MCM OUTLOOK 2014

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GLOBAL ECOMMERCE

MCM Outlook 2014: Global Ecommerce Opportunity Beckons — But Do Your Preparation

BY MIKE O'BRIEN

If you're a merchant and you're not engaged in global ecommerce, you're missing out on a massive opportunity. Trends like slower growth in domestic ecommerce relative to other countries and increased website traffic from non-U.S. IP addresses are clear signals that legions of ready and willing online buyers await across the globe.

While the opportunity is clearly there, a number of obstacles need to be addressed, and engaging with solution partners experienced in cross-border trade is often a wise course of action. Overall, merchants need to enter global ecommerce with a clear plan and strategy in place, starting slowly and building on successes.

According to eMarketer, global B2C ecommerce sales will rise 20.1% in 2014 to $1.5 trillion. The growth rate is projected to slow somewhat in 2015, increasing 17.75 to $1.77 trillion.

Kris Green, chief strategy officer for cross-border ecommerce solution provider Borderfree, told attendees at Multichannel Merchant's inaugural Growing Global conference in July that most merchants have been seeing between 15%–20% of their online traffic coming from global IP addresses, causing them to realize the tremendous size of the opportunity.

"Beginning with the recession in 2008, retailers dependent on domestic ecommerce felt exposed when consumer confidence and spending took a hit," Green said. "Therefore, global ecommerce was seen at the time as not just a growth opportunity but a defensive measure to offset that decline."

But while the opportunity is clearly there, many merchants remain hesitant to jump in. In the MCM Outlook 2014 survey, which was fielded from Feb. 10 to March 10, only 27% of merchant respondents said their websites were set up for global ecommerce (Figure 1). Of the 1,281 respondents, 470 identified themselves as a merchant or retailer.

Is Your Ecommerce Site Set Up for Global Business?

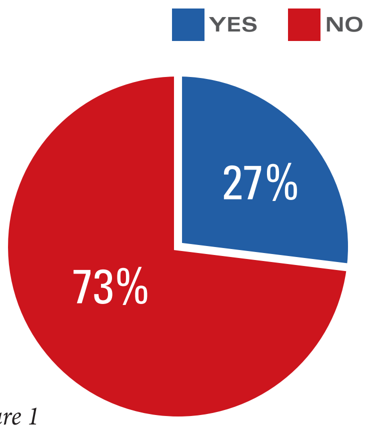


Figure 1

"While interest in international ecommerce has enjoyed a nice groundswell, it's still a niche topic that's not high on the radar of most ecommerce retailers," said Jim Okamura, managing partner for Okamura Consulting, who added he has seen similar adoption figures. "Relative to domestic opportunities, international still appears perhaps harder than it might be in reality. And it's not a slam dunk to just start selling globally, and expect it to yield good returns, whether you're a mom and pop or a big global brand. There are usually other competing priorities that rank higher for the business."

Chris Smith, vice president of ecommerce and catalog for Jockey, said he saw two basic reasons why more merchants haven't jumped into global. "One could be the value of the products relative to the cost to ship them, so they don't see it making economic sense," Smith said. "Secondly, in some cases brands have licensed their operations to in-country global marketers."

Ian MacDonald, ecommerce manager at Silver Star Brands, said a move to global ecommerce means a reshuffling of priorities. "If you spend the time and money to do it, you must sacrifice something else on the to-do list, and global is still a small percentage of business for most retailers," MacDonald said. "But if you're doing $50 million or more in sales, that small percentage can be a sizable number."

Cross-Border Payments a Critical Consideration

Of those respondents who said their website was set up for global ecommerce, the largest number (35%) said their site provided international payment offerings, followed by translation services (21%) and currency calculators (19%).

How Is Your Website Set Up for Global Business?

