MCM OUTLOOK 2015

Powered by: MULTICHANNEL MERCHANT

MCM OUTLOOK

GLOBAL ECOMMERCE

Global Ecommerce on the Rise as Options for Addressing Barriers Increase

BY MIKE O'BRIEN

While presenting a number of risks and some significant barriers to entry, global ecommerce represents a massive opportunity and more retailers are jumping onboard as solutions for addressing cross-border business become more readily available. According to eMarketer, worldwide B2C ecommerce sales in 2015 are expected to rise 15.6% to $1.7 trillion.

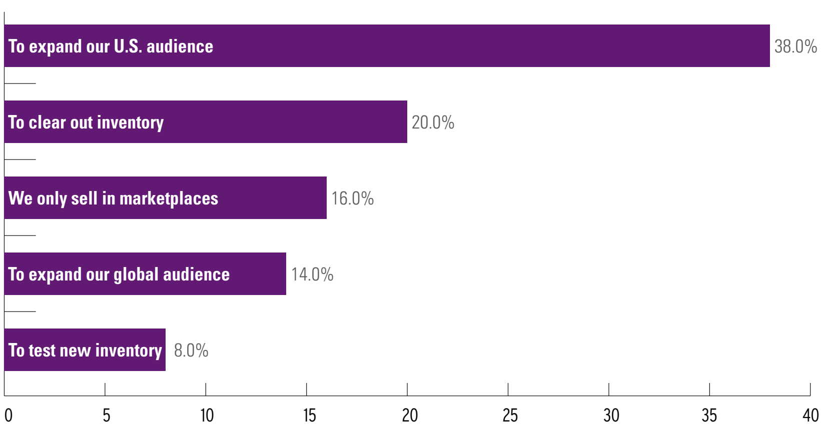
Jamison Shelton, owner and principal of Global Nuance Consulting, said there's been a "shift in perception" from the U.S. as the dominant market in the center of the ecommerce world. In fact, eMarketer has the Asia-Pacific region surpassing North America as the number-one B2C ecommerce market globally this year, with 33.4% vs. 31.7% of total sales.

"The biggest thing we're seeing is more of an acceptance of retailers competing globally, and it's becoming more the norm," Shelton said. "For a long time, domestic retailers felt since this was their biggest market, nothing else made sense. But now they're finding out when they look at traffic stats from their U.S. ecommerce site that people from all over world are coming there, even if they're not actively marketing it. So now it's become a matter of figuring out the best way to support those customers."

The rise of cross-border solution specialists shows how hot global ecommerce is becoming, Shelton said. According to the results of MCM Outlook 2015, which was fielded between Feb. 17 and March 15 with 175 qualified respondents, 27.7% of merchants are using a third-party service provider to market to global consumers, and 11.6% are using a third-party international shipping service.

The fact that there has been a flurry of acquisition activity in the space — with Pitney Bowes to acquire Borderfree, UPS snapping up i-parcel and FedEx buying Bongo — is another indicator that global is hot, he said.

How are you using the marketplaces (Amazon, eBay, Rakuten, etc.)?



Source: MCM Outlook 2015

"These companies are coming in with easy-button solutions to support international customers, showing there's a real need in the industry," Shelton said. "U.S. retailers are already maxed out, doing everything they can to compete here. When you try to add on functionality to support international ecommerce, you can run up against a lack of resources. Some of these providers have been around for a while, but are now starting to take off because of the increased demand and activity."

Carl Miller, founder and managing director of the Global Retail Insights Network (GRIN), said retailers need to consider the regional pain points of consumers when considering which markets to enter.

"Look at how AliExpress does better in Brazil than in North America," he said, referring to Alibaba's marketplace of mostly small Chinese merchants. "It's because value is the biggest concern for those consumers. It's one reason why for North American and European retailers there's so much interest in Asia, because of an emerging middle class that is very brand aware. I like to think about ecommerce growth in these markets as being driven by a better understanding of what the local consumer requirements are, and how retailers are hitting that space at the right time."

