MULTICHANNEL MERCHANT

CROSS-BORDER SHIPPING SPECIAL REPORT

Which Cross-Border Shipping Choice Is Right for your Business?

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There is no doubt that cross-border 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.

According to the results of Multichannel Merchant's MCM Outlook 2016, 10.5% of all ecommerce orders come from outside the U.S. So whether you optimize your ecommerce site—and your operations—for the global shopper or not, the global shopper is coming to America.

But not all U.S.-based merchants are sending orders across borders. According to MCM Outlook 2016, 17.2% of merchants do not ship internationally. Based on all these ecommerce growth trajectories, however, merchants need to get into the cross-border shipping game—and quickly.

How you ship definitely matters, and customer expectations with respect to shipping and delivery continue to increase around the globe. The ability to provide a shipping solution that pleases increasingly demanding customers is already a barrier to entry for many merchants that want to fine-tune their cross-border selling.

Merchants that pay careful attention to shipping and delivery can make a great impression on new customers. You need to be on the lookout for cutting-edge logistics solutions and providers that can deliver the level of service that enables you to satisfy customers, or leverage a partner that specializes in carrier management solutions.

So what's the best way to sell and ship cross-border? It all depends on your business needs, but here's how to make that decision.

Start with the Basics

The first step to satisfying your international customer is to eliminate nasty surprises. Shipping your goods delivery duty unpaid (DDU), in which cross-border shoppers pay duties and taxes after ordering but before the shipment can be delivered, gives you less control over their shopping experience. Not only do your consumers have an extra step in their purchase process, they could easily face unpredictable costs and delays that are out of your control.

Cross-border shoppers want to see the fully landed cost of their order—including any shipping and handling, customs duties and taxes, or other fees—as soon as possible in the product selection process, and definitely before they click "pay" at checkout. So shipping goods delivery duty paid (DDP) is key. DDP terms allow retailers to control the customer experience and

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give customers upfront transparency as to what they will ultimately be charged.

You'll also need to offer multiple shipping options, with variations on speed and cost. You can work with local or regional carriers to enhance speed and reduce cost into key markets. While UPS, FedEx and DHL offer global services, they tend to be more expensive and are not the only, or best, option in every country. Instead, leverage those local, market-leading carriers to do international zone skipping and direct injection into country or region to further reduce your door-to-door cost.

And don't forget to provide your online shoppers with a branded tracking portal that can trigger proactive email or SMS updates to let them know the status of parcels and ETA. Also, use carriers that can provide a COD payment option, which is a preferred payment method in many European countries.

Using Marketplaces

Merchants looking to test the global waters can start by selling on ecommerce marketplaces. And that's exactly what 53.6% of MCM Outlook 2016 respondents said they are doing, whether it's through Amazon, eBay, Rakuten, Newegg, Alibaba's Tmall and TaoBao, MercadoLibre, or others.

Amazon allows 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 (FBA) service. FBA will help the merchant with the translation, tax and fulfillment of that product across borders. If you have a growing number of orders from a particular region, FBA will also move some of the inventory there to keep the product as close to the consumer as possible. Shipments to foreign addresses are not allowed to be returned, however, 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 (GSP) 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.

Last June, Newegg announced that sellers on its international marketplace could now fulfill orders directly to customers, even if they don't have an established U.S. presence. For example, if a business is based in Australia, that business can ship directly to its Australian customers who purchased from the Newegg Australia site. Further, sellers can now set country-specific selling prices, enabling them to respond to changing market demands and customize pricing to remain competitive in each partcular market. This option is available to sellers in the U.S., U.K., Ireland, India, New Zealand, Australia, Netherlands, Poland and Singapore.

MercadoLibre currently operates from two warehouses in the U.S.: One in Florida (for Brazil, Chile and Colombia) and another in Texas (for Mexico). This option is only available for U.S. sellers, but it also means MercadoLibre will take care of the international portion of shipment and deliver the item to buyers.

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.

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 transitioning 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 customs 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."

Working in-Country

While the global marketplaces can help you ship items faster to cross-border customers, sometimes the solution is to set up business with an in-country business partner.

