

Advances in Cross-Border trade

By Lorna Pappas, Contributing Editor

As competition and market saturation restrict prospects for growth within the U.S., many retailers are looking beyond national borders for new business development opportunities. The promises of untapped global markets, risk diversification and wider margins are alluring to e-Commerce, omnichannel and brick-and-mortar retailers.

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- Forbes.com

But cross-border trade involves more than just transplanting the U.S. business model: The initiative presents streams of potential challenges — not limited to local laws and preferences, transportation, payment options, cycle times, data access, returns and customer service.

“A one-size-fits-all solution to global commerce and customer service will not serve U.S. retailers well,” said Thomas Quinn, Principal of Deloitte Consulting, in an interview with *Retail TouchPoints*. “Before crossing borders, retailers must clearly identify the specific needs of target customers to lessen risk and raise the upside potential of new markets. When global strategies are properly executed, retailers will see a strengthening of overall brand perception around the world, adding significant momentum to growth. Financially, global expansion allows the retailer to scale more rapidly, thereby driving improved cash flow and operating profits, and eventually increasing shareholder value.”

The growth of cross-border sales is set to boom over the coming years, potentially accounting for as much as one third of online worldwide trade by 2020, according to [IMRG](#), an eTail tracking firm: In the near term, the total value of worldwide e-Commerce will surpass \$1.35 trillion by the end of 2013.

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International Sales Benefit A Variety Of U.S.-Based Retailers

Among the largest U.S. retailers, **Costco** has seen international business grow faster than in the U.S. (15% vs. 5%). In Q2 2013, significant new Costco memberships came from Asia, where only one store had been opened, but six more now are planned for 2013.

The Home Depot has 280 stores in Canada and Mexico, which in FY 2012 generated net non-U.S. sales of \$8.4 billion. **Target** recently crossed borders by opening 24 stores in Canada during Q1 2013, with plans for 100 more in Canada this year. **Wal-Mart**, which reported global sales of \$466.1 billion in 2012, entered Mexico in 1991, Canada in 1995 and today has 10,000 stores in 28 countries.



Specialty retailers also are benefitting from cross-border sales. At **Abercrombie & Fitch**, earnings from overseas markets, primarily Asia and Europe, grew earlier this year by 37%, according to [a statement by Investors Alliance](#). Additionally, Investors Alliance reported that **American Eagle Outfitters** “sees the Mexican market as a key driver for the brand’s success as they continue to penetrate various segments,” including Israel, Japan, the Middle East and Poland. **Gap** is opening stores in Asia, Brazil, China, India and Mexico; and there is “a lot of growth potential for **TJX** in the international retailing scene,” according to Investors Alliance, which referenced “high customer traffic in Canada and Europe” for TJX.

At **Guess**, South Korea and China generated revenue growth rates of more than 25% in FY 2012. An [April 2013 Guess investment presentation](#) showed European revenues representing 35% of the company, at \$940 million. Revenues from Asia comprised 11%, at \$291 million. Currently Guess is eyeing opportunities in Brazil, India and Japan.

Is Your Company Ready To Go Global?

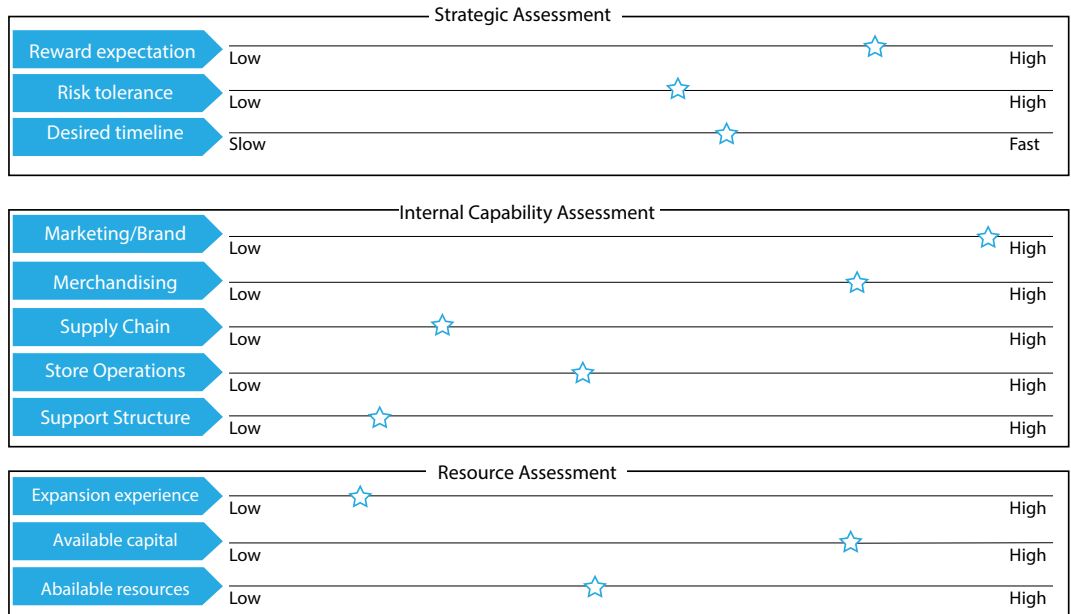
In assessing whether or not a retail organization is ready to go global, company executives must “look inward as the first step to growing outward,” noted a Deloitte industry report, titled: [Retail Global Expansion: The Journey Starts At Home](#): “Having a clear understanding of corporate expansion goals and organizational capabilities is critical to success.”

