



Higher School of Economics

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**How to improve Customer Trust of online shopping in a pandemic time
by the digitalization of services and overall improvement of Decision Making
process by top management?**

Thesis submitted for the degree of Bachelor in

6B04104 Finance

6B04106 Management

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Nur-Sultan, 2021

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Abstract

Introduction

The world we knew no longer exists. One way or another, the epidemic touched everyone. Since the inception of COVID-19, the lives of billions of people have been unsettled. There were substantial changes to which they had to get used to. It took time for all of humanity to realize the importance of what was happening around and to accept new realities, because it has faced with something that have never encountered before.

The virus has had a profound impact on the movement of people. As a result, it led to a termination of activities and inability to go outside. Naturally, it was almost impossible to leave the home daily and everything had to be bought online: foodstuff, medicines and vitamins, clothes are also with no exception. Millions of people were sent to work from home. Loss and destruction statistics are already known for production supply systems and industrial operations. Nevertheless, every cloud has a silver lining: the crisis has brought to the fore modern technologies and innovations that can reduce the damage done.

Business practices were changing before the COVID-19 pandemic, but in last year the picture has changed beyond recognition. The companies massively began to use clouds and digital platforms to support business processes and maintain productivity. Though, working remotely created the order of several challenges and issues for organizations in terms of providing sheltered system access to employees. Lots of business operations immediately enforced to be digitized: meetings, contracts, document subscriptions and usual day-to-day functions in a company.

All enterprise like restaurants, grocery stores, clothing store or any other started to deal online. What is needed now is to ask: how they earned the trust of customers?

Nowadays, the Internet offers a huge opportunity to

Research design

Literature review

E-commerce is the only area of the economy that is developing at a faster pace. Strategic miscalculations in the promotion of online stores lead to the fact that many of the online stores are closed without earning a single ruble.

Kotler F., Digital marketing is a marketing direction for promoting products and services through digital channels to reach consumers at all stages of interaction. In various sources, you can find different designations, such as: digital marketing, digital-marketing, digital-marketing, online marketing, electronic marketing, targeted marketing, internet marketing, interactive marketing. All of them directly refer to attracting a company to purchase products or services using a variety of methods, methods and channels to attract potential consumers in order to promote products, brand awareness and increase sales.

Shevchenko D.A. believes that digital marketing is a component of marketing that uses digital and Internet technologies, such as desktop computers, mobile phones, television, tablets. In addition, digital marketing is implemented in the form of QR-codes, which are currently quite popular.

Sergeev L.I. In general, the most significant channels of digital promotion can be called the following:

- 1) website,
- 2) search engines,
- 3) social networks,
- 4) mobile apps,
- 5) email address.

Khan¹ highlights that digitizing might initially be pricey, but the advantages exceed the cost in the long-term. Besides that, digitization is combined with several advantages, such as the improvement of access

¹ Khan, S. (2015). Digitalization and Its Impact on Economy. [online] www.semanticscholar.org. Available at: <https://www.semanticscholar.org/paper/DIGITIZATION-AND-ITS-IMPACT-ONECONOMY-Khan/51950dbb469ff8ac65c20a0929a63e76ed619317?p2df> [Accessed 12 Oct. 2021].

to information inside the company as well as with the external stakeholders e.g., consumers are no longer limited by distance or availability of hard copies of materials such as blueprints or reports. The free flow of information not only benefits the consumer; it also creates value to the companies that provided that information by gathering data about the consumer's preferences, behavior, and location. This information is then used to design and place products better for the target audience². Furthermore, changing the way of operating by digitizing is essential to enhance efficiency and productivity³. Finally, digitization is cost-effective, which is another beneficial factor, and the overall relief of communication is facilitated in a clear manner.

