

## BUSINESS FOR BUSINESS

# BE ONLINE

## RuNet of Today



By **Vladimir Dolgov**  
*Google Russia country manager*

Since 1994 — the year when the .ru domain appeared on the web — the Russian Internet segment has been developing rapidly. Today, 15 years later, almost 37 million people go online monthly in Russia, creating, communicating and searching for information.

From being a place for proficient techy geeks and early adopters, the web has evolved to become a commodity, a living space for millions of Russian users. It has grown from a relatively small digital Russian-language niche of the global web, to one of the biggest and most dynamic markets, attracting multi-million investments, local and global players. From a service where several dozens of tech proficient users had been exchanging their ideas on writing codes it became a place where president of Russian Federation speaks to millions of Russian citizens.

In recent years the Internet has been one of the fastest growing industries. But the fi-

ancial crisis has changed the way people and businesses use the web. In the slowdown the multimedia web has truly become a new way of going out for many people worldwide and in Russia. Users look for free or cheap services for entertainment — music, movies, games and sites for communication.

Free online video has become one of the hottest global trends of 2009. 20 hours of video is being uploaded to YouTube every minute. And people are not only exploring professional content, but more and more create their own.

Communication platforms as social networks is playing greater role than ever. According to ComScore research, Russia has the world's most engaged social networking audience and one of the biggest and fastest growing mobile Internet markets in the world.

But the current economic situation has not only had an impact on the user's expe-

rience of getting content, but also the way they search for information. People, saving money, more often look for product prices, comparing them and trying to find special offers and discounts. Even people who traditionally buy offline, more often make decisions based on information they get online.

The growing number of users spending more time online and searching for better prices on one hand and the necessity to optimize marketing budgets on the other, has forced many companies to pay attention to online marketing instruments. Marketers have found more affordable, more targeted and more flexible marketing tools on the Internet, like online advertising in general and contextual advertising in particular. According to Zenith Optimedia's report, the local online advertising market will stay in 2009 the same as in 2008, even in the worst case scenario, and will be worth about 7.5 billion of rubles.

From a business perspective RuNet is still one of most attractive platforms, not just for marketing specialists but also for investors and business angels. But the crisis has changed the way investors and venture funds choose investment objects. They have become more deliberate in their decisions. The time of projects with unclear business-plans is over. Existing services have also changed their development strategies — Instead of simply aiming at the growing audience figures, the site owners are now looking for new ways of content monetization, activating more paid features.

Thus, despite the general decline in business activity, the Internet is staying one of the most rapidly developing industries for all involved groups — site and content owners, businesses and users. The RuNet will apparently play a bigger role in lives of even more people and will become a way the biggest sales channel ever created.

## Linking Loyalty to the Customer



By **Hanspeter Kipfer**  
*Vice President Applications  
Oracle Eastern Europe and CIS*

Internet shopping, adding another dimension to the key challenges facing businesses today: winning and retaining customers, while reducing costs. More than ever before, customers are expecting to take an active role in their relationship with a brand. Launching blanket offers to entice customers is no longer enough. Instead, they expect to be rewarded accordingly for their long-term commitment and presented with personalized offers each and every time they engage with a business.

This article looks at the concept of 'Loyalty 2.0': consumers are savvier today than ever before and businesses need to respond.

### DISCONNECTED

Launching successful Loyalty programs has traditionally been complex. Although they have been able to use and act on data obtained from customer transactions, the reality is that it has been a largely impossible task of analyzing multiple reports in a vain attempt to decipher customer trends

and apply promotions appropriately.

For this reason Loyalty initiatives were often set up and then left to run — untouched and in isolation from the business. The Loyalty program database was often mined for tactical marketing campaigns — but it took too long to alter the rules of the program to embed short-term promotions. This has been principally due to the limited options for organizations that are considering launching a Loyalty program, because they have to build a bespoke system and manage it internally, then outsource programs to third-party specialist Loyalty agencies, participate in another company's Loyalty program and purchase a specialist solution and shoehorn it into the existing IT infrastructure. Until recently, companies have been limited in their options — lose control of the Loyalty program or invest in additional IT resources.

