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EXECUTIVE SUMMARY:

GLOBAL OPERATIONS

Which Global Operations Setup is Right for Your Business?

BY TIM PARRY

Global ecommerce is on the rise. According to a report released in December by eMarketer, global ecommerce sales totaled $1.3 trillion in 2014. And there's a big jump on the way: eMarketer projects global ecommerce sales to almost double to $2.5 trillion by 2018.

This means the cross-border opportunity is there for U.S.-based retailers and B2B merchants. According to Hamburg, Germany-based research firm ystats.com, B2C cross-border ecommerce grew 10% in the top four emerging countries: Brazil, Russia, India and China.

Ystats.com also recently pointed out that ecommerce has great growth potential in African countries such as South Africa, Nigeria, Morocco, Egypt and Kenya [amount]. And Forrester recently noted that ecommerce sales in Latin American countries Brazil, Mexico and Argentina are expected to more than double by 2019.

According to the results of Multichannel Merchant's MCM Outlook 2014, nearly 10% of orders placed on U.S.-based ecommerce sites are delivered to addresses outside the United States. So whether or not you optimize your ecommerce site—and your operations—for the global shopper, the global shopper is coming to America.

But those customers are not going to keep buying from your site unless they have a good customer experience. Merchants are thinking about this from the ecommerce and marketing side, but need to think about what happens after the order is placed, up until the order reaches the customer's door. What's more, they also need to know how they can do it in a cost-effective way that still leaves the customer happy.

Alibaba's Tmall offers U.S.-based marketplace sellers the opportunity to fulfill orders from China.

Here's a look at how U.S.-based merchants can fine-tune their global operations and delight the global shopper.

Using Marketplaces

Merchants that are looking to test the global waters can start by selling on ecommerce marketplaces. And that's what 40.5% of MCM Outlook 2014 respondents said they are doing, whether it's through Amazon, eBay, Rakuten, Newegg, Alibaba's Tmall and TaoBao, or others.

Marketplaces can make sense if you are a marketer or manufacturer with a few SKUs to sell. Merchants can also use the marketplaces to test a product line, or even just one product, to see if there's a chance of expanding their cross-border sales.

Amazon does allow U.S. merchants to sell their goods globally. However, merchants that want to sell goods in other countries have to use the Fulfillment by Amazon service. FBA will help the merchant with the translation, tax and fulfillment of that product across borders. Also, if you have a growing number of orders from a particular region, FBA will move some of the inventory there to keep the product as close to the consumer as possible.

However, shipments to foreign addresses will not be permitted to be returned, even if requested by the customer. The seller authorizes FBA to, at its discretion, abandon to the carrier any shipment to a foreign address that is refused or damaged, or that is otherwise prevented, or to gift such shipment to the customer on the shipper's behalf.

eBay's Global Shipping Program streamlines international selling by automatically including all shipping and customs charges in the buyer's purchase price and reducing the retailer's effort to a simple domestic U.S. shipment at no additional charge.

In addition to the final charges, the buyer sees the amount paid to the seller and the amount paid to the global shipping provider. The seller receives the item price and the domestic shipping and handling amount that you specified directly from your buyer.

According to eBay, it uses experienced international shipping operators to handle the international leg of the shipment. The retailer delivers the package to a domestic U.S. address where GSP takes over. Once the seller has shipped its package to the domestic address, everything else is fully automated.

But before you get started with the marketplaces, merchants must consider what type of products are doing well in specific countries, what consumers in those countries are looking for and what kind of content will help consumers in those countries make their purchase decisions.

Speaking in February at the Global E-Commerce Leaders Forum, PUMA SE head of global ecommerce Tom Davis said the perception though is that selling on a marketplace means you're selling at a discount. But Davis said PUMA is profitable on Tmall, and notes that high-end brands such as Burberrys, Nike and Apple are certainly not discounting there.

In fact, Davis said PUMA did three times as much business in marketplaces on Singles Day than it did on Cyber Monday.

Third-Party Consolidators and Logistics Providers

It seems that if U.S.-based retailers are not using the marketplaces as a global ecommerce starting point, they are using third-party consolidators to ship packages across borders.

The last mile—or delivery to the package addressee's doorstep—is a major challenge for distance sellers. In fact, the last mile can be a deal breaker.

For a retailer that's launching cross border into a new market today, they typically should continue under that operating model for at least three or four years before they get to a scale that warrants the type of investment and risk of transition to something in country.

Many third-party consolidators integrate their platform with a merchant's ecommerce platform, too. This enables cross-border shoppers to access the same brands as their American counterparts, with local currency pricing.

What's more, integrating with a third-party consolidator's platform means cross-border customers can check out using their own country's currency and pay specific shipping fees to their respective destinations, as well as paying any surcharge taxes and/or custom fees related to their purchases. That helps the merchant build additional trust with the international shopper on the marketing and ecommerce side.

Bill Spaide, a partner at operations and fulfillment consultancy Spaide, Kuipers & Co., said retailers should look beyond the usual types of requirements and checklists when seeking out a global or local third-party logistics provider in a new market, in order to determine if they're the best fit for your customers' needs.

Spaide said it's also important to make sure a 3PL has experience in a particular country or region, and not just a presence there.

"We worked with a large online retailer with partners all over world, and they wanted to go into China, so thought it would be easy to leverage their partner in China," Spaide said. "But when we got there, we found out the partner was new to China and didn't really understand the market—they just had relationships with Alibaba and related delivery services."

PUMA's Davis offered a similar warning, and said it is really important to vet third-party consolidators. Many say they are global players, but most are just cutting their teeth.

