

2018 Edition
**E-RETAILER
GLOBAL EXPANSION
REPORT**

How retailers and brands, large and small, are taking advantage of a growing array of channels to reach the world's online shoppers.

An exclusive sneak peek on key operational hurdles to global e-commerce

Internet Retailer, a Digital Commerce 360 brand



SURMOUNTING THE KEY OPERATIONAL HURDLES TO GLOBAL E-COMMERCE

While governments increasingly see cross-border online shopping as a new revenue source, fulfilling international orders is getting easier as carriers and cross-border specialist solutions enhance their services.

Local regulations and fulfillment are the two biggest hurdles for retailers and brands seeking to sell online beyond their own borders, with each cited by more than 42% of respondents to the Internet Retailer/Global E-Commerce Leaders Forum survey as a major pain point. Language, local payment preferences and customer service also pose challenges that experienced international sellers are learning to address.

Regulations are likely to become more of an issue as governments adapt to the growth in international online shopping—which many see as an opportunity to bring in more tax revenue. On the positive side for e-retailers, most companies engaged in global e-commerce say getting parcels delivered to global shoppers is steadily becoming easier as carriers and other service providers improve their offerings.

Governments adapt to e-commerce

Retailers should be aware that government agencies around the world are taking steps to deal with the flood of small packages to consumers from retail websites in other countries. As the U.S. Customs and Border Protection Agency put it in a February 2018 report, while the agency designed its risk-management practices to deal with traditional international trade, largely involving large shipments from known organizations, “Now it must expand them to address the unprecedented flow of goods from new, unknown and often less proficient importers.”

As evidence of the increased flow of low-value parcels, the agency noted that one port of entry for express shipments handled 25 million parcels with value below \$2,500 during the U.S. government’s 2017 fiscal year, compared with 2.4 million 20 years earlier.

GLOBAL OPERATIONS • SURMOUNTING OPERATIONAL HURDLES

2018 E-RETAILER GLOBAL EXPANSION REPORT

To address the new demands posed by international e-commerce U.S. Customs and Border Protection in September 2016 created a new E-Commerce and Small Business Branch within its Office of Trade. On an international level, the World Customs Organization also in 2016 created a Working Group on E-Commerce that has met several times since. It has focused on creating standards to help border officials process large numbers of small parcels quickly while identifying those that pose a security risk or that require the payment of duties.

Whether to collect customs duties is a question each retailer selling internationally will have to decide based on its business. Generally, countries don't charge duty on low-value purchases. For example, there is no duty charged by the United Kingdom on any goods worth less than 135 pounds (\$180); in Germany, the threshold is 150 euros (\$175).

Wizard Industries, which sells a variety of specialized do-it-yourself items, leaves it to the customer to pay any duties that are due upon

delivery, and hasn't had many complaints, says owner Billy Carmen. He uses the ShipRush software from Descartes that fills in all the information required by the customs agency of the customer's country as well as choosing the best shipping rate. That minimizes the hassle of international shipping. "It's pretty brainless," he says.

Babyhaven also hasn't been adding customs duty on the checkout page. While not many customers complain about having to pay duties upon delivery, the e-retailer has sent refunds to some disgruntled shoppers, says CEO Jason Becker. He's considering collecting duty upfront, at least for his core international markets of Canada and Europe.

For Mouser Electronics, whose average online order is \$450 on its 63 global e-commerce sites, customs duty often must be paid. The distributor builds any customs duty into the price of the product, which makes the transaction simpler for the customer but means that the price of a given SKU can vary from one country's website to another. Internet business director Hayne Shumate says that's rarely a problem, as the

TOP INTERNATIONAL E-COMMERCE HURDLES

Which of the following have created significant obstacles to your international e-commerce expansion? Respondents could select three.