### HANDING LOYALTY BACK TO MARKETING AND SALES

Technology is now available that al-

lows information relating to customers to be held in disparate systems, across all departments, to be analyzed and then acted upon — all within one application environment. Armed with this information, companies can then build highly tailored loyalty offers for customer segments or specific individuals. It is also possible to do this analysis in real-time, so businesses are able to present the most appropriate offers and rewards while the consumer is engaged online — or, in fact, across all channels of interaction. One US online insurance broker saw sales go up by an average of \$20 per customer with this approach.

But the real value for the business is the ability to easily identify the key loyalty drivers, both online and offline, against a whole host of variables. For example, a major French supermarket recently faced low sales for one of its premium, specialist cheeses, which itself had a niche customer base. The company considered discontinuing the prod-

uct, however, after analyzing purchasing trends for the niche customer base, it quickly realized that they were actually the company's most valued, loyal customers. Having this level of visibility, the company quickly realized the need to continue stocking the cheese at a loss — or face losing some of its most devout customers. In this case, the supermarket achieved the right balance between generosity and loss. Without this insight, a simple decision such as this could have had long-term negative implications for the business.

Social media has caused a radical shift in consumers' expectations. They expect communications with businesses to be as quick, interactive and personalized as when they log on to Facebook to interact with friends. The 'Loyalty 2.0' approach offers the potential to respond to this shift. Failure to embrace it will severely hamper loyalty efforts as customers tune in to more interesting, engaging and rewarding businesses.

The fact that 25 percent of purchases are now made online is a testament to the extraordinary growth of in-

## Opportunities and Challenges of E-Marketing in Russia



By **Nick Wilsdon**  
*CTO E3internet-Marketing*

tail sales for 2009 were \$156 billion and will grow to \$329 billion by 2010. This growth has been at the expense of bricks and mortar stores. Russian consumers spent 110 billion rubles (approx. \$3.5 billion) online in 2008 according to the National Association of Members of E-commerce.

The 19th release of "The Internet in Russia" by The Public Opinion Foundation estimated that there are 28.7 million Internet users in Russia or 25 percent of the population. That places Russia above Spain or Italy. In a report released this week, ComScore ranked Russia as the fastest growing Internet audience in Europe, with June figures up by 27 percent, compared to 21 percent growth in France and 15 percent growth in Spain.

However the amount spent on advertising online in Russia is small compared to other countries. Figures released in March this year stated that \$590-\$600m was spent in 2008 with an estimated 22 percent rise for 2009. Internet advertis-

ing only accounts for 3 percent to 4 percent of the total expenditure in the Russian advertising market but this is growing despite tough economic conditions. While the global credit crisis has hit advertising costs across the sector, it has also forced companies to look for the most effective ways to spend their reduced budgets. The Internet as a promotional channel fits these requirements by giving companies exact targeting and measurable results. Many Russian companies have yet to adopt these western practices in tracking e-marketing campaigns.

Russia is one of the few countries where Google has failed to dominate the search engine market. According to LiveInternet.ru the U.S.-based search company commands a 33 percent market share compared to the 51 percent held by local search giant Yandex. This figure rises to 60 percent when including Mail.ru, who use Yandex results to power their portal.

Both Yandex and Google run systems that allow companies to place adverts next

to the search results returned to the user. This form of advertising is known as Pay-Per-Click. Professional agencies will work to optimize these campaigns, tracking the user from their initial search through to the purchase. This constant optimization is essential to bring companies the maximum return on their investment.

