help us develop a strategy in this direction. But that's something for the future.

WHEN I first joined Ozon, I saw the challenge as primarily one of retail and logistics. But the longer I've been here, the more I've understood the critical importance of our team and our technology. It's smart technology that creates tracking systems to reliably get the product to the customer on time. It's technology that allows us to capture, store, and retrieve data about our customers. And going through the experience of building the capabilities that connect everything we do made me realize that I really like IT. It reminds me of what I used to do at BCG: Our clients already had the answers; what they wanted was some kind of structure to make those answers work. That's the Ozon story: creating a business model and a team that can adapt and grow with the huge opportunities we have. 

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