Shipping & fulfillment	42.9%
Local regulations & laws	40.3%
Customs duties	29.9%
Marketing & generating demand	28.6%
Language & cultural nuances	27.3%
Path to profitability or the risk related to achieve profitability	20.8%
Customer service	16.9%
Merchandising for a local market	14.3%
Currency & payment processing	13.0%
Selling the international e-commerce business case internally	13.0%
Data, analytics and insights (strategic & operational)	11.7%
Incumbent regional partners view e-commerce as a threat	10.4%
Inventory investment	9.1%
Insights on local competition	7.8%
Managing third-party partners	7.8%
Recruiting local personnel	3.9%

Source: Internet Retailer/Global E-Commerce Leaders Forum survey, April-June 2018

GLOBAL OPERATIONS • SURMOUNTING OPERATIONAL HURDLES

2018 E-RETAILER GLOBAL EXPANSION REPORT

distributor's web technology uses a visitor's IP address to direct that person to his country's Mouser website, and customers generally don't visit other Mouser sites.

Increased sales tax collection

Closely related to the customs duties are consumers' obligations to pay value-added (or sales) tax on online orders. The tax rates and exemptions from tax vary from country to country. For example, most European Union countries exempt small parcels of a certain amount—an amount that varies from 10 to 22 euros—from paying VAT, but Sweden and Poland do not offer that exemption.

That produced a tiff early in 2018 between Swedish Customs and Postnord, the country's postal agency, with the customs agency insisting that Postnord collect the sales tax "from the first krona of the value of all goods."

"More countries' governments are waking up to the cross-border tax opportunities," says Phil Rooke, CEO of online retailer Spreadshirt. He notes

that more parcels are being stopped and checked at customs as border agencies increase their staff and deploy technology to automate inspections.

The United Kingdom's tax authority announced in April 2018 that it would ask all online marketplaces operating in the country to provide information about sellers failing to properly report and remit VAT payments. Revenue & Customs says the government lost between 1 billion (\$1.32 billion) and 1.5 billion pounds (\$1.98 billion) in 2016 and 2017 because of underpayments, whether intentional or through error. The agency attributed 60% of that loss to marketplace sellers based outside of the UK.

Australia, meanwhile, has changed its law to force more e-retailers to pay tax on small orders shipped into the country. Whereas in the past orders under AU\$1,000 (\$US765) did not have to pay value-added tax, as of July 1, 2018, all online retailers that sell at least AU\$75,000 annually to Australian consumers must add the 10% VAT.

That prompted Amazon to announce it would

GLOBAL OPERATIONS • SURMOUNTING OPERATIONAL HURDLES

2018 E-RETAILER GLOBAL EXPANSION REPORT

no longer allow Australians to buy from its non-Australian sites, redirecting them instead to its Australian site, which launched in 2017. That produced some protests from consumers who pointed out that Amazon.au offers only 4 million items, compared to more than 500 million at Amazon.com in the United States. Some also suggested it was a way for Amazon to promote its new Australian site.

Whatever Amazon's intent, online retailers should be prepared for governments to more closely scrutinize cross-border shipments. That will force companies selling internationally to either beef up their own compliance systems or to engage vendors with strong international capabilities.

Import/export restrictions

As part of the fight against terrorism, governments also are more carefully examining cross-border shipments as well as limiting what can be sent to certain countries. For example, a personal computer might fall into the "dual-use" category of a product that could be used as part of a weapons system, and the U.S. or other governments may

ban its shipment to a hostile country, says Chris Jones, executive vice president of marketing and services at Descartes Systems Group Inc., a technology company whose products include the ShipRush shipping software.

"These regulations are getting way more complex, and governments are going to be putting more scrutiny on them," Jones says.

Countries also place their own bans on what can be shipped. For example, France does not allow importing of animal skins, leather goods and electronic games. UPS, FedEx and other carriers provide detailed online resources on what can be shipped to a given country. Any retailer contemplating international expansion will want to first determine that it can legally ship products to markets it's targeting.

How shipping is easier

While shipping parcels to consumers around the world is by no means easy, it has by all accounts gotten easier for online retailers in recent years. That's largely because of improved services offered

GLOBAL OPERATIONS • SURMOUNTING OPERATIONAL HURDLES

2018 E-RETAILER GLOBAL EXPANSION REPORT

by shipping companies, big online marketplaces and technology providers.

One indication of the heightened focus on international e-commerce by shipping-related companies was the acquisition during a frenzied eight-month period in late 2014 and early 2015 of three leading U.S. companies that helped online retailers ship abroad. UPS acquired i-parcel in October 2014, FedEx bought Bongo two months later and in May 2015 postage-meter manufacturer Pitney Bowes bought the biggest of the cross-border specialists, Borderfree.

