J.C. WILLIAMS GROUP

International E-commerce Expansion Benchmark Study

DETAILED FINDINGS

J.C. Williams Group

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Introduction

Retail executives were asked to identify current challenges or ones they have encountered during their efforts to expand their E-commerce channel internationally. Specific areas under their control (e.g., strategy and operations) were discussed in further detail. While an extensive list of hurdles was discussed, four fundamental and prevailing barriers were conspicuous throughout the research. These barriers are:

DEFINITIONS			
Internal Factors	**Market Assessment**	**Localization**	**Resources**
The fabric of the business—its culture, people, processes, and organizational structure.	The gathering of necessary inputs in order to gauge the viability of international, E-commerce expansion. Inputs may include consumer practices, cultural nuances, etc.	The calibration of products or services in order to meet market specific customer needs. Localization can be as apparent as lingual diversity or as subtle as consumer habits and preferences.	The assets of a business such as staffing, funds, and the related cost-benefit. Resources can include translation staff to a dedicated project budget.

Each of the four challenges mentioned above affect one or more areas of a retailer's operations. Specifically, we have analyzed six different areas to fully understand the impact these four umbrella issues have on a retailer's capacity to successfully expand outside of the U.S. These six areas are: strategy, marketing, merchandising, operations and fulfillment, technology, and finance/legal.

Barriers encountered as a result of **internal factors** and **resources**, significantly affects five of the six areas: strategy, marketing, merchandising, operations, fulfillment, and technology. **Market Assessment** greatly affects only two: strategy and the finance/legal operations. **Localization**, a noticeably visible barrier to many retailers, affects all areas of a retail business.

	AREAS OF RETAIL BUSINESS MOST IMPACTED					
BARRIERS	**Strategy**	**Marketing**	**Merchandising**	**Operations & Fulfillment**	**Technology**	**Finance & Legal**
Internal Factors	■	■	■	■	■	
Market Assessment	■					■
Localization	■	■	■	■	■	■
Resources	■	■	■	■	■	

The chart above depicts this common trend across the thirty retailers interviewed in this study. While examples varied depending on the retailer's attributes (e.g., retail category, channel of operations, etc.) the most common and valuable examples have been provided in this report for each of the four barriers.

Internal Factors

"You have to rethink everything and take nothing for granted" and that includes the core, inner workings of the retailer's business. Internal attributes play a key role in supporting or undermining a retailer's E-commerce expansion plans. This includes everything from an organization's soft attributes - shared attitudes, experiences, values, and vision - to its hard attributes like its processes, organizational structure, management, and partner relationships.

Internal attributes were found to impact five out of six key areas of a retail business: strategy, marketing, merchandising, operations/fulfillment, and technology.

Strategy

Amongst the soft attributes, a culture of conservatism and a low tolerance for risk, particularly amongst senior executives and management, were seen as major internal barriers. A need to *"make the case for E-commerce"* was a recurring demand coming from the senior management groups. The hesitancy to take on risk was visible through unreasonable revenue expectations such as *"making (international E-commerce channel) profitable within a year."* The lack of support for the international E-commerce channel integration only heightens this barrier by leading to a high-demand, low-support scenario.

Competing priorities for funding and staffing with the domestic operations of a retailer also lay a heavy hand. Specifically dealing with the opportunity cost, such as the optimization of the domestic site wherein revenue growth is easier to forecast, was a key hurdle for the international team, who are often working within a completely new environment.

Channel conflict also made the list as a potential challenge by seasoned multi-channel retailers. However, they felt that it could be resolved from their domestic experience:

- *"Channel conflict…there should be none…there are inter-channel goals and compensation"*

Marketing

The marketing division's challenge is to keep the brand integrity intact.

Minimal control over franchises, partners, regional divisions, and third party E-commerce sites contribute to a limited control of the brand and ultimately the customer experience. For example:

- *"the Brand got hijacked a lot of times by regional levels…"*
- *"franchisees were starting to open their own website."*
- *"if we were to ship into Asia, our licensee would feel we are competing with them."*

The consumer experience plays a primary role in keeping the brand integrity intact. For marketing this translates into ensuring that the creative expression, promotions, and contact strategies fall within brand guidelines, while catering to the individual tastes and preferences of any given market.

- *"As a global brand people expect consistency in experience"*
- *"Cross border solutions – Not good for our brand. People have an expectation from us that cannot be achieved unless we manage the service and operations"*
- *"Hold on to the tenets of your brand"*

Other than with few experienced international retailing experts, the lack of discussion or concern regarding international customer attraction and retention did not go unnoticed.

