The Global E-Commerce Gold Rush
How Retailers Can Find Riches Overseas

By Joanne Bethlahmy, Bharat Popat, and Paul Schottmiller

E-commerce is going global as retailers from around the world take advantage of faster growth trends by crossing borders with new country websites, global shipping, language translations, and currency conversions. For most brick-and-mortar and pure-play retailers, however, expanding e-commerce into a foreign country is unknown territory. Based on research conducted by the Cisco® Internet Business Solutions Group (IBSG) Retail Practice, this paper describes the key challenges, size of the opportunity, global best practices, and next steps for retailers looking to "go global" with e-commerce.

It's a Global Gold Rush

E-commerce has been the growth engine for retailers in mature markets for the past 10-15 years. As this growth slows, retailers increasingly are looking to expand online into high-growth countries. The Cisco IBSG Economics & Research Practice estimates that global e-commerce, including travel, will reach almost $1.4 trillion in 2015, a five-year compound annual growth rate (CAGR) of 13.5 percent. While the United States, United Kingdom, and Japan still will command an estimated 53 percent of the market, the highest growth rates will be in newer markets such as Spain (37 percent), Brazil (29 percent), and China, Russia, and Mexico (all at 26 percent).[1]

These global trends will affect every type of retailer that does business online, including "clicks and bricks" and online-only merchants. Since 20 percent of online consumers do most of their shopping at sites that also have brick-and-mortar stores, retailers that open store locations abroad without e-commerce capabilities will not meet the multichannel expectations of their customers.[2] As a result, they will lose out on a significant share of potential customer spending.

Countries differ significantly in e-commerce customer expectations and market norms, all of which need to be taken into account by retailers that open country websites. For example:

- Japanese customers expect to pick up and pay for online purchases at neighborhood convenience stores (often on the same day) and pay via COD or online bank transfers.
- Customers in the United Kingdom and Australia can buy their groceries online and schedule home delivery within one- to two-hour time blocks (including evenings). They can also pick up their orders in-store from many major retailers.

- The French prefer to pay for e-commerce purchases with debit cards or PayPal more than with credit cards. In urban areas, they like to pick up items at neighborhood stores on their way home from work.

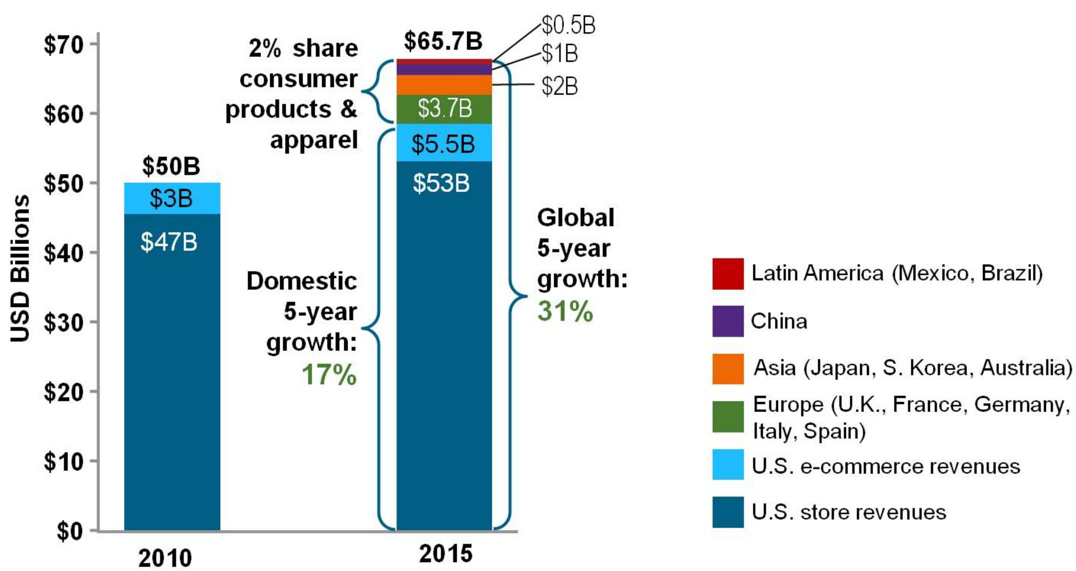
Despite these market complexities, some trailblazers have already established successful global e-commerce operations. Major brick-and-mortar retailers like Metro, Tesco, Walmart, and Best Buy are expanding their e-commerce initiatives to countries with existing stores. Domestic-only retailers and online pure-plays are using e-commerce to achieve global reach without opening stores by enabling cross-border trade (CBT) from an existing website (e.g., Saks Fifth Avenue) or by building complete, local e-commerce operations (e.g., Amazon).

