imrg
the voice of e-retail

The Future is a Foreign Country

A Passport to International Ecommerce

This whitepaper discusses the barriers and opportunities for e-retailers when it comes to trading across borders.

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1 Introduction

1.1 An inside out view

For once, I'm (almost) in the majority. I'm one of the 48% of UK online shoppers who've knowingly bought something from an overseas website. I guess that's better than being in the 13% who aren't sure if they have or not! (**Figure 1**):

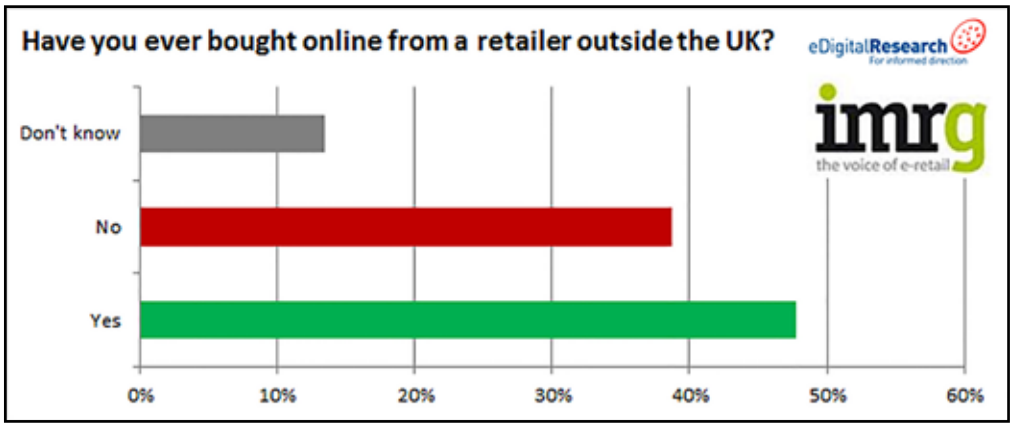

Figure 1 - % of UK Digital Consumers who have purchased from an overseas website[i]

What's more, I'm in the majority again when it comes to why I used the overseas site – I wanted something I couldn't find in stock at an acceptable price on a British site. As this IMRG commissioned survey shows, these are typical reasons for us to look for an online option outside the UK (**Figure 2**):

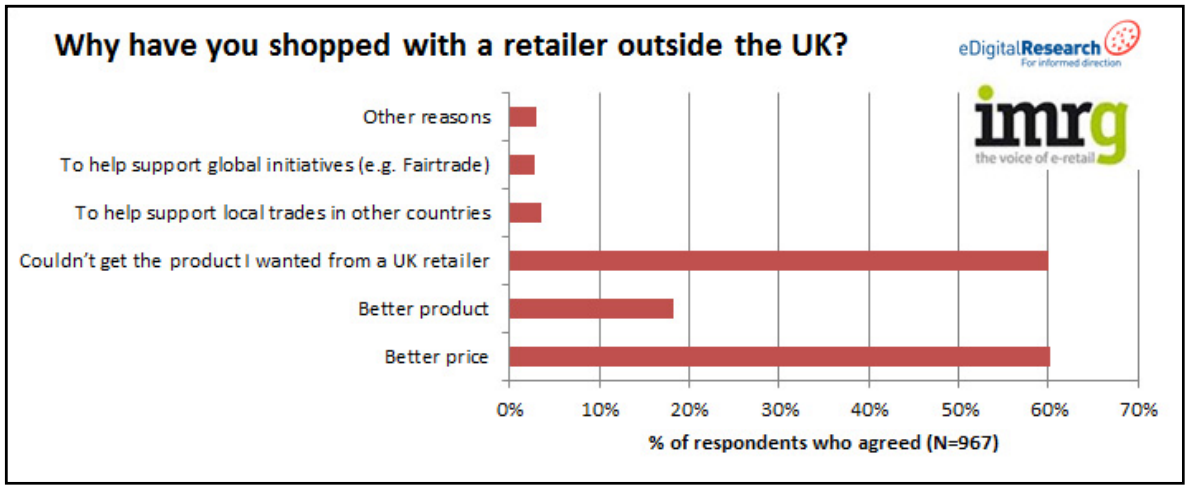

Figure 2 - why consumers shop online outside the UK[ii]

i IMRG eDigital Customer Service Index (eCSI), July 2014.
ii ibid

According to the same survey, almost 9% of consumers who bought from an overseas site only discovered it wasn't a British site after they had made the purchase. That wasn't the case for me: I could tell straightaway, because the pricing wasn't in British pounds. I suspect that you, like me, are reasonably comfortable with making purchases denominated in dollars or euros, and certainly the IMRG eDigital Customer Service Index doesn't mention currency as a significant obstacle (**Figure 3**). Actually on the site I used, the pricing was in Naira, which is the currency of Nigeria…

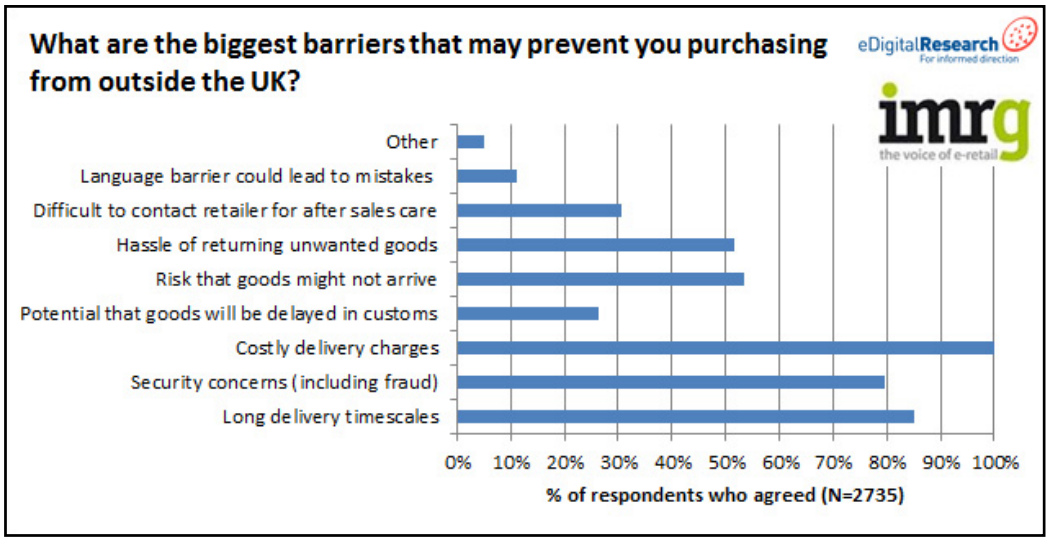

Figure 3 - reasons not to buy from overseas websites[i]