These and other investments made by the carriers enable them to offer more sophisticated services to online sellers shipping internationally, sellers say.

Mouser Electronics now can deliver parcels to customers in most countries within two to three days, with China taking five to six days because of its customs clearance practices, says Hayne Shumate, senior vice president of internet business. He says FedEx and UPS bring aircraft containers to the Mouser warehouse in Texas each

night and that orders received up until 8 p.m. local time go out the same day.

What's more, these carriers now can calculate customs duties up front—which is important for Mouser whose online average order is for \$450 and thus may be subject to duties—rather than having the customer have to pay duties upon receipt. That, Shumate says, was a “horrible experience” for customers that Mouser no longer has to worry about.

Competition between the carriers also gives online sellers an edge, he says. Mouser's website shows customers their shipping options, and Shumate says it's generally obvious which is the best carrier for a given destination. “For example, DHL does a great job of shipping to India, so it makes sense to choose DHL for that country,” he says.

Big marketplaces like Amazon and Tmall also have made shipping more convenient. Amazon, for instance, offers a pan-European option for Fulfillment by Amazon that enables a marketplace seller to send goods to one location in Europe

GLOBAL OPERATIONS • SURMOUNTING OPERATIONAL HURDLES

2018 E-RETAILER GLOBAL EXPANSION REPORT

for sale on all five of Amazon’s European sites. Amazon distributes the inventory to warehouses around the region based on its prediction of sales, and all of the seller’s goods are Prime-eligible, guaranteeing free shipping to more than 100 million consumers around the world who pay for Amazon Prime.

U.S. web-only retaileretailz is among the marketplace sellers using FBA in Europe, and planned to begin using the Amazon fulfillment program in India in July 2018, says CEO Josh Neblett. FBA also handles returns, a big plus, he notes.

Alibaba’s Tmall also makes it easy for U.S. sellers as its logistics affiliate, Cainiao, operates warehouses on the east and west coasts of the U.S. where sellers can send merchandise ordered by customers on Tmall. Cainiao ships goods in bulk, handles customs clearance and typically can get parcels to Chinese consumers within a few days, says Andreas Schulmeyer, who led the Victoria’s Secret launch on Tmall in 2017.

“You don’t have to worry about China logistics or customs clearance,” he says. That means U.S. sellers don’t need to employ personnel in China to handle these issues, he says, though he says it’s best to have a team on the ground to work closely with Tmall on marketing and other issues.

Cainiao’s services are likely to continue to improve following Alibaba’s announcement in June 2018 that it planned to invest an additional \$15.6 billion in the logistics network. Alibaba, which is the majority shareholder in Cainiao, said the investment would go to ensuring 24-hour delivery of online orders within China as well as to expanding Cainiao’s cross-border capabilities.

Shipping technology

While international shipping poses a host of issues, software can free e-retailers from having to fill out customs forms while also calculating taxes and the best shipping option. Wizard Industries says shipping internationally is made much easier by the ShipRush technology it uses from Descartes. “When an order comes in, all the information for customs is populated in the systems, we get

Alibaba is investing an additional

\$15.6b



in its logistics network, with cross-border shipping one of the priorities.

GLOBAL OPERATIONS • SURMOUNTING OPERATIONAL HURDLES

2018 E-RETAILER GLOBAL EXPANSION REPORT

shipping rates, pick the best rate. It's very simple to do," says owner Billy Carmen.

Wizard has been expanding its international sales, mainly via Amazon marketplaces, and Carmen says without the ShipRush software making fulfillment routine "we would be moving a lot slower."

U.S. e-retailer Ties.com uses Global Access to calculate duties and taxes, select the best shipping option and to track international orders in transit. Orders arrive more quickly and, because Global Access can negotiate favorable shipping rates with carriers, customers pay less, says Ties.com co-founder and CEO Omar Sayyed. The typical shipping fee to Canada has dropped from \$18 to \$10, and the savings are even greater on deliveries to countries like the United Kingdom and Europe, Sayyed says.

