

THE 21ST CENTURY SPICE TRADE

A GUIDE TO THE CROSS-BORDER
E-COMMERCE OPPORTUNITY



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PREFACE

International trade is by no means a new phenomenon. Records show that as long as 5,000 years ago, historical civilizations were actively trading goods across continents. Prominent among them was the trade in spices – high value, luxury materials that were prized and coveted across many cultures. The spice trade shaped the development of international cultural and economic ties right through to modern times and gave birth to many of the major trade routes that still exist to this day.

In recent years, e-commerce has fundamentally changed the way we trade: every day, millions of purchases are made online, and truckloads of shipments are being delivered to consumers' homes. However, even this megatrend is currently undergoing a further revolution – consumers are increasingly becoming more comfortable with the idea of buying from retailers and manufacturers abroad. In fact, every seventh online purchase is already conducted as a cross-border transaction.

At DHL Express, we know from experience that the opportunity of going global is out there for the taking for all types of retailers and manufacturers – small or medium-sized, experienced in or relatively new to online sales. E-commerce has profoundly changed the entire parcel and express industry ever since, shifting from a pure B2B focus to also addressing B2C-related requirements. With this, the industry finds itself today in the position of having to serve two important customers at the same time – the e-tailer as the shipper and the discerning consumer whose service expectations are increasing at an ever higher pace. The e-commerce paradigms sometimes even seem contradicting: cost and – not versus – convenience, volume and value, fast movement and constant improvement. As a result, e-commerce has turned the parcel and partially the express industry into an entirely different animal compared to what it used to be a decade ago.

Premium logistics services – specifically high-speed time-definite international solutions – are at the heart of the DHL Express service offering. Especially when it comes to transactions with high basket values, the modern day spice trade, premium shipping is the necessary gold standard that consumers value or even expect and which merchants can justify thanks to high margins and the required brand fit. For lower-priced transactions, premium shipping can still add value and unlock pockets of customer demand as an additional choice.

To the retailers and manufacturers around the world, this report is about your chance to grow. It is designed to help you start moving into or expanding your international online sales. Beyond describing the market opportunity and the broad landscape of successful international e-tailers, this report serves as a hands-on manual for success in cross-border shipping. We trust you will find this report helpful in your cross-border e-commerce activities. I promise you that we at DHL Express will put all of our energy into bringing your vision – and your products – into the global marketplace.

Ken Allen
CEO DHL Express

EXECUTIVE SUMMARY



THE OPPORTUNITY IN CROSS-BORDER E-COMMERCE

- Cross-border as today's growth rocket in e-commerce
 - Market size and dynamics: with a market size of USD 300 billion Gross Merchandise Value (GMV) in 2015, cross-border e-commerce is huge. Its growth rate of about 25% p.a. – a rate very rarely available in most traditional retail markets – yields an unrivaled growth opportunity on a global scale that every retailer should consider addressing.
 - A deeper look at the high value 'spice trades': ~20% of cross-border purchases are worth over USD 200 – a higher share than in domestic e-commerce markets – and provide especially high profit potential. Spice routes for high-value purchases are being expanded out of 'sleeping giant' markets in Europe (Italy, Spain, France, Germany) and Asia (Singapore, Hong Kong, India) with growth rates up to two to three times higher than the global average.
 - Premium shipping as 'caravans' of our age: every tenth US dollar of cross-border e-commerce revenue is made through a time-definite premium shipment. And premium shipping is suitable for all types of e-tailers including SME and 'accidental shippers'. Those retailers and manufacturers offering premium shipping grow 1.6 times as fast as those who don't.
- The growing class of cross-border shoppers
 - The lasting motivations for purchasing abroad: consumers across markets are motivated to shop cross-border for fundamental reasons – product availability, a more attractive offering (including price), and trust are the main ones. Sharpening a competitive advantage related to availability and trust is both a motivation and a strategic opportunity for the majority of cross-border retailers and manufacturers.
 - Products purchased cross-border: fashion and electronics are long-known cross-border top sellers, but consumers now crave more. Great opportunity lies in yet underserved product categories, e.g., beauty and cosmetics, pet care, food and beverage, and sporting goods. Practically every product category has the potential for a premium segment. Conversely, there are also pockets of premium cross-border shipping demand – even if only occasional, in some cases – for virtually every product.