Merchandising, Operations and Fulfillment

Inventory and distribution requirements were two of the core hard attributes challenging the Merchandising and Operations division. Varying levels of inventory allocation requirements (*"small…shops (need) different levels of inventory"*) and establishing efficient inventory distribution processes (*"(local country) user ordering on U.S. site will get item shipped from U.S., not from (local country) - even if it is available"*), hindered the flow of activity within the two departments.

Other merchandising challenges included factoring in seasonality and merchandising for specific regions, requiring an adjustment in demand planning:

- *"Can't show winter goods to Australian customers in October, its summer there."*
- *"Design has to be part of the in country experience. Can be led from afar but should have local design."*

Vendor contracts and regional licensing rights were an added hurdle, where retailers selling national brands were faced with issues such as *"all of our brand partners have sold or auctioned rights to other parties,"* and *"we have to acquire permission from each of our vendors prior to considering expansion into any country."*

Technology

A lack of economies of scale for a few retailers inflates technology costs and creates repetition across multiple regions.

- *"launched separate sites…copied the site X times…(had to) fix things X times"*
- *"trying to build economies of scale"*
- *"likely that regions need to localize only 10% of their content"*

In certain cases, the lack of gained efficiencies a result of existing organization design or company culture. This allowed for a single regional division to take control ("(Regional division) was most enthusiastic about a website and they launched (Regional division) first"). Of note, control by a single regional division did not affect the strategic implications for the rest of the regions/ organization.

Market Assessment

From the onset of the evaluation stage (whether an organization should move forward with an international E-commerce expansion strategy), developing an intimate understanding of a new market, its consumer practices, cultural nuances, etc., was a difficult task directly affecting the strategic, legal, and potentially fraudulent areas of a retailer's business.

Strategy

The difficulty in gaining a comprehensive view of any given market stems from a simple lack of public and/or private published data and resources.

- *"don't have a playbook of who are all the market research firms, gold standard of industry data."*
- *"in looking at data from various research group(s) (it is) not easy to always break <the specified product category> out."*

For example, in North America, both government and private research data is easily accessible, whereas benchmarking and online behavioural statistics is more difficult to retrieve for the Asian landscape. The lack of data is also dependant on the nature of the retail brand's organizational structure. In particular, retailers who sought to build an in-country knowledge base without the benefit of "on the ground" resources (e.g., local retail store, local marketing team, etc.) were at an added disadvantage.

Finally, budgetary restrictions played a critical role in undermining market assessment efforts.

- *"International clearly has a positive ROI, but economy makes it tough today"*
- *"Financially (we are) proving ROI, but it is difficult to get budget because there is so much to do"*

Legal (Fraud)

A common concern among retailers is the potential liability resulting from fraud. However, this does not always emerge as an evaluation criterion during the market assessment process. Retailer experience reveals the difficulty in evaluating a market from the onset, without direct in-country experience or partners. Yet, this criterion can play a decisive role in evaluating expansion location options *"we didn't enter certain countries because of fraud risks."*

This challenge is not confined to developing markets but also affects on-going operations in more established regions *"Italy… mailmen stealing packages."*

Localization

The most visible and apparent of all four barriers, localization involves the calibration of products or services to meet market specific customer needs. From language differences to consumer habits and preferences, localization cuts across every retail department and encompasses a plethora of challenges.

The difficulties faced with the localization of products and services are two-fold. First, there are the **operational challenges**, most often attributed to geographic boundaries. Second, **barriers to the consumer experience** are characteristic of the cultural influence of a region (e.g., Eastern European and Southeast Asian). Examples of each localization issue are provided for the areas of retail business most impacted.

LOCALIZATION: OPERATIONAL/ GEOGRAPHIC CHALLENGES

Strategy

Strategic problems arising directly from the geographic distance between the head office and regional offices include difficulties managing the business (e.g., head office controlling regional centers). In addition, an *"out of sight, out of mind"* mentality that may develop as a result of the distance can affect the strategic importance of the international operations to the overall business.

Determining the best partner options was also a challenge for retailers that have existing relationships with domestic partners. For example, to meet the needs of a retailer's international expansion goals, determining the suitability of solutions (provided by domestic and familiar partners) proved to be difficult.

Marketing

One of the biggest challenges retailers face is convincing the local market customer that a foreign company understands their culture and needs. The most often discussed are providing transaction information in local market currencies and fully landed pricing at the shopping cart. Other customization approaches include: language translation, local language customer service, and alternative payment solutions.