1.2 An outside in view

A few years ago, "so what?" would have been a reasonable response to this type of data . Ecommerce in the UK was so far ahead of most of the rest of the world in terms of take-up and penetration that the occasional UK consumer shopping on a (most likely) US website really wasn't a big deal. The world, however, is catching up (**Figure 4**):

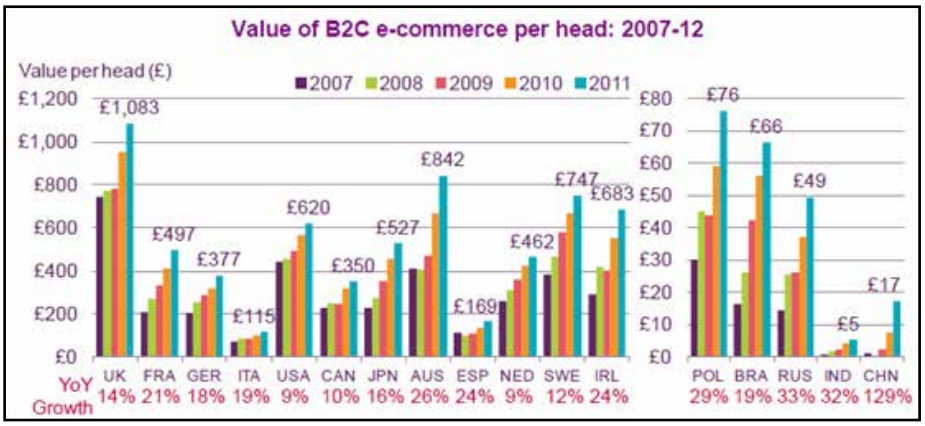

Figure 4 - B2C ecommerce growth in major markets[ii]

i ibid
ii IMRG B2C Global ecommerce Overview, May 2012

Shopping online is rapidly becoming a global habit. While ecommerce in the UK is still forecast to grow by 17% this year[i], that number looks quite feeble when compared with 39% in Germany or 24% in Poland for example.[ii] Online retail sales in Russia reached $12n in 2012[iii] and there are 143 million Russians, of whom 40% are already online, so theoretically a bigger potential market than the UK even at this early stage of its internet retailing maturity.

The implications are threefold. Firstly, with almost half of UK digital consumers prepared to consider buying outside the UK, there are ever more and ever better places for them to do so. Overseas retailers can set about exploiting the positives listed in the IMRG survey – for example price differentials due to the weaker dollar or euro compared to the pound – and eliminating the negatives – reducing delivery charges, providing UK returns options and so forth. The German online pureplay Zalando, for example, made €706M of its sales outside its core German language region in 2013[iv], including to the UK.

So how many of you think of amazon.co.uk as a non-UK retailer?

Secondly, the number of online retail consumers globally is growing rapidly, and many of them could answer "yes" to the equal and opposite survey question "have you ever bought online from a retailer inside the UK?" IMRG's member retailers are certainly taking advantage of this, with over a third having seen online sales to customers outside the UK grow by more than 40% in the past 12 months (**Figure 5**):

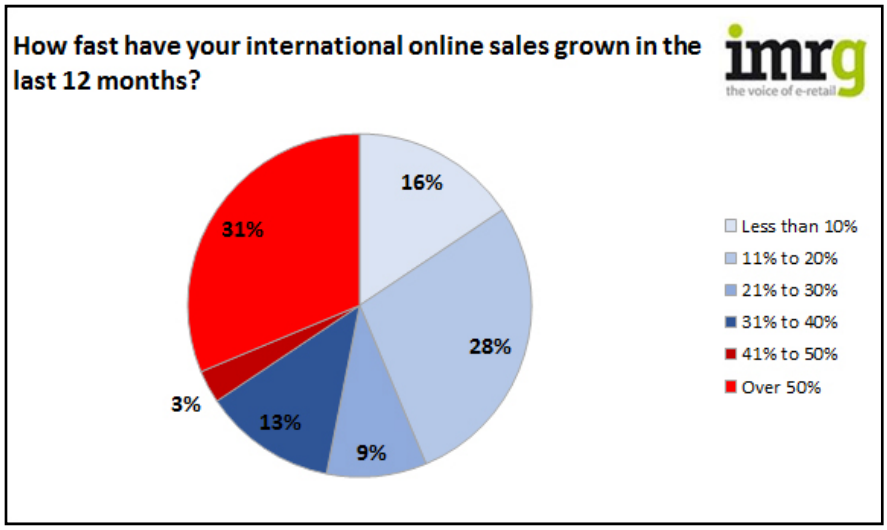

Figure 5 - online international sales growth at surveyed IMRG members [v]

Thirdly, selling overseas combined with eliminating the barriers to overseas purchasing works especially well and is usually known as localisation. IMRG asked its retailer members to quantify the increase in online sales to a particular country following true localisation compared to merely shipping to that country. From a fairly small sample size[vi], the median response was +100% and the average +91% (and the highest was +300%!). Or expressed more simply: localising the customer experience for a country might reasonably immediately double your online sales there, even before you start to really drive them.

i IMRG, May 2014
ii Centre for Retail Research, 2014
iii Morgan Stanley, Russian ecommerce, January 2013
iv Zalando press release, February 2014
v IMRG retailer-member survey especially for this report, August 2014
vi Ibid. 9 quantifiable responses were received.

2 The world is your oyster

2.1 Lies, damn lies and statistics

So where should you go? When ecommerce was relatively immature, the approach that worked best was to look at various fundamental indicators in a country, of which by far the most significant was broadband penetration. Excluding the UK, which has been an outlier since the earliest days, the correlation between the penetration of broadband and the penetration of ecommerce was almost perfect, at least in reasonably developed nations. For historical interest, this graph created in 2008 illustrates the relationship in the USA - **Figure 6** . (Does this make anybody else nostalgic for the squawk of a dial-up modem connecting?)