Using International Shippers

If you have been selling successfully via the marketplaces or with help from a third-party consolidator or logistics provider, you may want to consider handling

your own cross-border shipping program.

Regardless of where you ship to, cross-border commerce requires a long lead time for shipping, costs more due to shipping expenses and is more complicated when it comes to merchandise returns and credits for returned items, said Rob Martinez, DLP, president and CEO of Shipware.

Major global parcel carriers provide global delivery service, many delivery options, and value-added services including tools to manage documentation requirements and trade compliance, Martinez said. The merchant needs to determine which carrier offers technology that best fits its requirements. Items to consider include shipment processing, international forms and shipping resources, customs documentation compliance and government regulations, duties and taxes estimates, shipment tracking, currency conversion and reporting.

Before stepping up to the negotiating table, shippers need to collect and analyze shipment detail to better understand usage, costs, accessorial charges and other variables. Martinez said merchants need to develop reports to understand current service usage, transit requirements, package characteristics including box dimensions, weight ranges, zonal distribution, residential/commercial mix, and other package metrics. In addition, merchants need to understand how their packages are currently impacted by minimum and dimensional charges and accessorial costs. This detailed analysis gives shippers a priority list to focus on concessions that have the greatest cost-savings impact.

The last mile—or delivery to the package addressee's doorstep—is a major challenge for distance sellers relying on the big-name U.S. shipping providers or the local postal service. In fact, the last mile could be a deal breaker.

Customer convenience is the primary issue. During the day, few people are at home, complicating deliveries that require a signature or payment. One option is to allow recipients to pick up deliveries at an alternative location.

To be successful in the B2C arena, U.S. merchants must offer scheduled delivery services, multiple delivery attempts and/or an extensive network of delivery locations. No U.S. carrier can offer all those services worldwide. As a result, many merchants will lose sales due to issues experienced in the last mile. Given the potential for ecommerce around the world, retailers without a localized delivery strategy will leave a lot of revenue on the table.

Business Partnerships

Sometimes, you need to hand your global business off to a distribution partner. Smartphone and tablet case maker OtterBox recently partnered with a third-party distributor to provide ecommerce services in Japan.

The comprehensive support for cross-border ecommerce consists of content planning, sales strategies and marketing initiatives for ecommerce in the Japanese market, which includes construction of an ecommerce website, customer support, order management and inventory control.

While acknowledging the important role the ecommerce channel plays in

OtterBox uses a third-party distributor to sell and fulfill its cases for mobile devices in Japan.

growing its business verticals, OtterBox Asia managing director Steve Nisbet said using a third-party distributor as a single point of contact provides it with reliable market and industry expertise, coupled with a comprehensive overview of business processes to successfully execute a premium ecommerce solution in a diverse landscape like Japan.

In July, lifestyle apparel brand Crocs, Inc. decided to move away from direct investments in retail and wholesale businesses in smaller markets and transferred significant commercial responsibilities to distributors and third-party agents. During its second-quarter earnings call, Crocs said it would focus on its five key markets: China, Korea, Japan, North America and Europe, which represent 85% of its annual volume.

Speaking in February at eTail West, Crocs vice president of ecommerce technology and operations Harvey Bierman said they cut the number of global ecommerce sites it owned from 21 to 12.

"After looking at the business, we realize we weren't generating a return to justify future investment in those markets," Bierman said. "We were making some revenue, but as for driving shareholder value, it just wasn't making sense."

Bierman closed its ecommerce sites in places like Hong Kong, Taiwan, Austria, Italy, Brazil, Norway and Sweden. Some of those markets are now being served by third-party distributors, while others were offered to wholesalers.

"We were really enamored with opening websites," Bierman said. "But just because you can doesn't mean you should."

Setting Up Subsidiaries

If you have brick-and-mortar locations abroad, or do a large volume of ecommerce business in a particular country, you may want to consider setting up shop in that particular country or region. If that is not practical, based on a country's regulations, setting up a subsidiary may make sense.

Lifestyle and performance footwear seller Skechers had been using third-party distributors to sell in Central Eastern Europe. In February, Skechers announced it would transition its business in Central Eastern Europe from third-party distributors to a new wholly owned subsidiary, Skechers CEE, Kft.

Skechers plans to double its CEE sales in the next three to five years through an expanded offering of men's, women's and kids' product and a growing distribution base in new and existing markets that includes department, specialty and Skechers retail stores.

"For nearly two decades, we've successfully marketed our product to consumers in Central Eastern Europe through several distributors, but in the last few years we have seen a growing demand and increased potential for Skechers in the region," said Michael Greenberg, president of Skechers. "With the strength of our diverse product worldwide, we believe the time is right to further grow our brand—and that transitioning to a wholly owned subsidiary will allow us to leverage our capital, product, logistics and business model to achieve this growth."

Kate Spade & Company and Walton Brown, a subsidiary of Asian fashion retail and brand management group The Lane Crawford Joyce Group, formed joint ventures in January focused on scaling and accelerating Kate Spade & Company's growth in Greater China. The partnership will leverage the expertise of Walton Brown, and the global demand for Kate Spade & Company products, to establish a strategic network of stores in key cities, enhanced by a robust organizational and marketing platform across China, Hong Kong, Macau and Taiwan.

The partnership will align Kate Spade & Company's existing businesses in China, Hong Kong, Macau and Taiwan under one combined structure. With an equal partnership structure, Kate Spade & Company and Walton Brown will actively manage the business together for at least 10 years.

Kate Spade & Company will continue wholesale distribution to the joint venture in China and expects to begin wholesale distribution to Hong Kong, Macau and Taiwan through the joint venture during the first quarter of 2015. ■