Deloitte recommends starting this assessment with a candid look at three primary factors:

1. **Goals:** What do I want to achieve with the global expansion?
2. **Internal capabilities:** Do I have the necessary capabilities to be successful abroad?
3. **Resources:** Do I have the talent to manage the global expansion?

In the *Retail Global Expansion* study, Deloitte offered an example of a completed assessment, as shown in Figure 1 below, as well as a brief evaluation:

Assessing global expansion readiness



"This retailer is looking for high sales and margin growth, has moderate tolerance for risk, and a moderate-fast timeline for execution," Deloitte said of the sample assessment. Though the retailer has capability gaps in the supply chain, support structure (e.g., legal and regulatory) and expansion experience, there are high levels of capital, which could help "overcome shortfalls in certain areas as they evaluate the various market-entry options."

An internal evaluation proved valuable for **Skin Authority**, when considering the potential of expanding globally. The evaluation focused on current successes, costs of expanding, and available funding. The assessment concluded that for Skin Authority, "it is more cost effective to gain success in U.S. markets, expand those existing bases to full potential, then use that success as a spring board to other markets," said Ted Hilling, Co-Founder of Skin Authority, in an interview with *Retail TouchPoints*. "Success locally provides the revenue base to support expansion plans and helps create product interest and support abroad."

Regulations, packaging, language and even religious influences can impact market requirements, and must be considered as part of the readiness assessment. "It is important to understand the 'fully loaded' costs of going international: for example, all packaging, collateral, training materials and in some cases, product assembly, must be localized for each country," Hilling noted. "Costs also include travel and manpower required for support."

Skin Authority relies on solutions from NetSuite to support expansion issues, such as addressing licensing and tariffs on trade business, which also vary by country. As part of an assessment, “be sure to recognize each country’s unique costs as well as exchange rates,” Shilling advised, “because they can create large swings in profit margin.”

In determining readiness to go global, retailers also must assess whether they are prepared to grow through physical stores, e-Commerce-only or multi-channel development. A white paper from Javelin Group, titled: [International Retail: New Channels And New Frontiers](#), offered these assessment considerations: “An e-Commerce-only approach to international expansion offers the cheapest and lowest risk entry, but some retailers have struggled to generate good web site traffic in new markets because of low brand awareness.” However, though expanding with a chain of physical stores “may be more effective than a web site at introducing a new brand or offer to a market, the cost of entry and risk of failure is greater.”

The opportunity for many now “is to develop multichannel operations in new markets, where a few stores can build awareness and support/be supported by a localized e-Commerce operation,” according to the Javelin white paper. “This approach can allow greater and faster market penetration with lower investment than would be possible with either stores or e-Commerce alone. Though no examples exist of a seamless multichannel approach to international retailing, this will be seen in the coming phase of international expansion.”

Considering An Online-Only Approach To Start

While retailers may want to dive into multi-channel retailing abroad, e-Commerce often is the safest way to test countries and local markets ahead of live expansion, reported Chris Donnelly, Managing Director of the Accenture Retail Practice, in the [February 2013 Accenture Globalization Index](#). Launching a web site prior to full market penetration “is the easiest, most reasonably priced and low-risk way to test the market for a brand,” he noted. “This route can also provide retailers with crucial insights ahead

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of opening stores, including what customers in the region are buying and where those customers are located.”