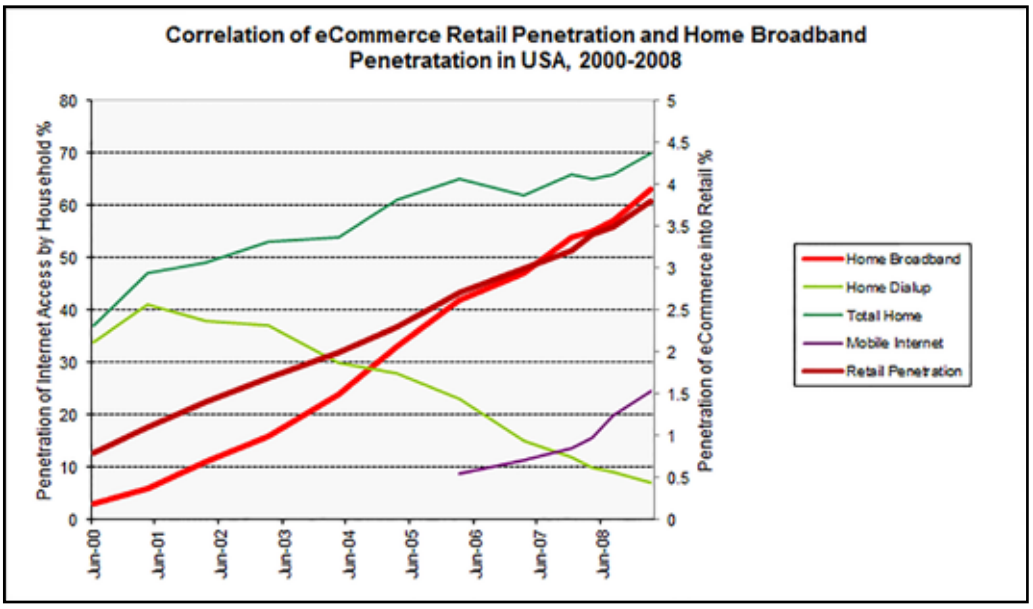

Figure 6 - how Broadband historically drove ecommerce Retail Penetration[i]

These days, unless you are considering targeting somewhere really exotic, such considerations of underlying fundamentals such as broadband penetration, payment cards per head etc are partially obsolete. Online retailing has enough traction in all countries likely to be in the consideration set for UK retailers - otherwise why would you be considering them? – that more immediately and directly useful data is available.

Most obviously, the size of the ecommerce market and the online spend-per-head of population are routinely published, although it's sometimes difficult to separate out online retail spending from general online spending in the data. In such cases, it is still necessary to fall back on more general fundamentals, and in particular the observation that online retailing tends to follow the same pattern in all countries (China being the big exception), starting with travel, moving into consumer electronics, and then extending more generally into retail as a whole, typically with fashion being the last big area.

i US Census Data combined with pewinternet.org, 2000-8

So maybe you could start by targeting the countries with the fastest growing ecommerce markets (**Figure 7**):

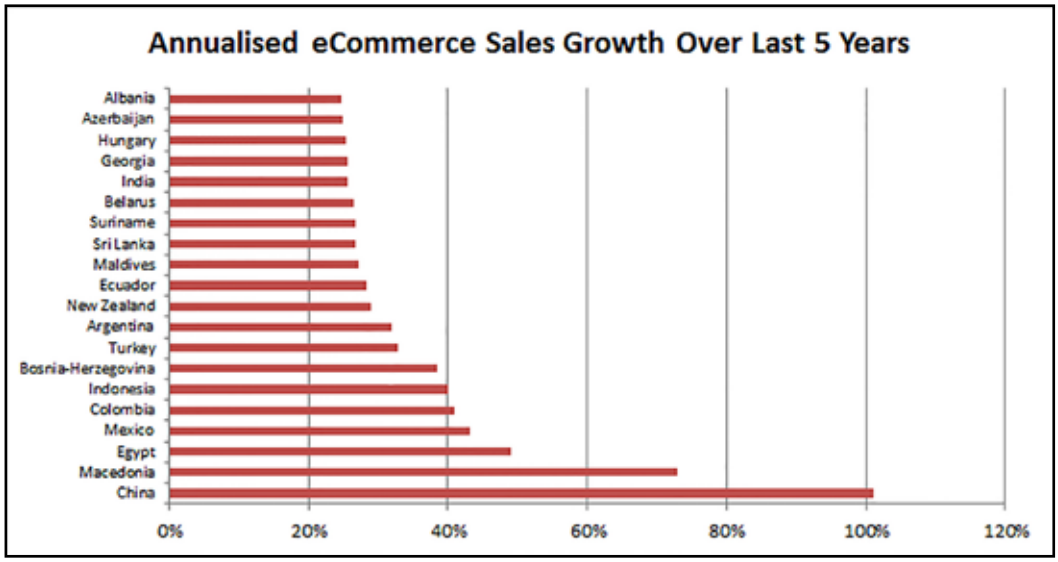

Figure 7 - Annualised Internet Sales Growth - Top 20 Countries[i]

How many of you plan localised sites for Macedonia, Ecuador and Azerbaijan in your top five priorities? This isn't quite as absurd a question as it sounds. They are fast growing markets and, moreover, a slick UK online retailer stands a much better chance of really standing out than it would in a hyper-competitive online market such as Germany. If you're a brand, then this logic makes little sense – you need to go where the biggest opportunities for the brand are. But if you're a multi-brand online pureplay, for example, is it better to go heads-up with the category killers like Amazon or Asos, or look for softer options? They do exist too – online pureplay Rozetka[ii] in the Ukraine, for example, has at least 10% of the local consumer electronics market. While you wouldn't necessarily prioritise Azerbaijan, number eight ranked Turkey is a genuine and growing prospect with the 21st largest ecommerce market in the world[iii] in which you can set up shop.