In addition to the main channels presented, the following are additionally distinguished: game consoles, digital television, interactive screens, and self-service terminals. As digital platforms are increasingly incorporated into marketing strategies and daily life, and people increasingly use digital devices instead of visiting offline stores began to spread digital marketing campaigns using combinations of search engine optimization (SEO), search engine marketing (SEM), content marketing, influence marketing, content automation, marketing campaigns, data-driven marketing, marketing in e-Commerce, social media marketing, optimization in social networks, direct email marketing, display advertising, electronic advertising, books, optical disks and games have become common JAVA equipment⁴.

Digital marketing applies to non-Internet channels that provide digital media, such as television, mobile phones (SMS and MMS)⁵. Spreading to non -internet channels distinguishes digital marketing from online marketing. Digital marketing is the most important practice of creating and managing an e-business and is increasingly the main source of customer revenue and sales in a wide range of organizations.

² Friedrich, R., F. Gröne, A. Koster, and M. Le Merle. (2011). Measuring Industry Digitization: Leaders and Laggards in the Digital Economy. PWC Strategy, originally published by Booz & Company, December 2011. [online] Available at: <https://www.strategyand.pwc.com/gx/en/insights/2011-2014/measuring-industrydigitization-leaders-laggards.html>

³ Mergel, I., Edelman, N. and Haug, N. (2019). Defining digital transformation: Results from expert interviews. *Government Information Quarterly*, 36(4), p.101-385.

⁴ EBSCO Publishing Service Selection Page. – URL: <http://eds.b.ebscohost.com/eds/pdfviewer/pdfviewer?sid=484a9795-b6bb-4ed8-a329-e4c2c29-7707%2540sessionmgr14&vid=1&hid=103> (date of application: 12.10.2021).

⁵ Digital Marketing. Techopedia. – URL: <https://www.techopedia.com/definition/27110/digital-marketing> (date of application: 11.10.2021).

Accordingly, there is a significant demand for digital marketing skills in industry and in the labor market as a whole⁶.

Combined with higher levels of consumer awareness and demand for more sophisticated consumer offerings, this change has led many companies to rethink the outreach strategy and adopt or implement multi-channel, non-linear marketing techniques to maintain sufficient brand awareness, engagement, and reach⁷. Non-linear marketing strategies involve actions to adapt ads to different platforms and adapt ads to different individual customers, rather than to a large, consistent audience⁸.

Tactics may include:

- search engine optimization (SEO),
- social media marketing (SMM),
- video marketing,
- an advertising newsletter,
- blogging,
- website marketing,
- paid search/contextual advertising⁹.

Some studies show that consumer responses to traditional marketing approaches are becoming less predictable for businesses¹⁰. According to a 2019 study, nearly 80% of online-consumers in the United States have researched products and brands online before visiting store or making a purchase¹¹. Global Web

⁶ Digital Marketing Systems and Techniques. Warwick. – URL: <https://warwick.ac.uk/fac/sci/wmg/education/wmgmasters/structure/modules/dmst/> (date of application: 10.10.2021).

⁷ The evolution of consumer behavior in the digital age. – URL: <https://medium.com/analytics-for-humans/the-evolution-of-consumer-behavior-inthe-digital-age-917a93c15888> (date of application: 12.10.2021).

⁸ Integrated marketing: the nonlinear connected buyer journey. – URL: <https://www.i-scoop.eu/integrated-marketing-nonlinear-connected-buyer-journey/> (date of application: 13.10.2021).

⁹ Major Brands That Use Nonlinear Digital Marketing To Engage Consumers. – URL: <https://businessdiary.com.ph/14577/5-major-brands-that-usenonlinear-digital-marketing-to-engage-consumers/> (date of application: 11.10.2021).

¹⁰ How brands are using nonlinear marketing to address consumer resistance to traditional marketing strategies. – URL: <https://www.ingentaconnect.com/content/hsp/jbs/2018/00000006/00000004/art00008> (date of application: 12.10.2021).