Additionally, online markets such as Amazon, eBay, Facebook and Google are excellent avenues for testing an online strategy. eBay, which generates 20% of trade volume internationally, “makes it easier for sellers to test multiple international markets then quickly focus on the ones that will give them the best returns to make their international investment a success,” according to the ChannelAdvisor report, titled: [A Retailer's Guide to Going Global With eBay.](#)”

A number of companies have found success in using eBay to test and enter new markets. **Street Moda**, a men’s and women’s footwear company, used eBay to test the UK online market and now is testing Germany. **Austin Bazaar**, a musical instrument and accessories retailer, leveraged the eBay International Shipping Program to assess and handle various tracking, returns, exchanges, customs and duty issues involved with online retailing.

When choosing potential new online markets, retailers can access recent global market studies such as research conducted by Penton Research and commissioned by EX4, titled: [Local Currency Pricing For E-Commerce](#). The study polled 30,000 online shoppers in Australia, Canada, Germany and the UK concerning their current as well as future e-Commerce habits.

Respondents from the UK were found to be the heaviest e-Commerce shoppers, but Australian shoppers expected the highest increase in online shopping by November 2013, as shown here:

Country	Often Using e-Commerce	Planning to Expand Usage by November 2013
Australia	40%	70%
Canada	28%	57%
Germany	38%	35%
UK	62%	63%

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Accenture

As e-Commerce continues to grow worldwide, predicted online shopping volume by market — as well as pricing, shipping, returns and more — are key considerations as retailers plan their next steps to global expansion.

Determining Market Entry Points

A number of factors can influence retailers' decisions to enter particular markets, including overall market expansion, product-selling potential and ease of transition into the marketplace. Ease of transition played a role for Skin Authority, which first crossed borders into two English-speaking markets: Canada and the UK. Entering countries with few language barriers allowed the retailer to vet potential distribution partners, said Shilling, as well as better prepare for more complex markets in terms of language and customs.

Certainly the ease and reduced risk of entering countries with no language barriers are attractive considerations, but assess the drawbacks: "Even with higher risk," according to the *Forbes* article, "many retailers view entry into emerging markets as 'urgent,' given the opportunity to establish stores in good locations before the competition."

That increased risk, as Shilling stated, includes strict compliance with local laws and restrictions, which otherwise can create unforeseen challenges, such as hefty fines for inaccuracies. Availability and visibility of data concerning merchandising, inventory, transportation, receiving, POS, order cycles, staff management, leasing, demographics, partner relationships, shipping and other retail essentials — already a challenge on home turf — further complicate the selection of target markets.

In fact, some market dynamics are so difficult, *Forbes* reported, that good supply chain strategies are simply "impossible to operate. Large retail operators have learned, sometimes the hard way, it is important to hire local managers who understand local consumer preferences and how to market to these consumers. Different tastes mean it is necessary to change the product assortments, adjust pricing and merchandise in-store differently than the companies were used to. Of course, store location is always important and research on real estate takes time and guidance by local experts. Given

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the capital investment required to open a new store, a bad location can be a very costly mistake. Too many times companies open stores in locations that are off the beaten path and bring disappointing results.”

To help evaluate potential new markets, **Timberland** sought help from the Javelin Group. Javelin assisted with a global expansion strategy involving 28 distributor partners and 364 stores in 61 countries.

Timberland first required a strategic evaluation of the key distributor markets, according to Javelin, to determine:

- In which markets should Timberland take ownership of distribution?
- Which business development channels should be prioritized in each (e.g., franchise, joint venture, ownership)?
- What is the size of each market opportunity?

To help answer these questions, a strategic prioritization scorecard examined each country in terms of potential across a number of market and business operation indicators, including market size, urbanization, growth, affluence and modernization; cultural fluidity; and ease of establishing a wholly owned operation. Strategic bundles of countries easily run from a ‘lead’ country were identified, thus increasing the relative attractiveness of individual markets. The strategic market evaluation, stated Richard O’Rourke, SVP of International, Timberland, helped “re-define our expansion strategy for emerging markets.”

The Steps To Seizing Untapped Market Potential

Retailers who have passed the readiness assessment test and identified their market entry points are eager to embark on the next steps to global expansion. Two of the key steps a retailer must address when considering cross-border trade include: utilizing the most appropriate form of entry; and conquering the challenges of global shipping, languages, currencies and other market requirements.

Popular Forms Of Entry

A move into new overseas markets can take several forms, according to [The Accenture Global Index, February 2013](#). These approaches include:

- Opening a new format in a new country;
- Opening a new country-specific web site;
- Acquiring a company in a target market;
- Creating a joint venture in a target country; and
- Launching a franchise operation in a target country.