Companies can also invest in Search Engine Optimization services that help their web site rank higher in the standard search results. A good agency will not only help increase the web site position but examine the customer experience throughout the purchase process. The success of online shopping is put down to three key factors; trust, convenience and price. The research group ROMIR, released a survey in August that investigated why Russians are reluctant to make online purchases. These included a lack of information on the products (48 percent), delivery problems (34 percent), the process was too complicated (24 percent) and insufficient payment methods (23 percent).

When asked what would make them to buy online, 58 percent said lower prices than in conventional shops, 50 percent said a quicker and more organized delivery system, 58 percent a guarantee of products' quality and opportunity to replace bought products and 42 percent wanted a more convenient and secure system of payment. While companies should look to boost their brand visibility they should also seek to address these concerns by users.

These trends from developed e-commerce markets and feedback from their own consumers should give Russian retailers food for thought. If they fail to establish their position within this developing market they risk losing out to foreign brands with advanced approaches to e-marketing. As the Internet sector in Russia matures it will become harder for newcomers to break the hold of established brands. The opportunities for Russian companies online have never been greater than today.

## Changes in Consumer Preference on the Internet



By **Inessa Ishunkina**  
Project director  
TNS Russia

The Internet occupies quite a unique place in the Russian media market. On one hand it's unlikely that anyone will doubt its mass character, and on the other hand the number of Internet users continues to grow.

Thus since the beginning of 2009 the number of the Russian Internet users

people. In Moscow the number of Internet users is not increasing as it used to, since the market is already close to its saturation. If there were only 5 million users in the capital 2 years ago, today we see around 5.7 million people using the Internet at least once a month, which is 60 percent of the Moscow population aged 12 years and older.

Although in other big cities like St. Petersburg and Yekaterinburg the level of Internet penetration is a little lower than in Moscow, it's considerably higher than in the rest of the Russian cities. In St. Petersburg 54 percent of the population has access to Internet and in Yekaterinburg it is 56 percent.

Gradually the regional cities become more like Moscow, not only in terms of the Internet users number, but also in terms of Internet access type available to their inhabitants. Thus, in July 2009 the broadband access to Internet from home was available to 17,982 million Russians, and from their office or school — to 5 547 million people, which exceeds last year's figures by 47 percent and 3 percent accordingly. And thereupon the development of the broadband Internet offers big opportunities for providing more

years 91 percent use the Internet. And if we look at Russia as a whole, this figure becomes 83 percent which is a little bit lower, but still huge.

This means that in midterm perspective the audience will grow owing to older groups (starting from 35 years) and we already see this in Moscow.

Moscow is a good example when we talk about Russian Internet market perspectives. But there's always the backside of the medal. By increasing the penetration level, the Internet suffers a risk of losing the premium status of its audience. A few years ago we were saying that the biggest part of the Internet audience is the most attractive to advertisers segment — active, well-to-do, advanced consumers of middle and young age. And they are still there. However we saw that apart from them, there are other categories of the population among Internet users. In other words, by its structure of the audience, the Internet begins to look more and more like the Russian population in general. The same thing happened to the TV audience at some point in time.

All the above refers to Internet in general. However, the picture will be incomplete if we don't mention the web projects that attract most people irrespective of their socio-demographic characteristics and behaviors. Among the top 5 Russian Internet portals there are Yandex, Mail.ru, Rambler and social networks Vkontakte.ru and Odnoklassniki.ru. Practically every Internet user visits one of the mentioned web sites once a month. As of July 2009, the total audience of these web sites is around 22,287 million Russians, which is 1.3 million greater than in January 2009.

Hence the Russian Internet continues to demonstrate positive dynamic despite of the current difficult economic situation.

### Today, at least 60 percent of the Moscow population that is 12 years and older uses the Internet at least once a day.

grew by 6 percent. According to the July 2009 TNS Web Index data 32.2 million people use Internet on average once a month, and 19.1 million people use it on average once a day.

We witnessed the most considerable growth 10 percent in the relatively small cities with population of around 800,000

complex Internet content to users.