¹¹ Study Finds Consumers Research Before They Buy. – URL: <https://www.pymnts.com/news/retail/2019/omichannel-e-commerce-consumerhabits/> (date of application: 13.10.2021).

Index estimates that in 2019, just over 50% of consumers researched products on social media¹².

The pandemic has spurred the development of the retail e-commerce market in Kazakhstan. According to PwC Kazakhstan research, this segment has grown by 93% over the year. At the same time, the COVID-19 epidemic has noticeably reoriented the market. Most often, Kazakhstanis began to buy everyday goods and food online¹³.

According to the study, if in January-September 2019, Kazakhstanis bought goods worth 198 billion tenge through online channels, then for the same period in 2020 they already bought 382 billion tenge. The share of online orders in the average receipt is also gaining momentum. If for 9 months of 2019 online transactions in the receipt occupied 18%, for the same period of 2020 - 63%.

It was the second quarter of 2020 that had an unprecedented effect on the entire retail industry. In April-June 2019, the volume of online sales in Kazakhstan amounted to 113 billion tenge. Compared to the same period in 2020, this figure increased by 59%. The average check in the e-commerce market also increased: in tenge by 37%, in dollars - by 25%.

The lockdown introduced in Kazakhstan in the spring of 2020 had a significant impact on the growth of online sales. Representatives of small and medium-sized businesses who had not previously considered switching to the e-commerce sector found themselves under pressure from the COVID-19 pandemic and lost access to customers. Many key players in the e-commerce sector have strengthened their positions in the market due to an established online system and an increase in transactions by 16%¹⁴.

Businesses often rely on people to portray their products in a positive light on social media, and can adapt their marketing strategy to target people with a large number of social media followers to generate

¹² Social Media Statistics You Need to Know in 2020. – URL: <https://www.oberlo.com/blog/social-media-marketing-statistics> (date of application: 12.10.2021).

¹³ How the pandemic is transforming the e-commerce market. – URL: <https://kapital.kz/business/91800/kak-pandemiya-transformiruyet-rynok-e-commerce.html> (date of application: 12.10.2021).

¹⁴ How the pandemic is transforming the e-commerce market. – URL: <https://kapital.kz/business/91800/kak-pandemiya-transformiruyet-rynok-e-commerce.html> (date of application: 12.10.2021).

such reviews¹⁵. In this way, businesses can use consumers to advertise their products or services, which reduces the company's value¹⁶.

Brand awareness consists of the following components:

- easy access,
- competitive advantage,
- efficiency.

In recent years, the world as a whole and Russia in particular have seen high growth rates in the volume of online commerce, which indicate a change in consumer preferences towards a gradual increase in purchases in online stores and a reduction in the purchase of goods in traditional retail chains¹⁷. According to Data Insight, the global e-commerce market reached \$30,6 billion in 2019.

Due to the lack of standard terms in our country, official statistics on e-commerce, as well as a unified system for measuring all sectors of online commerce, indicators that characterize its development are based only on expert assessments and the results of various research centers¹⁸.

Thus, according to the Association of E-Commerce Companies (ACIT), the volume of e-commerce turnover in Russia in 2019 amounted to 2,03 trillion rubles. ACIT estimates its online customer base at 47,2 million, which is 4,4 million more than a year earlier.

The research company Data Insight provides more modest figures for the turnover of online commerce – 1,61 trillion rubles, than their colleagues from ACIT. But according to various sources, the turnover of e-commerce has been growing in recent years solely due to the growth in the number of orders (in some part due to new customers), while there is a steady decline in the average check size.

¹⁵ Consumers trust user-generated content more than traditional advertising. – URL: <https://www.zdnet.com/article/nine-out-of-ten-consumers-trust-ugc-more-than-traditional-advertising/> (date of application: 12.10.2021).

¹⁶ Key Benefits of User-Generated Content (and How You Can Achieve Them). – URL: <https://www.socialmediatoday.com/social-business/6-key-benefits-user-generated-content-and-how-you-can-achieve-them> (date of application: 13.10.2021).