During the last half of 2012, according to Accenture, web site launches — in addition to organic growth — accounted for nearly two thirds of all market entries: “Web sites are now equal to franchise expansion as a way to enter a market.”

But historically, retailers have leaned toward the franchise model for growing their businesses in developing markets, noted the white paper from Javelin Group. The benefit of this approach is to reduce the financial risk of expanding internationally. However, “clearly this represents a potential barrier to developing a multichannel approach,” the Javelin study indicated. Franchisees fear the expanding reach of franchisor partners’ e-Commerce channels, concerned that they will “divert sales directly back to headquarters at the expense of the store network these franchisees have developed locally. To address these issues, some notable international master franchisee operators are now developing their own e-Commerce skills, opening up multichannel opportunities for those western retailers choosing to expand via franchise.”

The Amazon Form Factor

Online markets are excellent avenues for seizing demand quickly and in the near term across global markets. For example, Amazon operates third-party marketplaces in Canada, China, France, Germany, Italy, Japan, Spain, the UK and the U.S. The digital commerce company recently reported some “impressive statistics” concerning these markets, stated Gina DeFrank, Marketplaces Business Analysts for ChannelAdvisor.

DeFrank stated that:

- Amazon's European marketplaces had more than 164 million active customers last year;
- 30% of total Amazon units are sold by third-party sellers; and
- [Amazon.co.uk](#) receives about 20 million unique visitors monthly, [Amazon.de](#) has 24 million and [Amazon.fr](#) has 13 million.

Retailers can “dip their toes” into international waters by receiving orders from buyers outside of the U.S., said DeFrank. The next logical move is to start listing inventory on the Amazon UK marketplace, since listings are in English, she stated, then eventually expand to other European marketplaces such as those in France, Germany and Italy.

In order to make these moves successfully, retailers can consider a program called [Amazon FBA Export](#), which assists U.S. sellers with fulfillment. (FBA stands for Fulfillment By Amazon.) “When retailers enroll in this program,” DeFrank explained, “all of their qualifying product listings are eligible for international orders on Amazon.com at no extra charge.”

U.S. retailers that create an account to list products on Amazon.co.uk also can use Amazon FBA Export by sending products to a UK FBA location. The program allows buyers located in other EU countries to purchase from U.S. sellers. “For example, a consumer in France is able to buy a U.S. retailer’s product listed on Amazon.co.uk and have it fulfilled through FBA from the UK,” said DeFrank. “Today, there are no extra fees for using this program and the European FBA Export program supports a much wider list of products.”

Shipping Made Easier With EBay GSP

The selling process is the first step in a successful global commerce strategy, but retailers also must address shipping and delivery issues. Consumers in all countries expect timely delivery of purchased goods through shipping processes that avoid delays due to customs, duties, taxes and country-specific shipping regulations.

To address cross-border shipping challenges, eBay introduced a new solution in Q3 2012 designed to make it simpler for U.S.-based retailers to ship goods to international buyers and efficiently manage customs issues. The [eBay Global Shipping Program](#) (GSP) “streamlines international selling by automatically including all shipping forms, declarations and customs charges in the buyer’s purchase price,” said DeFrank, “and by reducing retailers’ efforts to a simple domestic shipment at no additional charge.” GSP participants simply forward packages to a U.S. address where full automation of the international shipping process takes place.

“Using GSP provides easier access to the millions of additional buyers in the 18 international countries eBay currently supports,” said DeFrank, “and those coming in the future.”

In one example, **Austin Bazaar** generated “\$100,000 in GSP sales in our first month,” stated Jason Birchmeier, Operations Manager for the retailer. “I especially like that we don’t have to worry about customs, duties, and similar international shipping issues.”

The next pain point for Austin Bazaar and many other retailers is cross-border returns and exchanges. “As a cross-border seller, you may find, as we did, that it’s more cost-effective to offer a partial refund than to reship,” said Birchmeier. “Our warehouse handles the GSP orders separately to certify complete accuracy, because when you sell internationally, you only get one chance to get the order right.”

Global Trade Management Solutions Increase Visibility

Just as the eBay GSP eases the shipping process, Global Trade Management (GTM) solutions — such as those from Amber Road, Oracle Retail and other providers — offer automated and integrated platforms that help retailers manage most aspects of operations.

The GTM product from Amber Road is a single repository for all global trade compliance and logistics information. “The scalable technology improves customer service levels, and allows retailers to respond faster to — and demonstrate ‘reasonable care’ with — customs and internal audits,” said Hung Lee, Product Manager for Amber Road. “The platform also serves as a foundation for additional value adds such as self-filing and leveraging free trade agreements. In addition, it decreases compliance risk by reducing errors, and improves restricted party screening.”