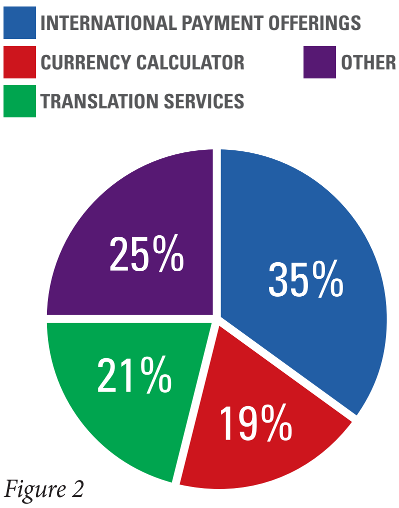


Figure 2

The type of payment options to offer vary country by country, based on what shoppers have become accustomed to and what the local trade laws allow. For instance, most Chinese consumers don't have credit cards as it remains largely a cash society, and COD payments are still common, although there is a growing shift to programs like Alibaba's AliPay and online payment service Tenpay.

Similarly, in Brazil, less than 10% of consumers have a credit card and payments are a challenge outside of engaging with a service provider who has relationships with national and regional banks.

In western European countries, especially France, online privacy restrictions are a payment issue as warnings about cookies and privacy terms appear at checkout. Alex Golshan, vice president of omnichannel and international ecommerce for fashion retailer BCBG, said he has spent hours with a French legal group reviewing privacy policies. "They complicate things," Golshan said of the policies. "To us, if we did these things like privacy checkboxes at checkout in the U.S. it would be a conversion killer. But in Europe it's almost expected."

This same story of country or region-specific payment issues is replicated across the globe. This is why merchants pursuing a global course often opt to go with a solution provider or a local partner to ensure that consumer payments end up in their account on a timely basis.

Okamura said a merchant's overall operating plan for cross-border ecommerce in a particular country – including how payments are handled – should be driven by its overall business strategy and not the other way around.

"The business strategy defines where you want to go, and what type of customer experience you want to deliver," he said. "What kicks out of that are things like what is a suitable payment method that fits that strategy? It's clearly high on the list of localization efforts, providing a comfort level that allows consumers to buy in their currency of choice and using a preferred payment type."

Marketplaces Dominate, Make Excellent Entry Points

In the MCM Outlook 2014 survey, the greatest number of respondents (40%) said they sell to global customers through an online marketplace, while 33% said they do so through an international version of their website.

At MCM's Growing Global conference, and in many conversations with experts and thought leaders, online marketplaces were cited as an ideal starting point for merchants looking to get into global ecommerce, for a number of reasons:

- Low level of investment
- Massive traffic volume
- Value-added services (payment options, localization, merchandising tools, customer care, etc.)
- Vast reach
- Consumer familiarity and popularity

"Think of marketplaces as all-in-one shops," said Kent Allen, principal of The Research Trust. "There are all the services they bring to the table, as well as the demand generation and traffic generation component, which is important in terms of the success equation. Marketplaces make a lot of sense, especially for smaller brands that might not be as well-known or have stores or established retail channel partners in other parts of the world."

How Do You Sell to Global Customers?

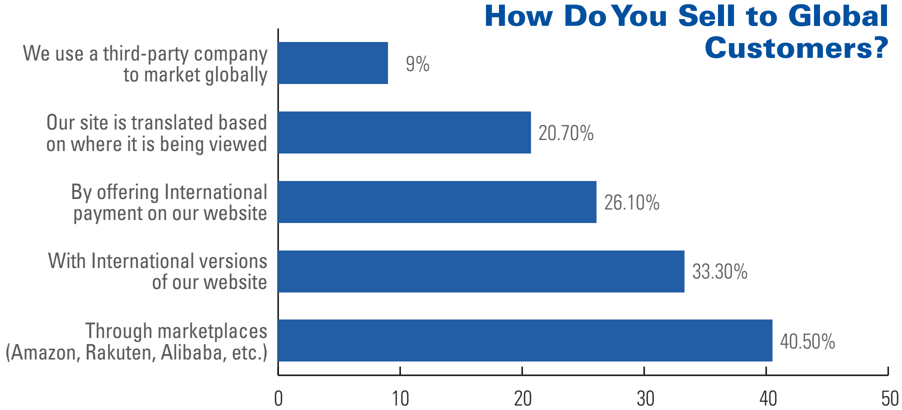


Figure 3

Global Shipping Options Run the Gamut

In the MCM Outlook survey, the largest number of respondents (26%) said UPS was their primary international parcel carrier, followed by FedEx and the United States Post Office (18%) and DHL (12%).