HOW TO SUCCEED?

- The many faces of e-tailers tapping into foreign demand
 - A snapshot of cross-border e-tailer growth: already today, cross-border e-tailers are managing to boost their sales by an average 10 to 15% by selling internationally and expect the share to further increase – so those not yet addressing this market are missing out on a relatively easy-to-capture sales uplift.
 - The 4 types of successful cross-border e-tailers: it is not a story only for e-commerce giants – opportunity extends to all types and sizes of retailers and manufacturers. E-commerce giants set the standards for consumer experience but manufacturers stand to be big winners of growing cross-border e-commerce since they can boost margins and control their brand by ‘cutting out the middlemen’ – they expect to grow 1.3 times as quickly as the already thriving average retailer. For retailers, this implies the need to find a distinct value proposition in order to compete with them and/or secure their place within the value chain.
- Means to overcoming consumers’ reservations: the main hurdles consumers need to tackle in shopping from abroad are related to logistics, trust, price, and experience. Partnering with a strong logistics brand and offering time-definite premium shipping is a proven way to overcome them.
- The quick start into cross-border e-commerce: starting to trade internationally is easier than one might think. Latent demand from international consumers can be identified via web analytics in just a matter of minutes. A range of service providers offer off-the-shelf, easily implementable solutions that can provide a quick start for cross-border sales.
- Becoming an international champion in five steps
 1. Strategic clarity: identify your cross-border opportunity
 2. The right assortment: understand local tastes and rules
 3. The global local webshop: let the world shop like locals
 4. Warehousing and fulfillment: find the footprint with the best company fit
 5. Delivery choices: use them as a powerful tool for conversion.

The insights presented in this report are based on a proprietary survey of retailers and manufacturers with over 1,800 responses across six countries (the US, China, the UK, Germany, Brazil, and Singapore), more than 60 in-depth interviews with retailers and manufacturers successfully shipping cross-border and with industry experts on cross-border e-commerce.

THE OPPORTUNITY IN CROSS-BORDER E-COMMERCE



1. CROSS-BORDER AS TODAY'S GROWTH ROCKET IN E-COMMERCE

MARKET SIZE AND DYNAMICS

Cross-border e-commerce¹ has developed into a large, quickly growing ecosystem – and has become a great success story for many e-tailers, meaning retailers and manufacturers selling their products over the Internet directly to end consumers.

This success can be shown in real numbers: in 2015, the cross-border e-commerce market accounted for USD 300 billion GMV², about 15% of e-commerce overall. This rapid growth, however, has just begun and will continue: the cross-border market is expected to grow by about 25% annually until 2020 – nearly twice the rate of domestic e-commerce and a growth rate that most traditional retail markets would dream of achieving. In 2020, it is expected to account for about USD 900 billion GMV, translating into a roughly 22% share of the global e-commerce market. This growth momentum yields unrivaled opportunity for retailers and manufacturers. As this report will show, cross-border e-commerce is not an e-commerce giant story – all types of manufacturers and retailers will be able to successfully go global.

Even beyond 2020, all evidence shows that demand for products from abroad is not going to recede. That said, considering the patterns according to which e-commerce companies expand their regional footprint today, one could assume that every e-commerce purchase will eventually become a local purchase. This is mainly due to the higher cost efficiencies that localized fulfillment and the quicker shipments that shorter distances naturally promise at first glance. However, even e-commerce giants such as Amazon, Alibaba, and

Cross-border e-commerce market with size of USD 300 billion

In 2020, 1 out of ~5 e-commerce dollars will be generated cross-border

Cross-border e-commerce through premium shipping is here to stay

DEVELOPMENT OF CROSS-BORDER E-COMMERCE SHARE 2015–2020E

Global e-commerce market
Percent



Cross-border share

Source: Alipay, McKinsey

¹ Defined as e-commerce involving the shipment of physical products from the warehouse of the selling company directly to consumers in another country as an individual parcel

² Alipay

Zalando, which already operate local distribution centers in several countries, ship a significant part of their sales cross-border. This is driven by, for instance, the enormous number of stock-keeping units (SKUs) offered by some of these players. But having slow-turning SKUs sitting in inventory everywhere – a prerequisite for pure local fulfillment – is much more costly than shipping a certain share of orders cross-border. And in order to fulfill consumers’ wishes for faster delivery, many e-tailers offer premium international shipping options to their customers, e.g., for a surcharge. This is testimony that cross-border is not a passing phase or trend, but rather a significant staple in the e-commerce market that requires premium shipping.