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Austin Bazaar

The Oracle GTM solution is designed to help companies optimize and streamline cross-border trade business processes by layering trade data and milestones over the physical flow of goods. The offering helps retailers implement and enforce their well-structured internal compliance policies, with the goal of achieving best trade practices across their global expansion enterprises.



Local Languages And Currencies

To be successful abroad, global trade solutions must accommodate local languages and currencies. For example, Oracle Retail solutions support 18 languages as standard, with new languages added regularly. In addition, the Oracle platform supports retailers that operate in several countries with multiple sets of financial books, and automatically translates pricing into multiple local currencies.

Not surprisingly, the majority of international consumers strongly prefer viewing prices that correspond to their local currency, according to the report from Penton Research and EX4. A vast majority (92.2%) of respondents said they prefer to shop and make purchases on web sites that price products in local terms. One third also showed an aversion for USD-only pricing by either abandoning carts, purchasing less, leaving the site to check conversion rates, or never returning to the site.

“USD-only web sites are leaving money on the table by ignoring global shopper preferences,” said Gary McDonald, President of EX4. “Many e-Commerce merchants don’t realize that they can price in foreign currencies and still settle in an expected, guaranteed amount of USD.”

Moreover, most respondents to the currency survey said they either “definitely” or “probably” would spend more money with an online merchant who offers prices in their local currencies, including 71% of respondents from the UK, 59% from Australia, 53% from Canada, and 35% from Germany.

The same cloud-based NetSuite platform that helps Skin Authority address international trade supports more than 190 currencies; multiple brands and devices; taxation compliance for more than 40 countries; optimized invoicing, payments and purchasing; and more.

Williams-Sonoma, Inc., which markets home goods under the Williams-Sonoma, Pottery Barn, Pottery Barn Kids and West Elm brands, recently announced that the NetSuite [SuiteCommerce](#) multichannel retail and business management platform will support the retailer's global expansion into Australia. The technology is powering four newly launched and individually branded e-Commerce storefronts. The stores and web sites for each brand were launched simultaneously in May 2013.

Williams-Sonoma, Inc., also implemented NetSuite solutions to reduce infrastructure investments and deployment risk; and manage procurement, order and inventory management, order reconciliation, financial reporting and other tasks. In addition, the retailer selected NetSuite solutions for international commercial freight logistics and customs operations management, international subsidiary management and global financial consolidation.

From a functionality standpoint and technology perspective, NetSuite "enables us to handle the complexity of global multi-channel commerce," said John Strain, Williams-Sonoma CIO.

NetSuite also supports 19 global languages. As retailers such as Williams-Sonoma, Inc., consider expansion into non-English-speaking countries, "it's important to leverage commerce platforms that support several languages so that global development plans can be realized in a multitude of markets," said Baruch Goldwasser, Director of Commerce for NetSuite, in an interview with *RetailTouchPoints*. "For example, when retailers sell into China, can they also offer spoken or written answers to questions asked

in Chinese? Without the proper language skills to sell as well as support their products, retailers are compromising their customer service objectives."



Cross-border retailers also benefit by utilizing "a cloud-based platform that can be managed from home base," added Goldwasser, "while also providing centralized, real-time visibility into business functions around the world."

In addition to ChannelAdvisor, EX4, NetSuite and Oracle, many other providers offer advanced technology solutions for global e-Commerce expansion. These include vendors in the payments, supply chain management, language translations, fraud prevention and related global commerce spaces. In fact, with increasing retailer demand for technologies and solutions that support global expansion, several providers have formed, and continue to join, the new Global Retail Insights Network. [Announced June 5, 2013](#), GRIN is “an integrated coalition of companies seeking to reduce the complexity for retailers wanting to rapidly expand beyond domestic borders into global markets,” according to the press release. “These companies all bring specific expertise on advising companies on international expansion and offer many of the technology and services required to do so. Other organizations will be added in the future based on retailer needs.”

Evolutionary, Not Revolutionary

Even with increasing industry focus, global expansion is evolutionary, not revolutionary, and won't happen overnight: The move requires a significant time and resource commitment to be successful in the long term, noted the Deloitte industry report.

“Retailers that are taking strategic actions now will be in a stronger position to grow,” the report indicated. Retailers that merely “think” about taking action today likely will be challenged by playing catch-up with the leaders of tomorrow.





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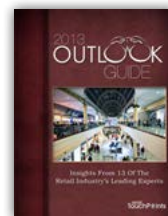
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