After the economic downturn in 2008, retailers went in one of two directions, according to Zia Daniell Wigder, research director of global ecommerce for Forrester: They either focused exclusively on their domestic business, or feared having all their eggs in one basket and diversified with international trade.

"That second option has started to accelerate as the recovery continues," Wigder said. "It's been a combination of that, along with the arrival of more streamlined market entry options such as marketplaces and service providers, making it easier to embrace cross border without requiring the same resources as a fully localized operation would."

The Hot Markets

Canada is the most popular country outside the U.S. for cross-border selling — 58.5% of merchants do, according to MCM Outlook 2015. About 30% said they sell into Australia and Mexico.

Marshall Porter, senior vice president and general manager of Gilt, said from his perspective that China and South Korea were among the hottest markets for global ecommerce. Latin America is getting hot, he said, while the Middle East is growing but off a much smaller base.

"The activity in Korea has been driven in part by the government, which has lowered duties and tariffs on things like personal products, which is an implicit endorsement by officials of cross-border trade," Porter said.

Similarly, China opening four free-trade zones — Shanghai in 2013, and Guangdong, Tianjin and Fujian this year — has been a boon for ecommerce there, Porter said, making it easier for foreign merchants to do business. "In effect, the Chinese government is saying consumers there are already going to businesses in New York, Hong Kong or Tokyo, and we're not getting any revenue, so they're encouraging them to do more cross-border buying from businesses (in the FTZ). It's been a big shift and will continue to be."

Those two markets are "growth prone" if merchants take the right steps to take advantage of them, Porter said.

Shelton said he has seen "under-representation" of U.S.-based merchants pursuing opportunities in Canada, the UK and Australia/New Zealand, the primary offshore English-speaking markets.

"If you look at the major U.S. online sellers, you don't see localized domains (in those countries)," he said. "They may ship from their .com operation, but it's not being specialized, there isn't dedicated marketing or teams building those individual markets. There's still a lot of room for growth and maturity for U.S. retailers to expand into key English-speaking markets."

Australia in particular has gone out of its way to encourage cross-border ecommerce, Shelton said, by setting its de minimis value — the threshold below which there are no import duties — at a very high rate of $1,000. By comparison, the de minimis value is $20 in Canada — one of the lowest in the world — and $200 in the U.S.

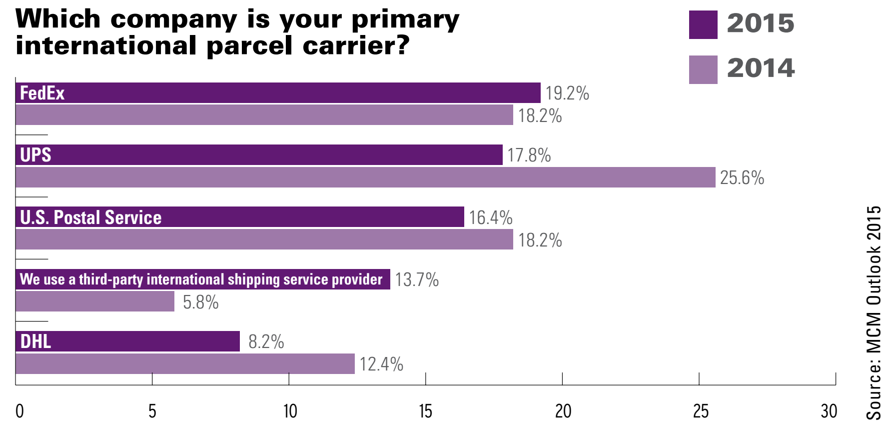
Germany, France and the Nordic countries "are also big-opportunity markets people tend to forget about," Shelton said.

Out of the so-called BRIC countries — Brazil, Russia, India and China — Brazil and China are the hottest right now, according to David Wachter, division president of urban apparel brand Jimmy Jazz. "Unfortunately, high fraud in Russia has detoured us from focusing in on that market," Wachter said.

