Internet Retailing

eDX
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TAPPING INTO THE GROWING CROSS-BORDER COMMERCE OPPORTUNITY

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INTRODUCTION

Ecommerce has gone global. The desktop and mobile screens have extended the reach of shoppers beyond their own borders to practically anywhere.

Taking the EU as an example, a report by Research and Markets says that the share of online shoppers making purchases across borders increased by over 10 percentage points over the last five years, reaching over 40%.

As we'll see, a range of factors are driving online shoppers to look abroad, including price and the unavailability of products in their own markets. Conversely, factors like delivery speed which might be priorities for consumers buying domestically are less of a motivator.

The other side of the coin is of course that retailers also now have a global reach. According to a study by AliResearch and Accenture, the market will be worth nearly $1 trillion by 2020.

For companies that want to take a slice of this growing pie, it's crucial to have the right strategy in place. It is not always easy to get it right – major names such as Yves Rocher and Sephora have pulled out of the UK market in the last year.

Retailers need to have the right interfaces to sell to the customer, as well as the infrastructure in place to ensure they get the product and potentially are able to return it.

In this ebook, we will highlight some of the areas we most commonly come across in discussions of cross-border strategy.

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WHAT ARE CROSS-BORDER BUYERS LOOKING FOR?

According to DPD's E-shopper barometer 2017, over half of internet shoppers purchased from cross-border websites that year. Purchases made on foreign websites accounted for 19% of all goods bought by these customers, while a further third of online shoppers expressed an interest in doing so in the near future.

Sixty-seven percent of those buying cross-border chose websites located in Europe, while the same number looked outside the continent. The European activity was fairly locally focused, with 39% buying from neighbouring countries.

Of those buying outside of Europe, 44% bought from China while 31% bought from the USA. Encouragingly, the report found that 81% of shoppers were satisfied with their cross-border experience.

So what are the reasons for buying abroad? One is that some products may only be available from particular countries, either in sufficient quality or quantity. Services such as Parcl, designed to be a universal shipping service, have sprung up to fill in this gap.

Additionally, for a range of reasons, whether because they are closer to the manufacturer or because salaries are lower, sellers in one country may charge less for the same product or for a white label equivalent.

OVER HALF OF INTERNET SHOPPERS PURCHASED FROM CROSS-BORDER WEBSITES IN 2017

A 2018 report by PayPal on cross-border shopping found that the main reason consumers shop internationally is for better prices, cited by 72%. Products unavailable in their home country came second at 49% while the chance to discover new and interesting products was cited by 34%.

The survey also discovered that security was crucial, with consumers claiming they are looking for peace of mind that their order will get to them.

THE BASICS: KNOWLEDGE IS POWER

John Pearson, CEO of DHL Express, advises companies that want to sell abroad to first be aware of their potential market.

"The interesting thing is a lot of e-merchants are selling their product and say they're in the UK selling there," says Pearson. "They say that they only sell in the UK."

Pearson says that through analysis tools such as SimilarWeb, he can often demonstrate to these merchants that a far larger proportion of their traffic comes from abroad than they might think. Google Analytics may be an alternative.

The lesson is that your assumptions about where your audience lies may differ from reality. Find out whether you already have a market that you don't know about.

Depending on where you already have a market, work out which the best countries are to target based on factors such as cultural fit and the size and potential revenues in a market.

> Key takeaway: *What you don't know can't make you money. Be aware of how many potential or existing customers you might already have outside the UK.*

THE BASICS: INTERFACE

The online shopfront is where customers make their purchases and it's not surprising that conversion is one of the key metrics that online sellers consider. When selling abroad, there are a few additional things to consider.

Offering interfaces in local language is a good starting point, including areas such as product descriptions. Descriptions and product names should also be tailored to meet demand in the country.

When it comes to payment, first and foremost, customers need to be able to pay in their own currency. But they also need access to localised alternative payment methods. It's no good only offering payment by Visa or PayPal if the market's preference is for another method – for example, German retail group Otto recently started offering instant online payments.

> Key takeaway: *Localisation, localisation, localisation. Be aware of what local customers want and tailor your front end accordingly.*

THE BASICS: TAXES AND CUSTOMS DUTY

You will need an international business licence as a starting point. Matthew Harrison, EMEA sales manager at Avalara, explains how the approach to taxes and customs duties depends on where you are selling to. One aspect of this is rules around taxation. Depending on where somebody is shipping from or to, taxation can be either at the destination or origin rate.

Outside of the EU, each country has its own importation and exportation rules. These vary from either taxing everything that comes through, says Harrison, to only taxing things above a certain threshold.

He says that the most important thing to be aware of, especially when selling outside of the EU, is that either the retailer or the customer has to be listed as an importer on record. This will either mean that the customer pays additional duties when the product arrives or the retailer pays it and either absorbs this cost or passes it onto the consumer at some earlier stage in the process.

There is no right answer here. It is important to note that there is a difference in awareness around customs and duties depending on the customer's country. In the EU or UK people are often not used to paying additional costs when something arrives and may return the products. In other countries consumers will be more used to it.

> *Key takeaway: Find out what customs duty you need to pay and make sure you have worked out whether or how you are passing this onto the customer.*

D2C OR MARKETPLACE?

The 2016 cross-border ecommerce shopper survey by the International Post Corporation found that Amazon, eBay and Alibaba accounted for 65% of all cross-border purchases.

According to figures from InternetRetailing's research arm RetailX, marketplaces take a 47% share of all web traffic to IREU Top500 websites from EEA member states. This rises to 61%t in Germany and 58% in Italy.