- *"Translation, alternative payments, local country language customer service. Those are the things that make it work."*
- *"What we want to do in a perfect world, (to) support international completely: operational issues, languages, currency issues"*

Retailers *"can't just take (a)… U.S. promotion strategy and apply it lock-stock and barrel because different brands have different positioning"*, dependant on the target region. The need for localized content management and a lack of international marketing partners therefore were key operational issues for the marketing department. To this end, where there may be a tendency to replicate marketing material for multiple regions, one retailer resolved this tactical problem by editing down: *"scrub (edit) Emails for irrelevant content"*.

While securing partners for the marketing division was seen as important, the **brand consideration** or implications of relinquishing control of the brand to these partners was also significant. This was more the case with vertically integrated retailers and those seeking a low risk entry strategy.

Merchandising

Cross-border price discrepancies are a concern with a few international E-commerce ventures. E-commerce retailers are dealing with it in multiple ways: **sniffing IPs** (addresses) **-** directing consumers to their local website for local pricing and pricing at the checkout based on shipping destinations. Others felt that being open to customers was also important in order to overcome this hurdle: *"Consumers are beginning to understand that there is a different cost of living in each of these markets"*.

Operations and Fulfillment

For many retailers, a lack of expertise in international fulfillment forced them to look outside their organization in order to fill the gap. The reliance on a third-party resulted, for some, in difficulty in maintaining a high level of shipping excellence. For example, the **cost calculation of shipping services** was unavailable to consumers or on-time shipping was not in the hands of the retailer.

On the other hand, "last mile" logistic providers enable retailers to cater to local market preferences and suppliers, optimizing their conversion rates. "In China you must rely on *"people on bicycles that collect COD payments"*. For retailers where *"brand consideration is very important"* the challenges depicted involve not only short-term implications (getting product to consumer) but long-term brand implications (consumer experience) as well.

Shipping cross-border and dealing with the regional customer requirements also pose a problem: *"some… markets have (separate) customs requirements… as they're not part of the EU (Norway)"*.

Lastly, a consideration of multiple currencies within a single region creates a dilemma to fully servicing a variety of consumers under one E-commerce outlet. A prime example is Europe which *"is quite divorced in terms of currency"*.

Legal & Finance

Localization issues faced include staying on par with and working within country-specific regulations regarding product distribution (*"what product can be distributed in which country"*). This also relates to advertising and translation (*"dual-product labeling"*), and return policies and consumer privacy (*"record keeping requirements that* (have) *potential civil liabilities"*).

Fraud was a barrier most retailers had been challenged with. One such example of a "common complaint (was) *customers wouldn't receive their shipments"*. Retailers were able to manage this concern by having various checks and balances such as having a list of *"common shipping addresses <retailer> doesn't ship to"* to requiring the use of credit cards only.

LOCALIZATION: CULTURAL CHALLENGES

Strategy

Cultural barriers that impact the consumer interaction with the brand include an overall variance in consumer purchasing behaviours and payment preferences. In regions where credit card penetration is not the primary choice, other preferences reign: *"instalment payments… preferred payment methods/debit card/payment plan."* Retailers with a policy of dealing with credit card purchases alone will need to revisit their requirements when looking to expand into certain regions.

The level of equity a brand may have in a specific region is another variation. Retailers with high levels of brand equity may be going into a region where there is little-to-no brand equity or even recognition for consumers, ultimately affecting the choice of entry strategy.

Marketing

"Different markets have subtleties" that must be addressed. One of the challenges is to move away from defining a market through its geographic boundaries, and instead move towards a cultural dimension in order to truly connect with the associated consumers. For example, its *"relatively easy to divide Europe into: Central European regions: Germany, Austria; Eastern European markets; Northern Europe (the Scandinavian region); Southern Europe (Italy, Spain, Greece, and the Mediterranean); and, the UK… similar to the U.S."*

Cultural nuances cited include the differing socializing practices that can challenge the traditional promotional mediums used (e.g., Email): *"UK… Email timing is different. At lunch they all go outside… U.S. lunch is usually… (inside). Mobile is a good channel because of travel time and socialization practices (in the UK)."*

Legal restrictions also play a role in marketing practices as some countries such as Germany provide stricter regulations on promotions that must be adhered to.