Miller of GRIN agreed, saying BRIC could be shortened these days to "BC," or even just "C." "Political and economic conditions in Russia, and the difficulties of delivering packages in India, make them more difficult to deal with," he said.

As for Brazil, Miller said it's a highly sought-after prize but very difficult to crack in terms of infrastructure, prohibi-

Which company is your primary international parcel carrier?



How do delivery expectations vary from country to country?

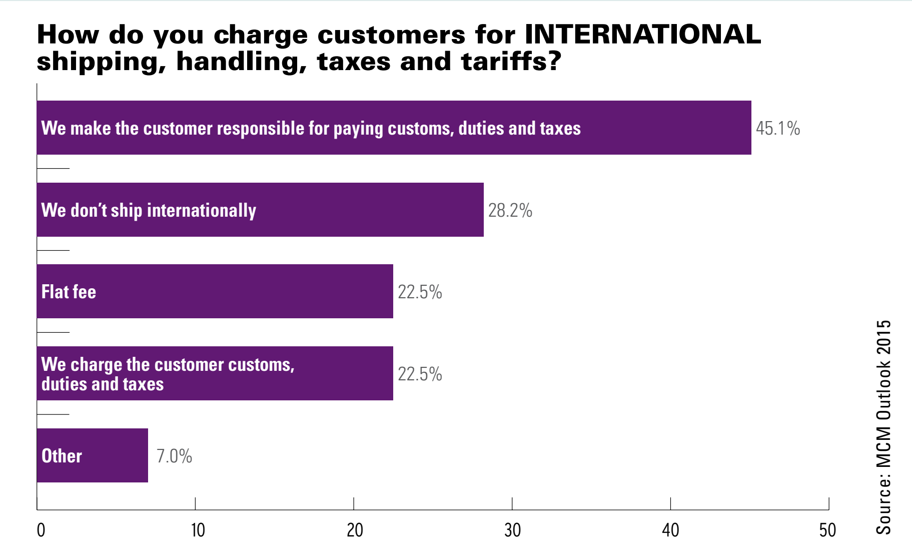
"If you talk to a Chinese customer, they expect deliveries in two or three days at most," said Marshall Porter, senior vice president and general manager, Gilt. "But that's not logistically possible from the U.S. So the value proposition, whether it's cost or uniqueness has to justify the longer shipping time vs. domestic alternatives."

That uniqueness has to be strong or desirable enough for far-flung consumers to swallow a 7-14-day shipping time. "In Korea, the concept of retailer after-service goes above and beyond the call of standing behind their product, several levels beyond U.S. retailers," he said. "Being aware of that kind of thing makes a big difference to the customer."

Tina Naetscher, director of international business for Nasty Gal, said delivery expectations vary from country to country.

"Obviously, retailers in the local market set the bar high to avoid U.S. brands getting in there and having a chance.," she said. "Shipping time is definitely the toughest area to compete in, so you need to figure out your unique selling proposition. You can't compete at that level unless you have a DC in the country and separate inventory, and can offer same-day or next-day delivery."

Domestic sellers can be hard to beat: She said Australian online retailer The Iconic's strength in delivery is its unique selling proposition, making it tough for outsiders.



How do you handle taxes, tariffs and international fees?

"We ship delivery duty unpaid (DDU), which is a huge customer headache," said Tina Naetscher, director, international business, for Nasty Gal. "We're working to change, country by country, to incorporate it into the product price and have a fully landed cost."

She said the idea is to replicate the local experience and make it seamless to the customer, no matter where they are. "We're competing with local markets and marketplaces, so why burden them with fees they don't normally encounter?" Naetscher said.

Nasty Gal's global ecommerce provider didn't solve the issue with duties and taxes calculated at checkout. "A 15% commission isn't economical for us; we can't cut it out of our gross margin," she said.