The offering of a localised portal with a range of pre-built delivery and payment options means that the quickest way to gain a foothold in these countries is probably through engagement with marketplaces.

Quickest does not always mean best, of course. First and most obvious in the con column, of course, are seller fees.

But there are other dangers, which can be summarised as a general lack of control. Amazon in particular is coming under scrutiny from regulators for what merchants claim is arbitrary delisting of products, as well as the potential use of seller data to enhance their own product ranges.

THE BASICS: DELIVERY

One the one hand, delivery time is not usually the priority for cross-border shopping.

"Obviously parcel delivery is getting quicker but if they are ordering from the UK to Germany, they are planning ahead to get it and using a slower service but getting the quality right; they usually prefer to go for that option," says Tony Preedy, chief commercial officer of Fruugo.

According to Pearson of DHL, what delivery option to offer depends on the type of product. Shoppers who look abroad may be looking for premium products, which may be able to carry the cost of express delivery. They also may be looking for cheaper products, in which case a more standard option is probably adequate.

SHOPPERS WHO LOOK ABROAD MAY BE LOOKING FOR PREMIUM PRODUCTS, WHICH MAY BE ABLE TO CARRY THE COST OF EXPRESS DELIVERY

The need for speed

However, speed cannot be disregarded entirely. According to the IPC survey, the most common delivery issue cited by cross-border shoppers was that the delivery time was too long, given by 25% of respondents.

A lack of convenience was cited by 10% while 9% gave cost being too high as an issue. Accordingly, 32% of consumers said postal services should prioritise faster cross-border delivery, by far the most commonly cited area.

Meanwhile 18% specified providing more tracking information, 15% more choice in delivery times and 10% more choice in delivery location.

> *Key takeaway:* *Customers aren't expecting products the next day, but they do want visibility and consistency in the journey.*

THE BASICS: RETURNS

The study by International Post Corporation found that 8% of cross-border shoppers returned their parcels. For 22% of respondents to the PayPal study, the ability to return was crucial.

As Nathalie Cooper, international operation and product manager of Hermes explains: "Returns is an area that has completely boomed. You don't just buy one dress off a retailer. You might buy multiple, pick one and send the rest back. For example, there is a 55 to 60% return rate in Germany."

Returns present a cost and administrative burden for retailers at the best of times in their own markets, so it's not surprising that these burdens would be magnified abroad.

The most obvious solution to the problem of returns is to try and reduce them. But this doesn't mean slapping a confusing interface on the website or requiring the customer to spend hours emailing or phoning contact centres. This will lose you repeat custom, which could be especially damaging if the items are at the premium end of the scale.

With normal customers, it's a case of trying to ensure that you deliver on what the customer actually wants. Make sure product descriptions and imagery are as informative as possible.

With serial returners of the type Cooper describes, it is a case of managing the volume of returns as much as possible. Use automation as much as possible and streamline the interactions with carriers. Consider using a local integrator which will allow you to serve up a range of the best options, including solutions such as click and collect.

But as Tony Preedy, chief commercial officer at Fruugo points out, sometimes the cost of having the product sent back outweighs the value of the product. It might make sense not to ask for the customer to send the product back, but be aware that customers might take advantage of the policy to get free products.

> **Key takeaway:** *Aim to reduce returns, but prepare to make them as cheap as possible for both you and the customer.*

WE NEED TO TALK ABOUT BREXIT

It's hard to ignore the elephant in the room, which is the UK's exit from the European Union. But at the time of writing it's also hard to make any predictions about the form this will take, if it does take place on 29 March. This is not a given because some members of governments are pushing for an extension to the deadline.

If the country stays in the customs union or the single market permanently there will be a large degree of continuity, but as of the end of February this option seems unlikely as it has been ruled out by the governing Conservative party.

UK Prime Minister Theresa May's withdrawal deal will also keep the UK in the customs union for the time being, also allowing cross-border goods flows to continue as normal.

James Hookham, deputy chief executive of the FTA, said in a November statement that the deal "allow[s] frictionless trade and transport [to] carry on as normal after 29 March 2019 until at least the end of 2020, even though the UK had left the EU as planned.

"During that time the terms of the UK's new free trade agreement with the EU would be negotiated, which hopefully would remove the need for all customs and border checks on UK-EU goods permanently and continue the frictionless trade we currently have, as the government promised, even though the UK had left the EU Customs Union and the Single Market."

It is of course possible (and is the default option if parliament does not legislate for an exit agreement) that the UK could leave the EU without a deal, meaning that all existing treaties and customs agreements would be void overnight.

Cooper of Hermes pulls no punches, saying that no deal would create "absolute chaos" at the UK-EU border.

"Within four days, there could be complete gridlock up to Scotland," she says.

She highlights that there will be two lanes of traffic, one for goods that haven't been declared and one where they have. Hermes is advocating that retailers use a duty paid option, which means that retailers at checkout tell customers the VAT and duties. Customers then pay this and the retailer tells the courier, in this case Hermes, that this has been paid. Hermes informs the customs authority and the port says the goods can travel.

This allows the goods to travel relatively frictionlessly. The alternative is duty unpaid, where the duty and customs are not included in the price. When the parcel arrives in the customer's country the local postal service would hold the goods and tell the customer how much they have to pay before they can release the parcel.

CONCLUSION: THE OPPORTUNITY IS REAL

As we have seen, the demand from a new globally-minded consumer for your products may already be there. As long as the key legal barriers are overcome – areas such as customs require some navigation – there is no reason that a given online retailer cannot begin reaching out to these consumers today.