For example, the ability to get orders into the hands of consumers rapidly and to directly connect with them, while providing price transparency, are among the keys to success in cross-border ecommerce into China, said Jimmy Tobyne, who oversees strategic partnerships and business development at Alibaba Group, during a keynote session at Multichannel Merchant's Growing Global 2015.

Tobyne said you definitely should never send anything to a Chinese customer that takes five to seven days to deliver. Chinese consumers, he says, expect delivery within two days, and that would require some type of local fulfillment operation. Even if there are higher costs, you need to meet their expectations. Once a Chinese customer puts a negative review on your store on Alibaba sites Tmall and Taobao, it's hard to get it taken down, because reviewers have to do it themselves.

To facilitate rapid delivery, and to avoid China's 17% value-added tax on imports, Tobyne said merchants should consider parking inventory in one of a handful of Chinese free trade zones and using a local fulfillment partner. To do business on Tmall or Taobao, for instance, Alibaba requires merchants to have an in-country partner to handle returns—another reason to go in-country.

Rakuten is also supporting its Rakuten Ichiba initiative with a logistics solution to help its customers get products from the U.S. into Japan.

Macy's, Inc. has formed a free-standing joint venture with Hong Kong-based Fung Retailing Limited to explore retailing in China, one of the world's largest and fastest-growing consumer marketplaces. For now, Macy's will offer customers on Tmall a relatively limited assortment, and the goods will be stored in Hong Kong. But over time, assuming it works well, Macy's CFO Karen Houget said the idea would be to have the goods housed in China eventually and see how much of the website it needs to modify to fit the consumer in China.

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 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. Crocs 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

During its second-quarter earning 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.

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 expanding into that country or region. If that is not practical, based on a country's regulations, setting up a subsidiary might make sense.

In April, Kate Spade & Co. and Reliance Brands Limited, a subsidiary of Reliance Industries Group, announced plans to the bring the kate spade new york brand to India through a long-term distribution and retail license agreement. Under the terms of the agreement, Reliance Brands Limited will have the exclusive distribution rights to the kate spade new york brand in the country.

The newly formed partnership will leverage Reliance Brands Limited's in-depth market expertise in India and the increasing global demand for kate spade new york products to establish a network of standalone stores across major Indian cities beginning later in 2016.

Kate Spade & Co. CEO Craig Leavitt said expanding into India is an important next step for Kate Spade & Co. as it continues to progress along its geographic expansion axis of growth and build global brand engagement. With India's rapid development and consumers hungry for luxury products, Leavitt said the company sees attractive growth opportunities in the region in the long term.

"With India's increasingly aspirational consumers, we see significant opportunities to build brand equity," Leavitt said during the company's fourth-quarter earnings call. "And although we think this is a modest short-term opportunity in-region, we believe building engagement with the Indian consumer will impact business in markets such as Europe and [the] Middle East as we grow."

Leavitt said Reliance Brands is the ideal partner to help Kate Spade & Co. open standalone stores in India, given its experience and success launching premium brands. According to its LinkedIn page, Reliance Brands has eleven partnerships with U.S. brands. Six of them with Brooks Brothers, Diesel, Ermenegildo Zegna, Iconix, Paul&Shark and Quiksilver Group (Quiksilver, Roxy & DC) are joint ventures while the other five with Hamleys, Kenneth Cole, Steve Madden, Thomas Pink and Timberland are long-term distribution/license partnerships.

In May, Abercrombie & Fitch Co. announced that it has expanded its existing relationship with Majid Al Futtaim Fashion through a franchise development agreement to establish a retail store presence in the Kingdom of Saudi Arabia, Qatar, Bahrain and Oman. Since 2013, the company, with the support of Majid Al Futtaim Fashion, has opened eight stores in the UAE and Kuwait.

This franchise agreement encompasses the Abercrombie & Fitch, abercrombie and Hollister brands and further demonstrates the company's commitment to growth in the Middle East.

Abercrombie & Fitch expects to open its first stores in Qatar in the first quarter of 2017, and in the Kingdom of Saudi Arabia in the second half of 2017.

"We expect there to be strong demand for our brands in these new markets, and we are thrilled to partner with Majid Al Futtaim Fashion to expand our presence in the Middle East," said Arthur Martinez, executive chairman of Abercrombie & Fitch Co. "This arrangement represents our second major franchise partnership, as we continue to expand our brand reach."