

## Russian ecommerce draws global private equity

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In yet another example of foreign investment finding its way into Russia's promising ecommerce market, a group of private equity firms tells bne it has struck a deal to invest \$45m to take a minority stake in [B2B-Center, Russia's largest online procurement player](#).

Private equity investors are particularly looking to the new generation of companies serving Russia's promising online consumer and business-to-business markets, many of which have either become or are set to become Europe's largest over the next few years.

With 50.8m internet users registered in September 2011, Russia has overtaken Germany as the largest internet market in Europe. This is currently driving 17 per cent annual growth in ecommerce. The market was worth just \$20bn-\$22bn in 2010; analysts it will grow by as much as 30 per cent a year to top \$100bn before the end of the decade.

Such potential is drawing in global private equity investors looking for the kind of returns identified by the European Bank for Reconstruction and Development in a recent report. It found that private equity markets of the former eastern bloc have outperformed all other markets globally over the last 10 years, yielding annual returns of between 15 per cent (CEE ex-Russia) and 24 per cent (Russia and the CIS region). Private equity funds invested \$4.2bn in Russia in 2011, double the \$2.2bn invested in 2010, with the average deal size increasing from \$50m to \$80m over the same period, according to Ernst & Young. ALPHA Associates, a Swiss-based private equity fund manager with more than \$2bn invested directly in CEE, in September 2011 invested in Ozon.ru, Russia's equivalent of Amazon.com. ALPHA joined several other international investors in a \$100m round of financing to further strengthen the company's position as the country's largest online retailer.

Now ALPHA has teamed up with New York-based Insight Capital Partners and Russian players Da Vinci Capital Partners and Runa Capital to take an unspecified minority stake with several board seats in B2B Center. It has half of a market estimated to be worth around \$45m a year – and growing fast.

"Eprocurement in Russia is growing at triple-digit growth rates," says Richard Seewald, a partner at ALPHA. "This was a chance to buy into a company that is cash-flow generative, is feeding its own growth and is very scalable with low fixed costs."

Oleg Jelezko, managing partner of Da Vinci Capital, tells bne that the deal demonstrates the interest among global institutional investors in high-quality Russian companies operating in the financial infrastructure sector, "which is expected to grow at a significant rate in the years to come triggered by technology improvements, needs for enhanced efficiency, profitability and open access through internet."

Another factor behind the investment is that the online procurement industry is also already consolidating, with this deal coming on the back of [the acquisition by SAP of Ariba](#), a US-based business similar to B2B Center with a global presence, for \$4.3bn.

Reasons to be cheerful

Established in 2002 by local entrepreneurs Alexander Boiko and Andrey Boiko – and with Mail.ru a current shareholder – B2B Center is benefiting from three major trends in Russia and elsewhere. First, the Russian government, keen to cut costs, is copying eprocurement initiatives implemented by public sector bodies in places like the UK, the US, Australia and EU as a way to increase efficiency and cost-savings in government procurement. It has also passed legislation to this effect, requiring from January 1 more government procurement to be carried out over the internet.

The anti-graft agency Transparency International highlighted to the European Commission in 2011 that eprocurement is not only a tool for bringing efficiency savings, but one that can help ensure transparency and integrity in EU public procurement, which is estimated to be worth approximately 16 per cent of the bloc's \$16tn economy in 2010.

"Eprocurement is a fantastic tool for reducing corruption and increasing integrity in public procurement systems," said John Warnes of Transparency. "Globally, there have been concrete examples in Albania and also in South Korea, amongst others. This shows that e-procurement provides not just a step, but a leap forward in terms of increasing the integrity of public procurement systems."

Second, companies around the world have been looking to slash costs since the crash in 2008. By paying just a flat annual subscription of a few thousand dollars to eprocurement companies like B2B Center, customers have access to thousands of suppliers who submit bids for goods and services in confidence. The customer can then choose the best supplier based on the strict criteria of the tender, helping to eliminate cost-raising factors like cronyism. "B2B Centre is already hosting billion-dollar transactions," notes Seewald.

Third, the crisis is forcing many western companies to look outside their own markets for growth, to Russia and other emerging markets. Eprocurement offers these firms a way to sell into those markets at little extra cost.

"It's not just Russian suppliers that are on B2B Center," says Seewald, "but international suppliers looking to expand into the Russian market."

<http://blogs.ft.com/beyond-brics/2012/06/01/russian-ecommerce-draws-global-private-equity/#ixzz1yK1yVAGo>