2.2 All Roads Lead to… Moscow

The top 20 fastest growing list also illustrates another issue with using this kind of "whole country" statistic: in many developing ecommerce markets they simply don't tell the whole story. The UK is a fairly homogeneous country when it comes to ecommerce (**Figure 8**). Orders are being delivered everywhere in the country approximately in proportion to the population of the area:

i Cushman & Wakefield "Global Perspective on Retail", July 2013
ii www.rozetka.com.ua
iii Cushman & Wakefield "Global Perspective on Retail", July 2013

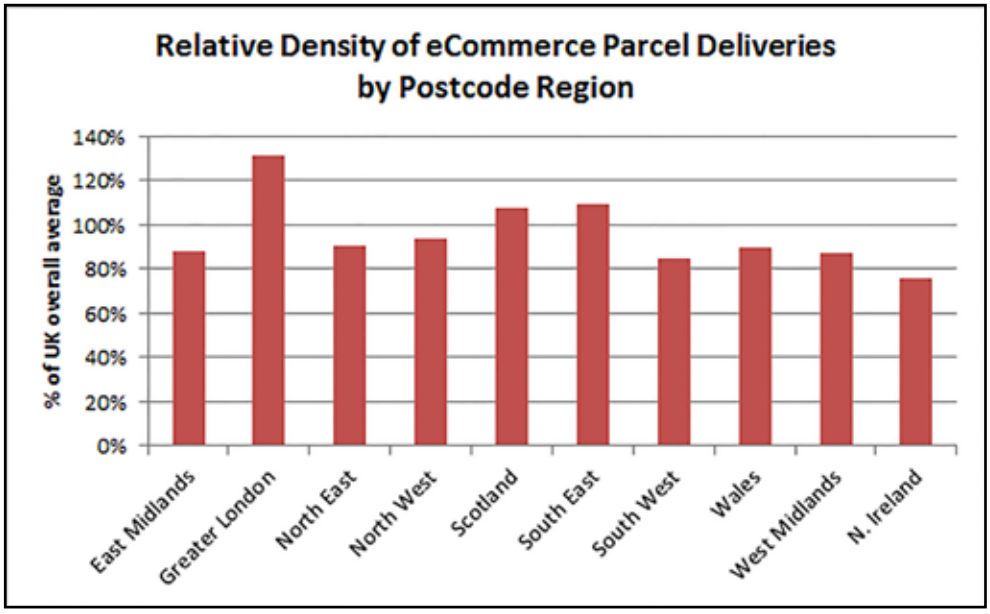

Figure 8 – "Density" of ecommerce in the UK: parcels per unit population index[i]

Many, and in fact possibly most, countries are not like that, especially outside of Western Europe and a few other nations with strong policies of ensuring nationwide internet access. Looking back at **Figure 4**, Russia, for example, apparently manages a rather feeble 4% of the spend-per-head of UK consumers. But the reality is that this spending is mostly concentrated in (greater) Moscow and St Petersburg – it's estimated that 60% of Russian ecommerce sales[ii] happen there, despite only 15% of the Russian population living in those two cities (**Figure 9**):

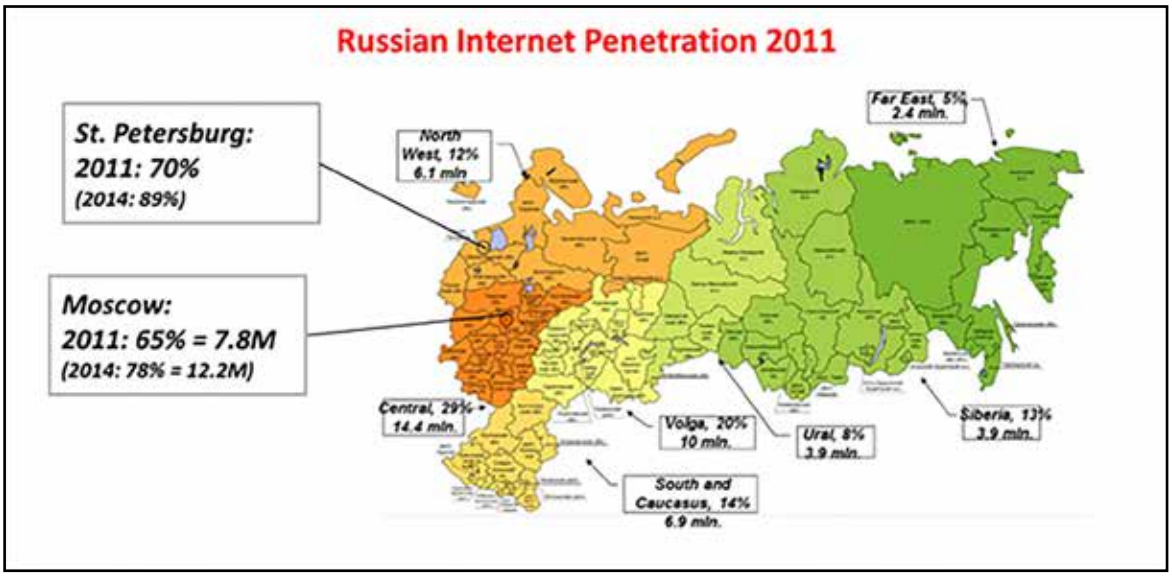

Figure 9 - Russian Internet Penetration in 2011, plus estimates for 2014[iii]

i IMRG Metapack Delivery Index data, merged with population data from Office of National Statistics
ii Morgan Stanley, Russian ecommerce, January 2013
iii FOM 2012. Moreover Ertelecom estimates that Moscow represents 70% of all Russian fixed broadband access

If we use 2013 figures ($17.1bn online sales in 2013[i]), then we find ourselves in an area with a population of 21 million and fairly respectable online sales per head of £288[ii]. Or put another way, a Moscow and St Petersburg together make up a "country" roughly twice the size of Belgium with twice the online spending per head![iii]

This pattern is typical in developing online markets: ecommerce is concentrated in major cities.While you might eventually settle for the conservative option of France or Germany as your next localisation target, places such as Turkey, Mexico, Brazil or Russia are all worth serious consideration before making a final choice – just don't take the "national" level statistics at face value. A local operation confined to just a handful of cities, with its implicit simplification of logistics and related challenges, might well be an interesting option.

i E-marketer
ii Using $1.66 = £1, exchange rate at the time of writing
iii 11.1 million Belgians spent €1.9 Bn online in 2013 according to BeCommerce, the Belgium ecommerce Federation

3 They do things differently there[i]

3.1 Retail is detail: small changes, big impacts

We tend to have a fairly standardised picture of "what ecommerce looks like". As the industry has matured, best practice has steadily emerged and online retail websites increasingly look the same and do the same. Both Google and Apple have tended to encourage similar standards to emerge for mobile, with the result that mobile sites have tendency to look remarkably homogeneous too, even from one developed country to the next (**Figure 10**). Customers even find it quite baffling when a website suddenly diverges from standard practice – witness the reception Marks and Spencer's new site received in some quarters earlier this year.