Merchandising

Consumer preferences are a key but integral hurdle to merchandising regions adequately. From the **product selection for sale online** to ensuring product sizing options align with the physical differences in consumers **(e.g., European sizing vs. American sizing)**, understanding the region becomes an important part of the merchandising team's strategy, in order to stay above the fray.

In addition, it was noted that consumer purchasing habits, which influences the product selection and quantity ordered, can differ by region. For example, one interviewee found that the *"German customer has been trained to purchase two-to-three of the same item… try it on… and return the other two… but return it quickly"*. This type of behavior is especially significant for the E-commerce channel where returns may not be as accommodating.

Operations

Similar to merchandising, localization in the operations area means dealing with cultural barriers, from the consideration of consumer habits such as their preferred payment of choice *"of debit vs. credit card"* to consumer habits such as return rates *"returns in the (specified region) is ten points higher than the U.S."*.

Technology

Localization revolves around ensuring technology systems are flexible enough to integrate regional variations. The adaptability of technology will include allowing for additional payment methods (e.g., debit card) to enabling the use of different character type sets (e.g., Chinese typeset Kanji). The balance between investing in short-term versus long-term hardware and software are therefore critical components to be assessed and aligned with the outlook of the organization.

Resources

Inadequate support for retailer expansion efforts overseas was a recurring challenge that cropped up mainly in the form of insufficient or shared funding and human capital. From strategy to information technology, several divisions were challenged to operate with minimal resources.

Strategy

The balance of centralized operations with the obvious need for localization within the international strategy was a key theme for retailers. No where is this more apparent than within the resource requirements of international business. Sharing of resources through a centralized headquarters, from content management to customer care, while seemingly efficient, may hinder the ability of the international business to meet its local customer needs and effectively inhibit the success of the overseas operation.

Similarly, limited budgetary support for international expansion was another key concern of retailers. *"Amount of investment required to do this was not making the numbers"* for those still assessing the market, while for those in progress other competing priorities took precedence *"financially (we're) proving ROI, but it is difficult to get budget because there is so much to do"*.

Gaining consensus on which existing resources could be leveraged to support the international operations was found to be an arduous task. From determining which resources could be shared to which resources required duplication of efforts (e.g., due to time zone complications) assessing the current assets from a strategic viewpoint was a challenge.

Marketing

The role of limited funding continued to be a concern within marketing as retailers attempt to understand the regional area and its many nuances, in order to successfully target consumers. There is a greater reliance on marketing tactics like *"key word searches"* or *"advertis(ing) in basic web portals"* due to the *"marketing dollars (being) too high,"* and a nominal marketing budget being approved.

In addition, for retailers with non-existent or limited, in-country operations, customer acquisition was an issue (e.g., lack of customer databases). However, where conducive to their business, such as with pure-play retailers, a few interviewees looked to local third party providers as they were able to *"get a lot of business through (local market partnerships and sites)."*

Merchandising

Of the few issues discussed regarding resource requirements in support of the merchandising function, content generation and content management were main concerns. This entailed not only ensuring that there was adequate staff to carry out these tasks, but that this responsibility was integrated into the organizational design when global E-commerce strategies were first established. This will help to ensure the most efficient use of resources.

"Content generation… who creates it… rate of change… make(s) it hard… resources are limited"

Operations

Inadequate resources to service customers in a multi-lingual region can lead to degradation in customer satisfaction with regard to call centres. The balance in providing such "localized" services while trying to maintain efficiencies of scale (e.g., through a centralized system) was an underlying concern.

Technology

The high cost of altering existing systems to meet future needs was an issue undermining international expansion initiatives: *"have so many SAP systems and SAP resources are limited within the company."*

For example, where multiple websites existed at the onset (e.g., regional levels were *"building separate sites"*) moving towards a central platform proved to be more difficult. As one retailer from a cross-channel team stated *"(only we) look at E-commerce centrally in order to build economies of scale."* This speaks to the challenge of regaining cost efficiencies by merchants who, early on, expanded internationally.

About J.C. Williams Group

J.C. Williams Group (www.jcwg.com) is a boutique retail-consulting firm with recognition in the fields of strategic planning, retail branding, research, technology, and multi-channel retailing. With offices in Chicago, Toronto, and Montreal, J.C. Williams Group provides practical, creative, and in-depth knowledge of retailing. Internationally, the firm is a member of The Ebeltoft Group (www.ebeltoftgroup.com), an international consortium of retail consulting firms.

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SafetyPay is based in Miami Beach, FL. For more information, please visit www.safetypay.com or call 786-294-6411