The Opportunity Is Worth the Challenges

The thought of launching e-commerce initiatives in foreign countries raises many questions for retailers: Where should I expand, and in what order? How do I adjust my practices to meet different cultural norms in merchandising, marketing, and operations? Which functions should be located at headquarters versus locally? How should the entire operation be governed?

Even with these challenges, the size of the opportunity makes the leap worth the risk and effort. Cisco IBSG estimates that a $50 billion mass merchant expanding into 11 countries across Europe, Asia, and Latin America could add $7 billion in incremental revenue over five years and increase its total growth rate from 17 percent to 31 percent (see Figure 1).[3]

Figure 1. Example: $50 Billion Mass-Merchant Retailer



Source: Cisco IBSG, April 2011

Centralize for Scale, Localize for Relevancy

Cisco IBSG conducted 32 interviews with global online retailers and suppliers to understand best practices in global e-commerce. Participants were asked about prioritizing markets, locating operations at headquarters versus in-market, and best practices in buying, merchandising, marketing, website development, fulfillment, CBT, payments, call centers, and IT. By combining this research with experience from client engagements, Cisco IBSG has gathered best practices to date in global e-commerce management.

Picking markets: For retailers planning to open country-specific websites, it is important to base geographic rollout decisions on several criteria. Most important, consider the amount of company revenue already being generated in the potential markets. Next, understand the maturity of the existing e-commerce infrastructures (broadband, delivery, and payment systems). The level of existing popularity in a given country is always the best indicator of potential online success, as long as that country is ready for e-commerce.

Then, consider the amount of potential e-commerce revenue based on brand strength, corporate growth, and investment strategies. Finally, consider the relative ease of localizing products (degree of difference in local tastes, language, and pricing), creating a positive shopping experience (difference in website tastes, payment preferences, and availability of personal information), and offering excellent shipping and delivery.

Functional management: Retailers often want to know how much of global e-commerce operations they can manage at headquarters to avoid adding local headcount. Cisco IBSG's research suggests that retailers should manage those functions at headquarters that utilize scale or require standardization. These areas include branding, core technology platforms, website navigation and features, and global partnerships like master carrier agreements.

However, retailers should be prepared to staff locally those functions that require country expertise in order to appeal to local tastes, ensure relevancy, and take advantage of lower costs. These activities include buying, online merchandising, website look and feel, marketing, payment and bank agreements, drop shipping, local delivery carrier contracts, and customer support. Collaboration is essential for integrating central and local operations to maximize effectiveness.

Buying: Retailers should use local buyers to choose most products (especially food), edit assortments, and price and promote items. Local expertise is essential to appeal to customer tastes, respond to competitive pricing, and appear local. Buyers at headquarters can be used to purchase common, pooled products. Also, local specialty buyers—for example, a buyer of African goods who is located in France—can purchase products in their categories for the entire chain. Local e-commerce buyers should be managed in the same team as store buyers to increase scale with vendors.

Marketing: Retailers should utilize local marketing resources to ensure customer relevancy. Cultures respond differently to marketing tactics. For example, "percent-off" sales may work in the United States but have negative connotations abroad as distressed goods. In other countries, free shipping or tax refunds may be more compelling. Local marketing expertise can also help increase site traffic through search engine optimization and tie special offers into local holidays or themes. In addition, leaders such as Amazon and Tesco have begun to set a high standard for personalization through customer relationship management programs that should be developed centrally and fine-tuned locally.

Website development: Retailers should develop a core global platform with standardized branding, website real estate design, navigation, merchandising content management, and features. Country management can then slightly vary the look and feel of their websites as well as modify website copy to accommodate local tastes. This combination allows for brand consistency, IT efficiency, faster feature rollouts, and higher conversion rates while also allowing sites to appear local.