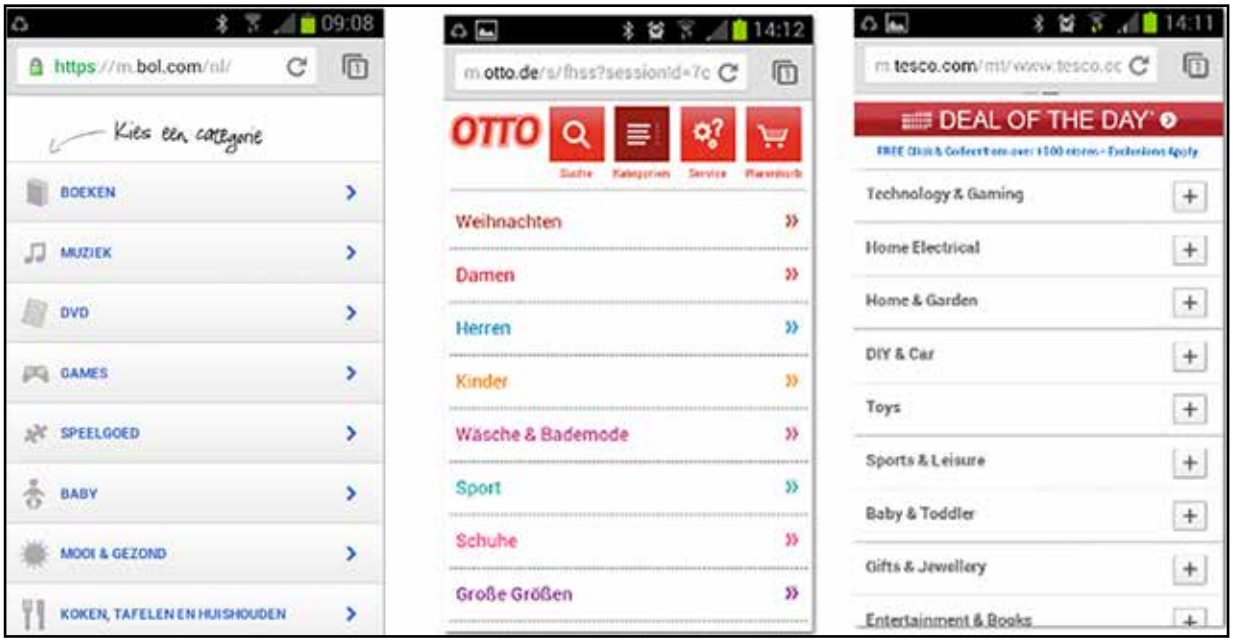

Figure 10 - Spot the difference: leading mobile commerce sites in NL, DE and UK[ii]

It's not just customers who get baffled by such changes, it happens to specialists in the field too.

i The title of this paper was taken from the novel The Go-Between by L.P. Hartley. The novel begins with an oft-quoted first line "The past is a foreign country: they do things differently there"

ii Figure 10 - Spot the difference: leading mobile commerce sites in NL, DE and UK

Earlier this year, the new CEO of a consumer electronics retailer in the Ukraine asked me to review the website. The checkout is usually a fertile place for a consultant to start an engagement like this and so there I headed, armed with various screenshots of complex multi-stage checkout good practice from the likes of Currys, BestBuy and MediaMarkt. You can also try this task for yourself at home.In fact, here is my client's checkout (**Figure 11**), complete with slightly approximate translation courtesy of Google Chrome:

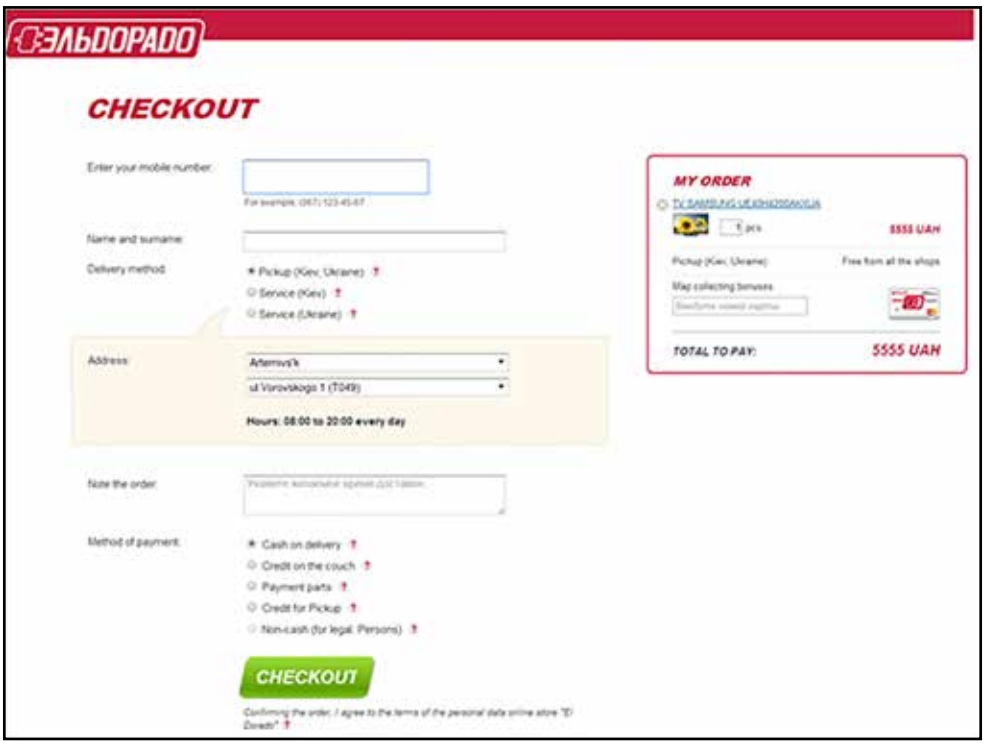

Figure 11 - Online Checkout Ukraine-style[i]

Yes, that really is it, all of it, the complete website checkout. And they aren't a tiny start-up with little idea what they're doing; this is a large and sophisticated retailer with an experienced ecommerce team, following local good practice.