Local payments

Only about 13% of respondents to the Internet Retailer/Global E-Commerce Leaders Forum survey cited payments and currency issues as a major

obstacle to their international expansion. That may be an indication that service providers have addressed these issues effectively.

Global Access, for example, provides currency-conversion services through WorldPay, which supports some 350 payment methods around the world. That's a big deal because customers like to see prices in their own currencies as well as pay in familiar ways, says Dave Nielsen, CEO of Global Access. He says when Global Access clients began showing prices in Australian dollars the conversion rate of shoppers from that country increased 10%.

By increasing conversion, support of local payment methods also lowers marketing spend, as search engines are more likely to select bids from advertisers with high conversion rates, says Aaron Zaghera, senior director of e-commerce, international at Teleflora. As it builds its new e-commerce site in Mexico, the online flower seller plans to accept Oxxo, a service that allows Mexican consumers, many of whom don't have bank accounts or credit cards, to pay for online orders in cash at convenience stores.

GLOBAL OPERATIONS • SURMOUNTING OPERATIONAL HURDLES

2018 E-RETAILER GLOBAL EXPANSION REPORT

“If 20% pay online via Oxxo you’re at a 20% disadvantage when bidding on paid search terms because your conversion rate is going to be lower,” Zagha says. He adds constantly updating prices to reflect currency changes is also important for international sellers, and major payments companies have improved their currency-conversion services for online retailers in recent years.

Zagha notes, however, that payment and fraud-prevention costs can be higher internationally than in the U.S. He estimates that will add 10% to the per-transaction cost in Mexico, for instance.

Speak the language

Another added cost Teleflora faces is translation, for example, offering a French-language site for Quebec. He says translation and localization can add another 5% to the costs of a transaction.

But translation can provide rapid benefits. U.S. home goods e-retailer Wayfair reported early in 2018 that its orders to Quebec jumped to 15% of Canadian orders from 7% after it introduced a

French-language site and advertising in French.

Luisaviaroma, a luxury fashion e-retailer based in Florence, Italy, employs 200 people from 15 countries to maintain its e-commerce site in eight languages. The company’s sales, which are 95% online, grew from \$9.3 million in 2008 to nearly \$140 million in 2016.

Tech Armor, the smartphone accessories e-retailer that generates 30% of its sales from shoppers outside of the U.S., relies on translation services in the roughly 40 international markets it serves to provide “real localized translation,” says co-founder and general manager Joseph Jaconi. He says the e-retailer uses such service bureaus to handle the translation of marketing materials when big phone makers introduce new models in order to be able to go to market quickly.

Benefit Cosmetics has seen the impact of rolling out localized websites in 42 markets over a 2-year period beginning in 2016. That nearly doubled the number of consumers interacting with Benefit online, says Cindy Shen, vice president

‘We rely heavily on our local teams to know what is trending in that market, so we know where to focus content creation efforts.’

GLOBAL OPERATIONS • SURMOUNTING OPERATIONAL HURDLES

2018 E-RETAILER GLOBAL EXPANSION REPORT

of global e-commerce and customer relationship management.

“It’s very clear to us that customers are much more engaged with local language and local content, as it’s much more relevant to them, especially in non-English speaking markets,” Shen says. “They are much more comfortable learning and doing research in their native languages, which is why we’ll continue to roll out Benefit websites in all of our key markets.”

Benefit has not only translated its international websites but also launched on all of them in January 2018 an augmented reality tool called “Brow Try-On” that allows a consumer to upload a photo of herself or a model to see how different eyebrow styles would look on a face. The average person using the tool tries on more than five eyebrow styles and converts at a rate 80% greater than other web visitors, Shen says.

She says the cosmetics brand is also focused on localizing its content and marketing messages. “We know that there isn’t a global one-size-fits-

all message, as what resonates in each market is different, for example, straight brows in Asia versus bold and angular in Western markets,” she says. “We rely heavily on our local teams to know what is trending in that market, so we know where to focus content creation efforts.”

Initiatives like that by this subsidiary of luxury conglomerate LVMH are illustrative of the kind of stepped-up investment in global e-commerce that many larger companies are making as they see the potential for selling effectively to the world’s web shoppers.