A DEEPER LOOK AT THE HIGH VALUE "SPICE TRADES"

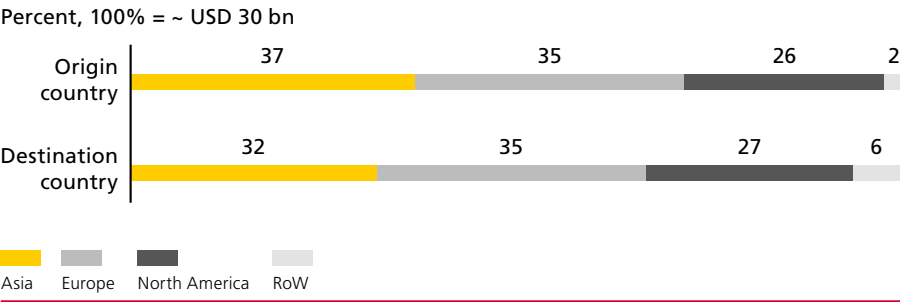
~20% of cross-border purchases are worth over USD 200 and provide especially high profit potential

High-basket-value transactions – those that are in general especially profitable for e-tailers – account for a significant part of total cross-border e-commerce sales. Even at a relatively high minimum threshold of USD 200 for a sale to be labeled ‘high value’ and applying a conservative estimate, such sales represent 10 to 20% of all cross-border transactions or a ‘spice’ market of at least USD 30 billion GMV. This represents a higher share of high-basket-value sales than in any domestic e-commerce market. Converting such high-profit opportunities should be a priority for e-tailers and can justify – or even require – the use of premium shipping options.

The US, the UK, and China are the top 3 cross-border spice supply markets

So what does the global map for such high-basket-value spice route transactions look like? It is a lot more diverse than some may think: on a regional level, while the US may seem to dominate today’s overall e-tailer landscape (at least from a Western perspective), the approximate USD 30 billion market of high-basket-value transactions is in fact quite evenly divided between Asia, Europe, and North America. Looking at this in the context of the overall cross-border ‘pie’ – including lower-basket-value transactions – Asia has a comparably small piece as far as high basket value is concerned.

SHARE OF HIGH BASKET VALUE TRANSACTIONS
BY REGION, 2015



Source: Seabury; TI Consulting; DHL Express; Alipay; McKinsey analysis

On a country level, the US, the UK, and China are the three biggest spice route supply markets and currently account for about 60% of revenue.

With rising consumer education and e-tailer awareness of the opportunity, however, other markets are growing more rapidly. Starting points to commercial spice routes for high-value goods are gaining importance especially out of Europe (Italy, Spain, France, Germany) and Asia (Singapore, Hong Kong, India), with growth rates in these markets up to two to three times above the global cross-border average. Beyond the generally strong market momentum, such gravitational shifts in where consumers shop can provide a targeted opportunity for smaller e-tailers: the more specific a consumer demand, the more relevant the proposition of specialists and their highly specialized offerings.

With a relatively broad and ever-expanding e-tailer landscape fanning out across geographies, where are international shoppers with high-basket-value purchases to be found? Again, the general answer could be “pretty much anywhere around the world,” with consumers engaging in the spice trade to similar extents across Europe, Asia, and North America. As with the origin countries, Asia has a relatively small share of the high-basket-value destination pie compared to overall cross-border e-commerce including lower-basket-value transactions.