The Internet usage is influenced mostly by the age of the audience: the younger the Russians, the higher is the share of the Internet users among them. There are practically no youngsters left that don't use the Internet. For example, among the Muscovites aged 12-24

## Anti-Virus Software Is Not Enough



By **Nick Rossiter**  
Regional Director Russia/CIS  
Symantec Corporation

The Internet security threat landscape has become more sophisticated and more aggressive, requiring a more sophisticated form of protection for computers and users. Malicious activity has increased sharply over the past year, compelling users to adopt more sophisticated protection software. Ninety percent of malicious code activity concentrates on stealing confidential information. Malicious activity continued to grow at a record pace throughout 2008 and into 2009.

Traditionally we just looked at keeping the bad things out, now it's about keeping the good things in as well! The information companies have and need to run their businesses is growing at over 60 percent per year. We now have the virtual office and the information follows the employee around so it is vulnerable at rest and in

motion and we have to be able to proactively manage and protect this vital asset. The new legislation on protection of private information coming into force in Russia 1st January 2010 will require both public and private sector organizations to comply rigidly with the rules on how this information is secured.

Every year Symantec issues an Internet Security Threat Report which provides a view of malicious activity detected by our Global Intelligence Network. More than 240,000 sensors in over 200 countries monitor attack activity on the Internet. Our latest report issued in April 2009 showed that we blocked more than 245 million attempted malicious code attacks worldwide every month during 2008.

As malicious code attacks continue to grow at a record pace we're also seeing that attackers have shifted away from mass distribution of a few threats to micro-distribution of millions of distinct threats. Cybercriminals are profiting from creating and distributing customized threats that steal confidential information, particularly bank account credentials and credit card data.

Web surfing remained the primary source of new infections in 2008, and this trend is continuing into 2009. Attackers are relying more and more on customized malicious code toolkits to develop and distribute their threats. Threats with a keystroke-logging capability—which can be used to steal information such as online bank account credentials—made up 76 percent of threats to confidential information, up from 72 percent in 2007. Organizations in Russia have a much larger volume of personal information when compared to their counterparts in the rest of the world, which places even more im-

portance on the management and protection of this vital asset.

This kind of information can be alarming, but businesses should not panic. It's important that businesses and users of the Internet understand the seriousness of the threat, but at the same time it is possible to protect information effectively.

The most important factor to bear in mind is that attacks are becoming more sophisticated and merely installing anti-virus software is not enough to protect a system.

Malicious code these days consists of several components, all of which attack a computer sometimes simultaneously. A user can unwittingly download a Trojan by clicking on an automatically-generated spam message, the Trojan can then install code that disables a computer's security reporting function, and sends out instructions for other functions to be executed such as gathering user id and passwords, and so the process continues. With this type of threat an anti-virus alone would not protect a computer.

Companies must install software with multi-tier protection — including firewall, network access control, anti-virus, anti-spyware, host- and network intrusion prevention, application (software) control and device control.

The unfortunate reality is that innocent web users can visit a compromised web site and unknowingly place their personal and financial information at risk. Or plugging in an infected USB device can devastate an entire network. Computer users have to be extra vigilant about their security practices, and they need to carefully investigate the technology available to ensure their systems are protected at all levels.

## The Domain: Invader or Victim



By **Anna Shmalyuk** Intellectual  
Property Specialist  
Capital Legal Services

In the Middle Ages, domains were a privilege of the crown and its vassals. Domains served as a means of entrenchment of royal power and as the main source of income of feudal lords. Although the domain moved from the tangible world to the virtual reality and almost anyone can become the owner of a domain, the value of some domains is quite equivalent to the value of a fief. For instance, a \$22 million bid was made at an Internet auction for the poker.com domain name.

The number of domains in the world wide web, which celebrated its 20th anniversary this year, is growing rapidly: This July the number of domain names in the .ru zone stepped beyond the symbolic milestone of 2,222,222 names. Domains are becoming ever scarcer with each passing year, as currently there are no four-letter .com domains or three-letter .ru domains left.