Naester also said putting the cost of duties, tariffs and other cross-border costs into the product price is something brick-and-mortar stores have done for years when they open in another country.

"A 15-year-old girl doesn't know what duties and taxes mean, so we'll remove it completely and make it as smooth as possible in terms of her customer experience," she said.

tive regulations and exorbitant duties and fees, all of which discourage imports. "For U.S. retailers, delivery duty paid (DDP) options aren't there, so they send products to Brazil as unpaid," he said. "If a customer decides not to pay, the retailer is on the hook for the costs, according to the Brazilian government, and the package isn't released to the customer until they do."

In addition to Korea, the Southeast Asia nexus of Indonesia, Malaysia, Singapore and Hong Kong represent a great opportunity for merchants "who can get lost in China, because it's too big to navigate," Miller said. "These markets have become a bright spot because they're more manageable and represent a sizable population with Internet access flowing and a desire for Western brands."

Dealing With a Strong Dollar

The U.S. dollar has never been so popular. It is more valuable than it's been in the last six years, prompting many industry experts to declare 2015 "The year of the dollar."

Between improving economic activities and a better labor market, the Federal Reserve is talking about increasing overnight interest rates for the first time in six years, with some predicting the Fed will take action as early as this summer by raising it from .25% to 1%.

While the U.S. economy is rebounding, those in Europe and Asia are struggling with slow growth and low prices. As industry observers say it will take these regions a while longer to catch up with the U.S. economy, the dollar could retain its popularity into 2016.

This currency differential is having a serious impact on retailers who do business overseas. For instance, Gap Inc. reported a 3% decrease in first quarter 2015 revenue, estimating that the translation of foreign sales into U.S. dollars pushed sales down by about $90 million, driven largely by the weakening Japanese yen and Canadian dollar. Macy's also put some of the blame for a Q1 earnings and revenue miss on the strong dollar, saying it kept foreign tourists from buying more goods at their stores in key destination markets like Manhattan, Las Vegas, San Francisco and Chicago.

"As the dollar has strengthened, anyone shopping from outside the U.S. can see items that are 15% to 20% more expensive," said Porter of Gilt. "So something that cost $100 in Canada is now $120. The heaviest impact has been in countries like Canada, Australia and Europe, while those least affected are countries effectively pegged to the dollar including Hong Kong, China, Korea and parts of the Middle East."

To mitigate currency risks in market conditions like this, ecommerce merchants can enter forward contracts, allowing them to lock in an exchange rate for a future dated transaction. For example, if seller A knows they'll have 250,000 euros to bring back to the U.S. in six months, they can lock in an exchange rate now and know how many dollars will arrive.

Considerations for Entering New Markets

Tina Naetscher, director of international business for young women's fashion seller Nasty Gal, said her company looks at factors like demographics, Internet penetration, economic growth rates and price sensitivity when considering which market to enter. The country's sense of style and fashion are also important criteria, she said, because its apparel may not be culturally acceptable in some locations.

"Cross-border means an additional cost for the customer," Naetscher said. "So we calculate projected volume against price sensitivity. For instance, one country might be a bigger market but be price sensitive, so the scale makes sense. Or it could be a smaller one like Hong Kong, where customers are willing to pay more for American goods. So tailor your website to a certain country, and optimize your logistics where there's high demand. These are calculations each company needs to do for themselves."

Localization goes way beyond a direct translation of web and email content into the native language. Idioms and colloquialisms need to be considered as well — people in Brussels or Hong Kong aren't going to understand the term "drinking the Kool Aid," Naetscher said. And king or queen size mattress sizes mean nothing in other parts of the world, nor do some U.S. apparel sizes. Shipping expectations also vary greatly, with pickup "hotspots" (temporary post boxes) popular in Germany, and Japanese consumers using local convenience stores — and paying by COD.