¹⁷ Murar, V.I. Modern trends in the development of the Russian e-commerce market // Bulletin of the Voronezh State University. Series: Economics and Management. – 2019. - No. 2. - P. 65-69.

¹⁸ Shaidullina, V.K. The state and prospects of electronic commerce in Russia // Bulletin of the University. – 2019. - No. 4. - P. 118-123.

Despite the fact that the high trend of e-commerce development remains, it cannot be said that it is of crucial importance in the country's retail trade turnover. The share of online commerce in our country's GDP is only 1,3%, which is two times less than in the United States. On a per capita basis, the Russian e-commerce market looks even more modest and amounts to about \$170, which is ten times less than in the United States. According to the results of 2019, the turnover of e-commerce in the total volume of retail trade in the country amounted to 4-5%. For comparison, we note that in Germany and the UK, this figure is 15-20%.

Buyers are deterred from remote trading by the fact that the product description may not actually match the quality of the delivered product in reality. In the catalog, the product looks beautiful, without flaws, and the product is delivered with dull colors, uneven seams and defects. Of course, the buyer has the right to return the product that they don't like, but since they lost time waiting for it, and there is no guarantee that the other one will be better, they are content with what the retailers sent. However, next time he will not be in a hurry to make online purchases on this site.

Another reason for the weak development of e-commerce is the possibility of fraud on the Internet. Some websites that receive a prepayment for the ordered product do not fulfill their obligations at all. You can, of course, hold retailers accountable, but because of the small amount, customers do not do this, which is exactly what scammers expect. The penalty applied in this case for non-fulfillment of obligations should not only compensate for material and moral damage to the client, but also prevent the repetition of such actions by unscrupulous online market participants. If the transaction value is not more than 1000 rubles, you should set a minimum fine of 10000 rubles, and if the order value is more than 1000 rubles. Set a penalty of ten times the order price. Perhaps in this case, customers will be interested in suing unscrupulous retailers, and the latter will not disrupt deliveries. As a result, customers will have confidence in online sales, which is very important for their growth.

Remote trading (including online trading) depends on the order delivery system. Logistics today is a weak link in this market segment. Online stores use various marketing techniques to attract new customers: accrual of points or bonuses to customers, gifts from retailers, refunds in case of delivery deadlines. In some

cases, this brings success.

The coronavirus pandemic has made significant adjustments to the structure and content of online trading. In the conditions of self-isolation, only grocery stores and pharmacies continued to work. According to analysts' estimates, three-quarters of Russians minimized their visits to stores during self-isolation, and many grocery stores at home reduced sales by 20-30%, and supermarkets by 40-60%.

These are difficult times for traditional trade, especially non-food trade. Having no revenue, and therefore no income, they have to pay rent, staff salaries, loan interest, taxes, and other expenses. Irreparable losses are incurred by stores that sell seasonal fashion products: the season will pass – the fashionable branded item will remain absolutely unnecessary by the next season. The tourism business collapsed, and the service and leisure industry enterprises were closed.

In Western countries, enterprises affected by the coronavirus pandemic receive assistance from the state, which cannot be said about domestic business. This suggests that the state is not in a hurry to help domestic business, but knowing and rather assuming such an attitude on the part of the state, business does not want to come out of the shadows. The volume of the shadow economy is significant, especially in the regions. This is why some businesses resumed operations without much effort after 3-4 months of downtime, which means that they had a «financial airbag».

In the early days of the self – isolation regime, everyday goods (Fast Moving Consumer Goods, – FMCG) began to be swept off the shelves of stores FMCG. Prices in the FMCG segment rose sharply, and households increased their consumer inventory to 3-4 months of consumption. In the first days of self-isolation, flour, cereals, canned food began to be bought for future use. Many people expected the introduction of a card system for food products. To the surprise of customers, the food market withstood the shock. The coupon system for essential goods did not have to be introduced, and the market balance was quickly restored, and only the sale of sanitizers and individual medicines was disrupted. We can expect that if the pandemic repeats, both sellers and buyers will learn from this story. And regulators should keep this experience in mind.