As with payment solutions in global ecommerce, Okamura said decisions around shipping and fulfillment should be based on a company's underlying business model and strategy. This includes when to use major carriers versus regional ones, or those with particular expertise in a country or region.

"They need to decide things like will inventory be based in an offshore region or country, in which case it becomes more of a local carrier decision," Okamura said. "If it's more of a cross-border model, they need to determine which are the best carriers based on orders that originate from a U.S.-based center."

Allen said while the major carriers do a good job and reach into about 220 countries, merchants should explore their options in terms of regional shippers, consolidators and aggregators or single-trade-lane specialists with enough volume to be able to offer fast delivery at lower rates. "If shipping on an item is $10 less, you'll see a significant uptick in conversion," he said.

In some major markets like China and India, ecommerce opportunities are considerable but the infrastructure in outlying areas – or lack of it – present particular logistical challenges.

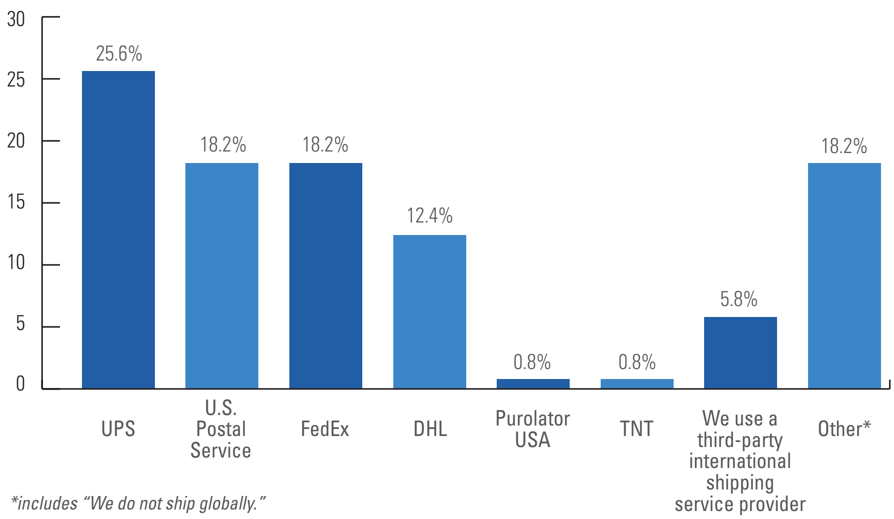
Chris Boyle, president and CEO of Access Technology Solutions, a panelist in the China overview at Growing Global, recommended that merchants looking to do cross-border ecommerce in China use so-called tier 2 cities – such as Chengdu, Chongqing, Dalian and Shenzhen – as gateways into the country. This is because the Chinese government, in an effort to boost economies in those cities, has built huge warehouses that aren't seeing a lot of volume.

While the total population of the 15 tier 2 cities accounts for only 8% of China's population, these markets receive more than 59% of total U.S. imports, according to the U.S. Commercial Service.

"You can get a good deal of clearance on fees, customs and duties working with officials in the tier 2 cities," Boyle said. "In the big cities, with so much volume flowing through, you're just one in a crowd. So there are some operational advantages in tier 2. However, there are very rudimentary logistics networks if you get too far out."

Which Company Is Your Primary International Parcel Carrier?