Fulfillment and delivery: Retailers often wonder whether they should: 1) fulfill orders with their own warehouses or utilize drop shipping, and 2) negotiate global or local delivery contracts. Cisco IBSG's research suggests the answers depend upon scale and supplier capabilities in particular regions. The main objective for retailers should be to meet customers' expectations for speed and delivery locations while keeping costs down. Generally, local store warehouses can be used if there is available space, and if initial e-commerce volume will not be sufficient to justify the cost of new warehouse construction.

For markets with smaller volumes, drop shipping from at least some vendors may be preferred because it can enable faster assortment growth and high refresh rates. Amazon is a great example of this approach. The company's drop-shipping method is invisible to customers because its vendors use Amazon-branded packaging (Amazon has access to all shipping information through interfaces with vendors' ERP systems). Amazon's volume growth has enabled it to build additional warehouses more cost-effectively and competitively.

Similarly, volumes and capabilities should determine the choice of delivery carriers. For large retailers, a global agreement with a carrier that delivers to all target geographies and can match local requirements may be most cost-effective. For smaller retailers or markets with lower volumes, country managers may be able to negotiate less-expensive rates and more delivery capabilities with local carriers.

Cross-border trade: Many retailers today do not offer CBT due to the complexity involved with global shipping, tariffs, and currencies as well as the high risk of international credit card fraud. However, with the recent growth of sophisticated third-party CBT suppliers such as FiftyOne, GlobalCollect, and Borderlinx, more and more retailers are taking advantage of global e-commerce growth without opening new country stores or websites.

Website applications can provide customers with immediate currency conversions, local payment options, and global shipping rates. In addition, all ordering, logistics, customer support, and fraud risk can be outsourced to the experts. Examples of retailers taking advantage of CBT include Saks Fifth Avenue, Sears, Crate & Barrel, Macy's, and Overstock.com.

IT: Retailers should create a global IT architecture that can easily scale and includes specific capabilities for worldwide e-commerce, such as regional website templates, translation functionality, and foreign exchange calculations. Creating website platforms (or "shops") that perform differently for various product categories should also be considered. For example, general merchandise shops should have richer information and slower carts, grocery stores should support fast cart loading but less content, and apparel shops need to include rich images and product descriptions. Additionally, data center architectures should minimize costs by using virtualization technologies and deliver excellent online response times through a combination of application accelerators, network design, and close proximity to new markets.

Next Steps

Creating and successfully executing a global e-commerce strategy requires rigor in understanding market opportunities, market uniqueness, and the organizational models that correctly balance global and local capabilities. By answering four key questions, retailers will have the information needed to create a comprehensive e-commerce plan.

1. Where is my best e-commerce opportunity? Consider where your brand is already known or sold in stores abroad. Do those countries have a strong e-commerce infrastructure? Decide whether you prefer to have specific country websites and operations, or whether you simply want to sell globally from your existing site through CBT.

2. What are the customer expectations and norms? What are the local market norms in terms of assortment, delivery, payment, and customer service? Hire local experts to successfully navigate the differences in merchandising, marketing, and website look and feel. Understand local multichannel expectations, including use of mobile shopping and in-store Internet kiosks.

3. How will I manage a global e-commerce operation? Look at the business from a granular process level to determine which functions should be based locally, managed centrally, or outsourced. Put processes and technologies in place to ensure global organization collaboration and efficiency.

4. Which IT changes will be required? Finally, determine the best architecture to support the devices, shopping experiences, and services required for your global e-commerce initiative. Also, determine which e-commerce platform will best scale and integrate with existing systems, and whether there is an opportunity to virtualize components of the business.

For further advice on finding e-commerce riches overseas, please contact Joanne Bethlahmy (jbethlah@cisco.com), Bharat Popat (bpopat@cisco.com), or Paul Schottmiller (pschottm@cisco.com) of Cisco IBSG's Retail Practice.

Endnotes

1. Source: Cisco IBSG Research & Economics Practice, 2010.
2. Source: *E-Commerce Times,* 2008.
3. Source: Cisco IBSG Retail Practice, 2011.

More Information

Cisco Internet Business Solutions Group (IBSG), the company's global consultancy, helps CXOs from the world's largest public and private organizations solve critical business challenges. By connecting strategy, process, and technology, Cisco IBSG industry experts enable customers to turn visionary ideas into value.

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