"There, the logistics carrier takes the risk for us — there's no transaction between us and the customer," she said. "And in Germany, less than 20% of consumers have a credit card, so you can't just offer that as a payment method. There are a ton of different payment methods across countries, so you need to figure out which are relevant. These are different concepts and difficult to implement, but if you want to do international right you need to consider all of it. It's risky and scary for U.S. companies, so it make sense to have a partner to help you assess the risks, benefits and potential market share you can gain."

Porter of Gilt agreed that merchants need to address customer needs, desires and expectations holistically in order to succeed across borders.

"At the end of the day you're trying to solve for the customer experience in each market," he said. "For us, it all goes back to the five pillars of customer experience: Time of day, consumer taste, logistics, localization and payments. If I can solve for all of them, I'm in really good shape; if I'm missing one, it's a real flaw I need to look at. Not addressing the entire ecommerce experience and localizing based on customer needs puts you at a disadvantage." ■

How Jimmy Jazz Grows its Global Ecommerce Business

David Wachter, division president of urban apparel brand Jimmy Jazz, talked with Multichannel Merchant about his company's global ecommerce business:

MCM: How is global ecommerce fueling growth for Jimmy Jazz?

Wachter: In the next five years, the majority of our growth will come from international. Key drivers will be a dedicated focus on global, with resources focused just on that.

MCM: What are the hotter global markets for you?

Wachter: Western Europe, China, Canada, Australia and New Zealand, based on their desire for trendy footwear and urban apparel, and the fact that we sell many American brands.

MCM: What are your prime criteria when considering expanding into a new market?

Wachter: We ask ourselves: "Is our offering consistent with what a new market demands?" It's as simple as that.

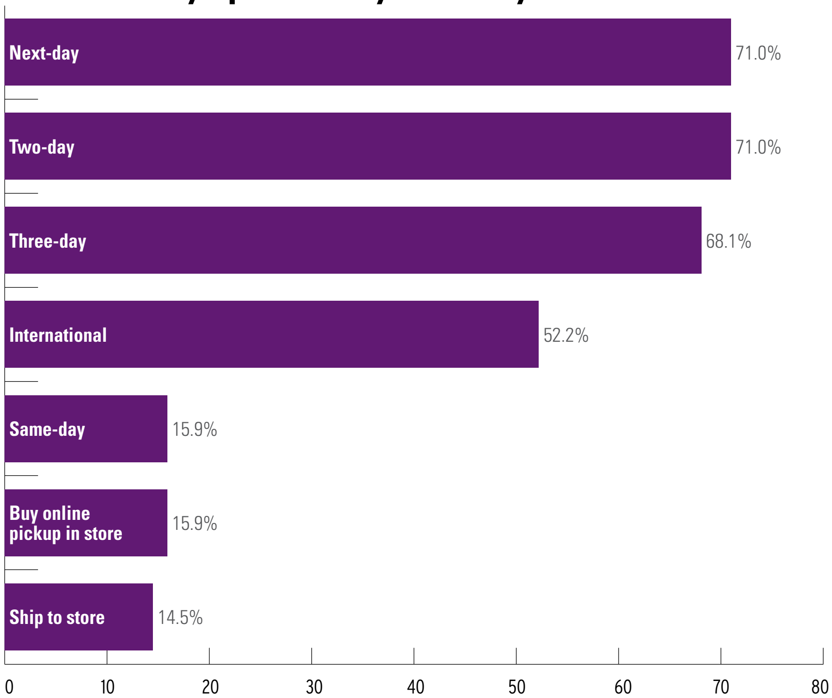
MCM: What do you see as the primary barriers to entry in cross-border, and how do you address them?

Wachter: The biggest barrier is that several of our main brands won't allow us to enter foreign markets, which can be a challenge from an international growth perspective.

MCM: What steps have you taken to enable global ecommerce?

Wachter: We've integrated an international platform, we're using a shipping partner and we've executed international marketing initiatives, including the use of marketplaces.

What delivery options do you offer your customers?



Source: MCM Outlook 2015