Now you've seen it, what are your recommendations then?

The actual process is pretty simple:

1. You build your cart
2. You provide your name, mobile phone number, preferred payment method (essentially credit or cash) and some basic delivery options on the checkout page
3. Someone calls you back inside 5 minutes and sorts out all the rest of the complexity with you over the phone, taking the opportunity to up-sell and cross-sell you in passing

i www.eldorado.com.ua; for the curious, "credit on the couch" means a sales-rep from a bank comes to your home and signs you up for a credit-agreement between you placing your order and the delivery being made

It just isn't anything that someone raised on UK models of retail ecommerce immediately recognises. And of course this small(?), and in many ways quite reasonable, change has big implications. What's the contacts-per-order ratio in your call-centre currently? What happens to your business case if it rises by around 1.5 contacts? How much stronger could your up-selling be if online customers wanted to be phoned to complete their order? How much could you save in I.T. costs if you didn't have to build, test, A/B test, rebuild and re-test your complex checkout pages? How much better is their mobile site conversion than yours?!

The moral in the tale: understand how local ecommerce practice varies from your "standardised" expectations in both big and small ways, and consider the consequent impact on your business model.

3.2 Multichannel or Multiple Channel?

Even in the UK, many retailers and brands operate clearance or outlet channels on marketplaces, especially areas such eBay's Fashion Gallery/Outlet. Nevertheless, retail ecommerce is still dominated by B2C sites (**Figure 12**).

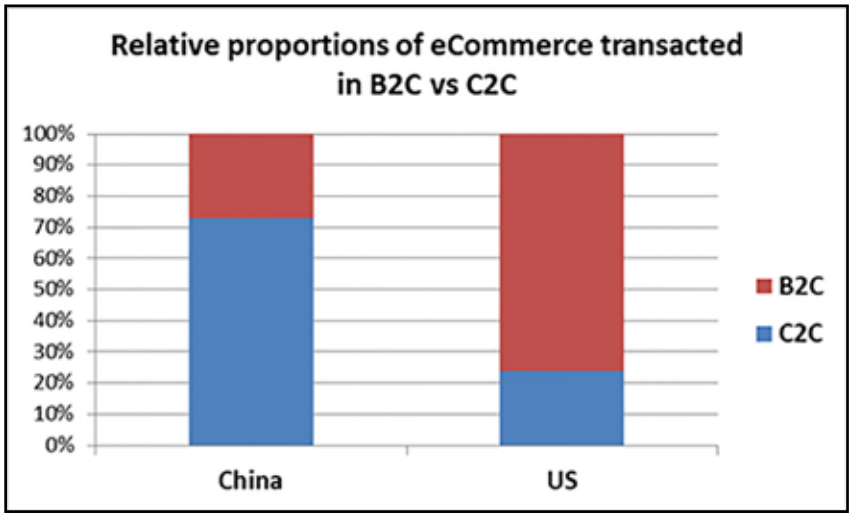

Figure 12 - B2C vs C2C commerce in US and China[i]

Although China is perhaps the extreme end of the spectrum, online customer-to-customer (C2C) marketplaces still play a much more significant role in many countries, including Japan's Rakuten or Poland's (and Kazakhstan's for that matter) Allegro.

For many retailers, and in particular for brands, this presents something of a problem. It's bad enough being continuously disintermediated by Google; at least their homepage doesn't actually try and sell your customers somebody else's stuff before you've even entered a search term. A quick look at the TMall homepage, even if you can't read Chinese, is enough to make most brands flinch. Moreover, C2C sites are almost inevitably strongly price-driven places, making it difficult to develop and maintain brand price-positioning online.

i McKinsey "China's eTail Revolution", March 2013 and iResearchChina "China eCommerce Market Trend" October 2013. Precise data for the UK is slightly difficult to pin down due to the reticence of Amazon Marketplace in publishing data; nevertheless there is good reason to believe it is comparable with the USA. For a fuller discussion see the IMRG Report "A Tale of Two Cities - Competition or Collaboration between Ecommerce and the High Street?"

Time, then, to take a lesson from the natives. While "Mark Fairwhale" is possibly not a brand that triggers immediate name-recognition in the UK, it is a brand that is successfully addressing the challenge of the C2C vs B2C dilemma. It simply reverses the idea that C2C sites are for end-of-season clearance and takes the attitude that they are for start-of-season, introducing customers to the brand, via (and here's the clever bit) specially designed range segments targeted at lower price points.

Figure 13 - Mark Fairwhale (China) 3-tier online channel strategy[i]

As **Figure 13** suggests, Mark Fairwhale also recognises that there is a middle-tier in the Chinese market between the C2C marketplaces, namely Flash Sale sites, which while perhaps less dominant in the UK are huge in markets like France[ii], and growing very rapidly in China.[iii]

Here is another case of where studying local good practice, this time at the strategic level, could potentially cause you to re-evaluate your approach and/or business-case.

3.3 C.O.D. – Complex or Difficult

Back down into the weeds for a final example. Many of the challenges of internationalising your approach have become common currency in the last few years as more-and-more UK retailers look for expansion opportunities overseas: Americans do have shipping not delivery; the French do indeed prefer to read a site in French not English; Germans do generate double the returns rate of other countries[iv] ; Mother's Day is indeed on 27 different days globally (**Figure 14**) so remember to adjust your merchandising and promotional calendar:

i Adapted from Mark Fairwhale presentation at China Ecommerce and Retail Innovation Summit, Beijing, November 2013
ii Vente Privee had online turnover of €1.3Bn in 2013
iii VIPshop, the largest player in China, saw sales grow by 143% to $384M in 2013. Source: investors.com, February 2014
iv Amusingly German online fashion retailer Zalando is rumoured to have dropped its slogan "Schrei vor Glück - oder schick´s zurück" – roughly translated as "scream for joy or send it back"- after too many German teenage girls started holding weekend "Zalando-parties" taking full advantage of its lax, and free, returns policy. See for example Manager Magazin Online, August 2014