The number of disputes is growing at a commensurate rate, both between the owners of domains and with holders of exclusive rights to means of individualization, and the number of cases of Internet fraud is likewise growing, as they take the form of cybersquatting (registration of a domain name which includes another party's trademark or a company name, for the purpose of its sale or advertising the squatter's own goods or services), typosquatting (registration of well-known domains with insignificant 'typos' to attract clients from other sites, for instance www.lenta.ru or jandex.ru), or phishing (creating domains for the purpose of harvesting personal information from a user).

One instance of cybersquatting was the registration of the rospatent.ru domain name, which coincides with the name of the Federal Service for Intellectual Property, but owned by a private patent agency.

Unfortunately, Russian companies are reluctant to take legal action to protect their rights, as they prefer buying domains, thus facilitating the growth of this illegal business. However, court practice shows that in some cases it is possible to succeed.

Domain disputes of an economic nature are examined by commercial arbitration courts, and companies that provide services on registration of domains may be

AvtoVAZ acquired the rights to www.avtovaz.ru and www.lada.ru domain names, while LAD-M failed to cancel the registration of the www.lad-m.ru and www.ladm.ru domains, since their registration occurred before its trademarks' priority dates.

There is one more approach that stipulates that a domain name may not be classified as a result of intellectual activity and means of individualization, and, therefore, it is illegal to use the concept of priority in respect of domains. In this regard it is recommended to use the legislation on protection of competition.

This approach seems to be more adequate since it is based on actual provisions of the legislation. Besides, single use of 'first come, first served' principle without regard for all the aspects of a case does not bring an equitable resolution.

The legislation on protection of competition, however, is not always appropriate to use, since competitive relations should exist, and that is difficult to confirm in the case of classic cybersquatting, which consists of registration of a domain name solely for purposes of its resale and provided no commercial activities are conducted under such domain name. The provisions of IP law cannot be applied either, as far as potential mixing with a trademark pertaining to similar services/goods should occur following use of a domain.

Lack of proper legal regulation also creates grounds for so-called reverse domain hijacking by registering a trademark. Although the Russian Civil Code prohibits registration of a trademark identical to a domain name registered earlier, the notion of identity provides vast opportunities for speculation.

The procedure elaborated by the World Intellectual Property Organization, called the Uniform Domain Name Dispute Resolution Policy, which is applied to resolving domain disputes in approximately 60 domain zones, including .com, .net and .org is more efficient. The WIPO has over 10 years examined over 15 thousand cases within the framework of the UDRP. The main requirement of this method, with respect to registration and use of a domain name, is that a bona fide intent is present. Within this context the Resolution of the Presidium of the Supreme Arbitration Court on a case pertaining to the denso.com domain name is rather significant, since the court took into consideration the resolution of the WIPO Arbitration and Mediation Center and indicated that the UDRP may be used for resolving court cases with respect to the domains in the .com zone.

In recent years, particularly in connection with the new forthcoming system of generic top-level domains (New gTLDs) introduced by ICANN and delegation of the Cyrillic domain .rf (.рф), problems associated with domain names are being extensively discussed and new regulations are being developed. Nevertheless, the current situation requires prudence from the owners of domain names and trademarks: prior to registration of a domain or filing a trademark application, one is advised to make sure that there are no possible obstacles and to assume complex measures against their occurrence in future.

### CAPITAL LEGAL SERVICES

Attorneys at law

Moscow: + 7-495-970-1090

St. Petersburg: +7-812-346-7990

### Full range of legal services

- Corporate and finance transactions
- Tax advice and tax litigation
- Real estate transactions
- Dispute resolution
- Protection of intellectual property
- Domain disputes resolution
- Protection of trademarks and copyrights

**SURF THE CRISIS**  
WWW.CLS.RU

advertising