Figure 4



**includes "We do not ship globally."*

Canada, Australia Top Choices for Cross-Border Ecommerce

Canada (84%) and Australia (54%) were listed as the top choices by survey respondents when asked what countries they sell into, followed by Japan and New Zealand (39% each). Many American retailers and ecommerce experts refer to Canada as "the 51st state" because of its proximity and openness to U.S.-produced goods.

According to research from global card processing firm Payvision, 60% of Canada's online shoppers buy from U.S.-based merchants, and 37% of the world's cross-

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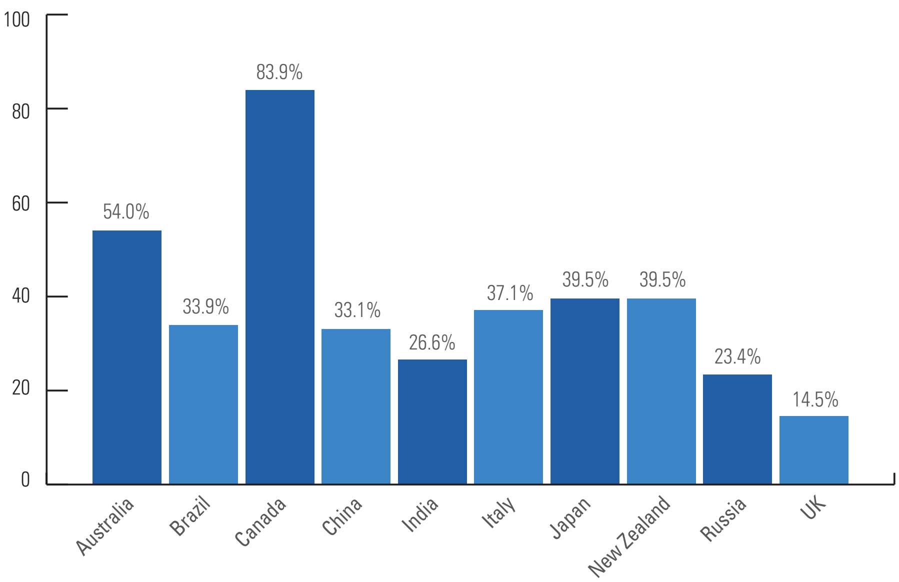
What Countries Outside the U.S. Do You Sell Into? *Figure 5*



border power shoppers are Canadian. Also, eMarketer reports that 7 out of every 10 online purchases made in Canada are from merchants outside the country.

"The reason Canadians are shopping online in such large numbers is either because they can't get it from domestic retailers, or because they can get a better price," said Misko Kancko, director of international strategy for Canada Post, at Growing Global. "There's a large flow of inbound goods."

Kancko said the primary reason for shopping cart abandonment cited by Canadian consumers is failure to offer promotions or discounts (60%), followed by lack of a clear returns policy (34%). Free or discounted shipping is also a major driver. "Those who offer a free shipping option see a 69% lift in conversions," he said.

Australia's ecommerce market benefits greatly from one of the most generous di minimis rates in the world: there are no import tariffs or duties on any item under $1,000 Australian. Consumers there also have high levels of disposable income, and goods sold at retail are expensive due to labor costs.

Allen said Australia sees a lot of inbound ecommerce, not just from U.S. retailers but from around the world as well. "The leading Australian brands have been somewhat slow to adopt ecommerce and omnichannel, and they're not as customer centric," he said. "Items cost more, there's a limited selection and the experience in store is not great, so there are lots of reasons to go online."

Boyle said there are a number of factors that make Japan a booming ecommerce market: Consumers there buy everything online; broadband mobile penetration is huge; an advanced delivery network; an affluent population; and ubiquitous use of credit cards.

He also said Japanese consumers have extremely high customer service expectations, so the entire experience needs to use the white-glove treatment.

"We've gotten calls from Japan and been told, 'There's a footprint on the box, we can't ship it,'" Boyle said. "To us is might seem minor if the box isn't damaged, but there's no way they're going to deliver it. The delivery person takes off their hat, bows and hands them the box." ■