27 different dates of Mother's Day

	Date	Countries
	2014	
February	9 Feb 2014	Norway
March	3 Mar 2014	Georgia
	8 Mar 2014	Afghanistan, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Laos, Montenegro, Serbia, Ukraine
	30 Mar 2014	**United Kingdom, Ireland,** Nigeria, Bangladesh (This is the 4th Sunday of Lent)
	21 Mar 2014	Egypt, Jordan, Kuwait, Lebanon, Palestinian Territories, Syria, United Arab Emirates, Yemen – (This is also the Vernal or Spring Equinox)
April	25 Mar 2014	Slovenia
	7 Apr 2014	Armenia
May	4 May 2014	Hungary, Lithuania, Portugal, Spain, Mozambique
	8 May 2014	South Korea (Parent's Day)
	10 May 2014	El Salvador, Guatemala, Mexico, Belize
	11 May 2014	Anguilla, Aruba, Australia, Austria, Bahamas, Bangladesh, Barbados, Belgium, Belize, Bermuda, Bonaire, Brazil, Canada, Chile, China, Colombia, Croatia, Cuba, Curaçao, Czech Republic, Denmark, Ecuador, Estonia, Finland, Germany, Greece, Grenada, Honduras, Hong Kong, Iceland, India, Italy, Jamaica, Japan, Latvia, Malaysia, Malta, New Zealand, Peru, Philippines, Puerto Rico, Singapore, Slovakia, South Africa, Suriname, Switzerland, Taiwan, The Netherlands, Trinidad and Tobago, Turkey, **United States,** Uruguay, Venezuela, Zimbabwe
	15 May 2014	Paraguay
	26 May 2014	Poland
	25 May 2014	Algeria, Dominican Republic, France, Haiti, Mauritius, Morocco, Sweden, Tunisia
	30 May 2014	Nicaragua
June	1 Jun 2014	Mongolia (Mother's & Children's Day)
	8 Jun 2014	Luxembourg
August	29 Jun 2014	Kenya
	12 Aug 2014	Thailand
	15 Aug 2014	Costa Rica, Antwerp (Belgium)
	13 Oct 2014	Malawi
October	14 Oct 2014	Belarus
	19 Oct 2014	Argentina
November	30 Nov 2014	Russia
	8 Dec 2014	Panamá
December	22 Dec 2014	Indonesia

Figure 14 - Clichéd but still fun - the 27 dates of Mother's Day in 2014[i]

Moreover, customers do indeed expect to pay using the locally prevalent payment schemes. In general this is an overstated issue. Even the more challenging ones, such as the (inappropriately named!) iDEAL scheme for the Netherlands, are now routinely integrated by most international payment gateway providers.

The exception is cash. The prevalence of cash as a preferred method of paying for ecommerce transactions can come as something of a surprise, since it accounts for a miniscule proportion of UK online retail transactions (**Figure 15**) and most sites just don't offer it:

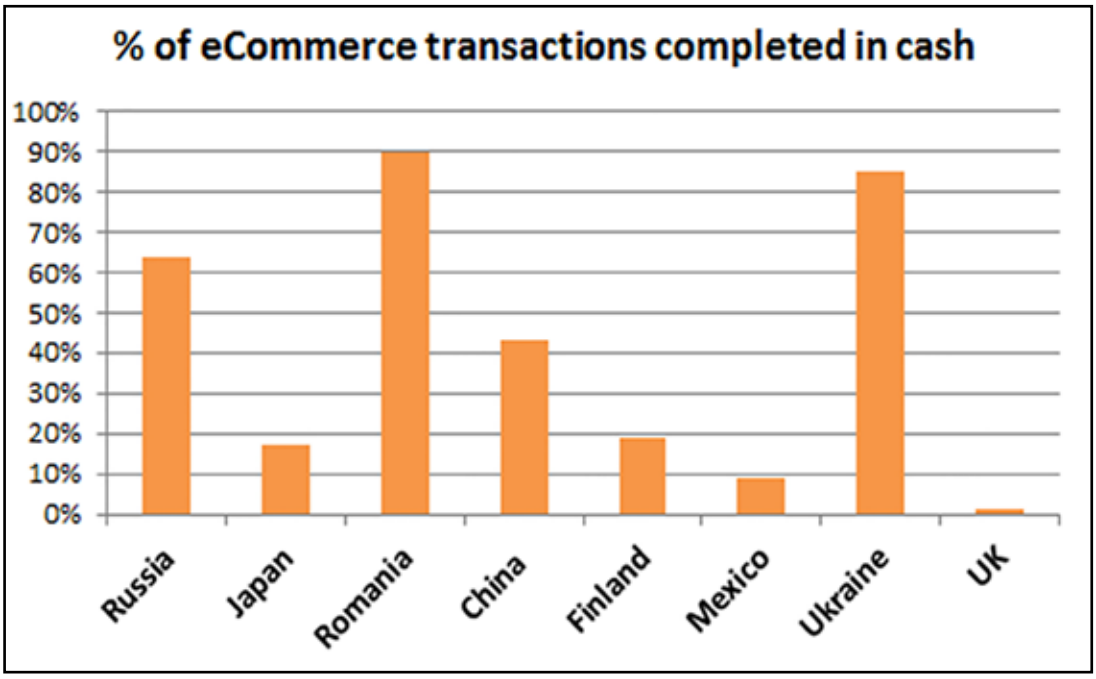

Figure 15 - Percentage of ecommerce transactions completed in cash in various countries[ii]

i The best sources of this information are, unsurprisingly, florists' websites.
ii Various sources, but particularly Cybersource "Global Payment Options" 2012

The cash itself isn't a problem. Most delivery companies in such countries offer a doorstep payment service as a matter of routine, with charges not out-of-line with the cost of familiar CNP card-processing and fraud-protection. The challenge is what it does to your well-oiled business processes, particularly in order management systems, call-centre and finance (**Figure 16**):