Customer service on a global scale

Customer service was cited as a top-three challenge to global e-commerce by 17% of respondents to the Internet Retailer/GELF survey. That made it the seventh most common issue cited among the 17 possible answers. That it’s not more of an issue may reflect the willingness of consumers shopping across borders to accept a lower level of service than they would demand from a domestic retailer.

GLOBAL OPERATIONS • SURMOUNTING OPERATIONAL HURDLES

2018 E-RETAILER GLOBAL EXPANSION REPORT

Even as international e-commerce has grown to 15% of its business, Ties.com is able to interact with most customers in English, says CEO Omar Sayyed. “Anyone who buys from a U.S. company is more inclined to speak English,” he says.

Other online sellers, however, are investing heavily in providing service in customers’ own languages and customer care channels. “We expect to see more retailers provide superior customer service capabilities to compete against local e-retailers,” says Kent Allen from GELF. “This will include not only providing language-of-choice, but also customer service channels-of-choice such as social media, live chat and messaging platforms in addition to traditional call centers.”

Tech Armor, which generates more than 30% of its sales from shoppers outside the U.S., prioritizes local-language customer service. Jaconi says the retailer doesn’t enter a global market until it can offer support in the language of that country. That includes having speakers on staff who speak Spanish as it’s spoken in Spain and others who speak Latin American Spanish.

Jaconi says Tech Armor offers strong warranties on its smartphone accessories and free replacements on many products, and keeps its customer service in-house to make sure it’s done right. He says more than half of the company’s 25 employees work in the contact center operation.

Companies like Spreadshirt and Mouser Electronics that operate localized e-commerce sites tend to back up those sites with localized customer service.

T-shirt retailer Spreadshirt handles customer service through two call centers, one in Germany and the other in the U.S. Return policies and guarantees are the same across all of Spreadshirt’s e-commerce sites, says CEO Phil Rooke. The U.S. team includes two people who speak French and one who speaks Spanish. A German-speaking consumer who happened to be in North America and called the U.S. contact center would be routed to the European call center for help.

Having customer service employees embedded locally is crucial for Mouser Electronics, which

GLOBAL OPERATIONS - SURMOUNTING OPERATIONAL HURDLES

2018 E-RETAILER GLOBAL EXPANSION REPORT

operates e-commerce sites in 63 countries, says Mouser's Shumate. "We knew that every time we went into a country where we're going to do a lot of business we needed people who could answer the phone at the right time of day and in the right language," Shumate says. When consumers have a question, or see a translation on the website that seems off, they'll inevitably call the local phone number. Shumate says having local personnel who can understand the problem and explain it to headquarters enables quicker fixes to any website problems.

Mouser sells complex electronics and customer service is likely more crucial in a category like that than it would be in neckties. The customer service demands also vary by country.

Consumers in China, for example, are known for asking a lot of questions, most often via live chat on a website or by phone. "Customers will call and chat, asking questions sometimes for 20 minutes or more before committing to a purchase," says U.K. digital marketing consultancy Smart Insights. "Your customer care team is the

difference between them buying and walking away. It's vital."

International consumers may well be pleasantly surprised to find an overseas e-retailer providing support in their own language and during local business hours. But that costs money, and each company will have to assess the value of providing localized customer service based on what they sell and the volume of orders in a given market.

ABOUT INTERNET RETAILER RESEARCH

At Internet Retailer Research our goal is to provide data and information about e-commerce that helps retail companies, investors and technology providers prosper.

The team tracks hundreds of metrics on roughly 6,000 online retail companies around the world, including such sought-after data points as web sales and traffic, conversion rates, average order value and key technology partners used to power their e-commerce businesses. We sell this data in its raw format in our multiple online databases, and we dig deeply into these numbers to help inform our 30+ exclusive analysis reports we publish each year on key e-commerce topics, including online marketplaces, cross-border e-commerce and omnichannel retailing. In-depth, data-focused reports are also available on key categories of online retail like apparel, housewares, food and luxury. We also have a robust custom research department, which provides tailored research products—in-depth reports, exclusive surveys, raw data pulls and other products—for top retail companies, consultants, financial analysts and technology companies.

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