At the same time, the pandemic unwittingly acted as a catalyst for the development of distance trading in all regions and in all possible directions. For distance trading, the following characteristics are typical:

- sale of goods under a retail purchase and sale agreement concluded on the basis of the buyer's familiarization with the product description offered by the seller;
- catalogues, brochures, booklets, photographs transmitted by the seller to the buyer via postal and telecommunication networks, including the Internet, as well as communications for broadcasting TV and radio channels are used to describe the product;
- the possibility of direct acquaintance of the buyer with the product or a sample of the product is excluded when concluding a contract for the remote sale of goods.

You can mostly buy food, over-the-counter medicines, clothing, household appliances, furniture, and other consumer goods remotely. It is not allowed to sell alcoholic beverages via the Internet, as well as goods that are prohibited or restricted in circulation on the territory of the country.

With the remote method, the seller is obliged to offer the buyer services for the delivery of goods, and the fee for such service is determined by the seller himself. The seller must also notify the buyer of the need to attract qualified specialists to put the product into operation. The Law of the Russian Federation "On Consumer Protection" obliges the seller to provide the buyer with information about the consumer properties of the product and the buyer's right to return the product to the seller in accordance with the legislation of the Russian Federation.

The coronavirus pandemic (COVID-19) and the self-isolation regime have accelerated the development of e-commerce. So, according to Data Insight Analysts Insight, by 2024, the average annual growth rate in this area will be 33,2%, which is 6,6 % higher than the predicted value without the pandemic. According to their own data, during the period of self-isolation, at least 15 million people came to Russian online retail¹⁹. Online stores themselves report a two-to three-fold increase in the number of new customers

¹⁹ The pandemic has engulfed online commerce. Kommersant newspaper, No. 110 dated 25.06.2020. - URL: <https://www.kommersant.ru/doc/4390945>

during the pandemic. So, on Wildberries, which is the leader in terms of turnover among online retailers in the Russian market, for three months from mid-March, about 6 million new users registered (registration in the service is mandatory for purchases), which is almost three times higher than the same indicator last year. On Ozon, the number of active customers also almost doubled in April of this year.

Online stores have become two to three times more likely to sell basic necessities, as well as immune-boosting products, sanitizers, and various vitamins.

In the context of the pandemic, the structure of distance trading has changed dramatically. The main place in the turnover of online trading was occupied by the FMCG segment. The FMCG market accounts for more than half of all consumer spending. There are tens of thousands of product items on the market, which include: food and beverages; decorative and hygienic cosmetics; personal hygiene items; laundry and cleaning products; pharmaceutical products; and other short-term goods.

The following features of FMCG segment sales can be distinguished:

- high turnover of goods, providing a significant amount of revenue and a lot of profit;
- a small life cycle that leads to daily demand and frequent purchases, short-term or short-shelf-life goods that are consumed quickly;
- low price and easy replacement.
- the high volume offer also compensates for the low profitability of individual sales.

As an investment, FMCG shares usually yield low returns, but they are safe bets with predictable margins and stable regular dividends. After the end of the self-isolation period, the FMCG e-commerce market will gain a new foothold, so it is important for companies to use the current situation to finally form the loyalty of those consumers who first used such services and secure a place in the market for many years to come.

During the pandemic, the delivery of food and basic necessities via the Internet has become the only means of communication with the world for many self-isolated or sent to forced quarantine Russians. There was a sharp influx of customers to online grocery delivery services, which even led to a failure in the

provision of their services.

Consumer flexibility, the understanding that online purchases can save time, have led many to introduce and develop a new sales channel.