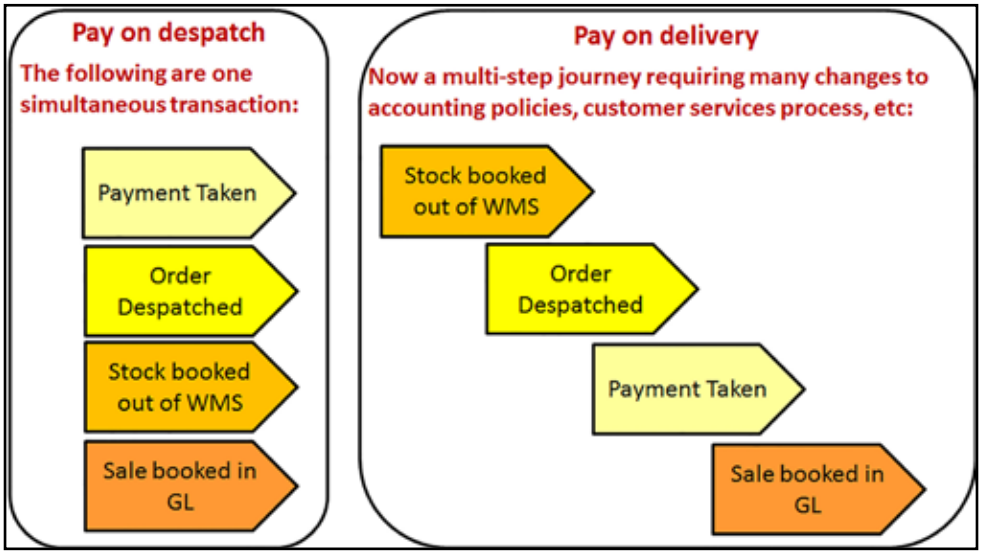

Figure 16 - COD: new business processes, new systems

As German online retailers have long been taking such complexities in their stride. Here's a screenshot from a German price comparison site, showing the payment options available from just one small website (**Figure 17**):

Figure 17 – €9.90 fee for Cash on Delivery[i]

Once again, we have a relatively small difference in local good practice potentially making a large difference to both business case and challenges of implementation.

i Screenshot from www.idealo.de

4 Carpe Diem

4.1 Summary

Translation is not localisation. If you expect to be able to clone your UK set-up, then you may be in for some surprises… or shocks! Ecommerce does not look the same everywhere in the world and can be really very different, with significant potential impact on your business-model. Small differences in local good practice can have large consequences.

Nevertheless, selling overseas represents a huge opportunity for British retailers to exploit their (remaining) head-start in sophistication and "how-to" knowledge. Obviously logistical challenges, which we haven't discussed here, may present real barriers, but it is worth remembering that less-developed markets might offer softer opportunities than trying to tackle Germany or France, the USA, or China where local, and international, competition is already intense.

4.1 Day already seized by IMRG members

Despite the many challenges, IMRG's retailer members are already taking the world by storm (Figure 18), with the vast majority of survey-respondents already shipping to the EU.

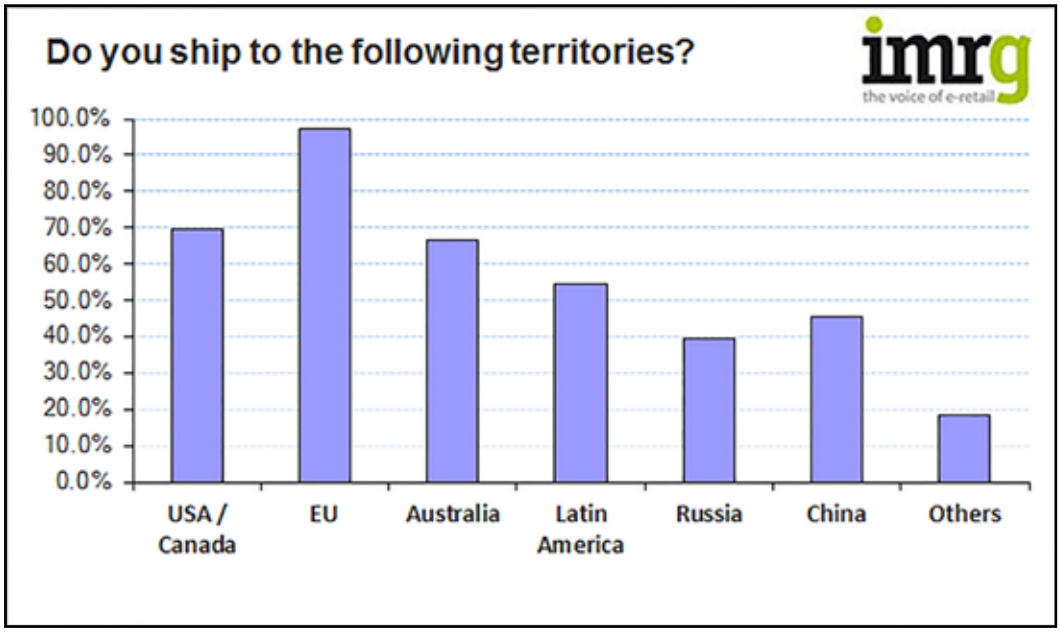

Figure 18 - % of IMRG members shipping overseas

The IMRG Metapack UK Delivery Index report notes that more generally:

"For guidance, we suggest that readers of this report should continue to consider 18% [of total shipments by retailer] as the cross-border norm, with market leaders averaging about 26%"

And this of course only considers cross-border. Several of IMRG's members already have fulfilment operations outside the UK, while a quarter of respondents already have localised returns addresses.

In short, if you aren't already out there, what are you waiting for?

About the Author

Chris Jones is a leading freelance specialist in multichannel and e-commerce, with extensive senior-level experience as both consultant and hands-on interim.

His clients have included: the very big - 3 of the top 10 retailers in the world at Tesco Target and Metro; the very famous – global brand Dr Martens where he was interim Global eCommerce Director; and the very niche – a VC-backed start-up in India, a B2B website in Romania, and a consumer electronics retailer in Belarus. He has worked extensively in both B2B and B2C sectors, and has client engagement experience in 15 countries.

He is the author of "The Multichannel Retail Handbook – a guide to planning, implementation, operation and enhancement" (ISBN 978-1-300-65266-3).

You can find him at www.linkedin.com/in/redsock or at www.redsock.biz

About IMRG

IMRG (Interactive Media in Retail Group) is the UK's industry association for e-retail.

Formed in 1990, IMRG is setting and maintaining pragmatic and robust e-retail standards to enable fast-track industry growth, and facilitates its community of members with practical help, information, tools, guidance and networking. Consumers can be confident when dealing with IMRG Members because all interact in an environment where they are encouraged to operate using methods that are Honest, Decent, Legal, Truthful and Fair, and have undertaken to not bring the industry into disrepute.

The strength of IMRG is the collective and cooperative power of its members. For more information please visit www.imrg.org or email membership@imrg.org.

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