On a country level, demand is more fragmented than supply, with the US, the UK, and China accounting for closer to 30% of all global high-value demand (versus 60% of supply) and other markets, such as Australia, France, and Canada playing a larger role. So, e-tailers from the large ‘lead spice markets,’ but also smaller specialists as outlined previously, have the chance to sell to a wide range of countries. And the opportunity for e-tailers can often start literally at their doorstep, with a high share of intraregional trading, e.g., more than 60% of all European trade is among European countries.

Going forward, diverging momentum levels can be expected between regions and countries, driven by factors such as general economic growth and changes in e-commerce penetration, domestic market maturity, trade terms, or exchange rates. E-tailers with high average basket sizes in the survey sample expect demand growth especially into the Americas (37%) and Europe (33%), and to a lesser extent into Asia (19%). There is surprisingly low growth of sales into Asia. This can be explained by the fact that many companies have a dedicated go-to-market strategy for China, including local fulfillment and no requirement for cross-border shipping. However, considering the emergence of a new middle class with a big appetite for high-value products and the general trend of diminishing trade barriers, many high-value e-tailers may be underestimating the potential of high-value cross-border sales into Asia.

Commercial spice routes for high-value goods especially out of Europe and Asia about to be expanded

Cross-border demand is more fragmented than supply

Spice trade growth is expected especially into the Americas and Europe, and less into Asia

PREMIUM SHIPPING AS ‘CARAVANS’ OF OUR AGE

The discussion in the previous paragraphs proves that the notion that cross-border e-commerce is all about price arbitrage of low value products is only

a myth. If a consumer pays USD 300 for the latest electronics gadget or for a larger-batch shipment of customized gear from a low-cost producer for their local football club, it is likely that they want it sent quickly and securely. Depending on their local market environment, they may expect e-tailers to cover it out of their margin (with the unwritten industry rule that logistics accounts for 10 to 15% of e-commerce sales, leaving plenty of chips to bargain with) or be willing to pay for it themselves.

Every 10th cross-border US dollar is made through premium shipment

As of today, every tenth US dollar of cross-border e-commerce revenue is therefore made through a time-definite (i.e., premium) shipment – the ‘caravans’ of our age. Alongside the natural fit with high-basket-value transactions for which premium shipping is a must have, this counterintuitive reliance on a premium shipping solution has various underlying reasons:

Premium shipping is suitable for all types of e-tailers including SME and ‘accidental shippers’

- As many cross-border purchases are occasion-generated or have highly emotional involvement (e.g., pre-Christmas, birthday presents) it pays for retailers to offer a premium shipping option that complements the standard, i.e., deferred shipping option. In these cases, consumers are willing to kick in the extra bucks for increased speed of delivery.
- For many smaller retailers and manufacturers, lack of consumer trust in their offering is an obstacle, putting them at a disadvantage vis-à-vis the e-commerce giants. ‘Borrowing’ the trusted brand of a renowned logistics provider is a recipe for international success for these retailers and manufacturers.
- For those smaller retailers and manufacturers occasionally receiving overseas demand and having no experience in international shipping, a premium door-to-door shipping solution is not only the most simple way to satisfy customers, but also a twofold driver for growth. First by unlocking pockets of demand growth from abroad that are not currently addressed through the carefree package provided by a premium logistics provider, guaranteeing speedy delivery and high convenience. Second by enforcing customer loyalty through a good consumer experience provided by premium shipping.

E-tailers offering premium shipping grow 1.6 times as fast as those that do not

One significant point to note: offering a premium shipping solution leads to higher growth, especially since it allows international e-tailers to compete with the home advantage that domestic competitors have in providing shorter delivery times. The survey of 1,800 e-tailers around the world confirms that retailers and manufacturers offering a premium shipping solution grow 1.6 times as fast as retailers and manufacturers that are not doing so.

2. THE GROWING CLASS OF CROSS-BORDER SHOPPERS

THE LASTING MOTIVATIONS FOR PURCHASING ABROAD

Existing research on consumers' cross-border shopping behavior shows that consumers across markets are becoming more sophisticated in finding the e-tailer of their choice and that they do not shop cross-border by chance, but rather consciously – for fundamental reasons. According to Google's Consumer Barometer, better product availability, a more attractive offering, and trust in brands and shops are the main reasons.

Consumers shop abroad for fundamental reasons: better product availability, attractive offerings, and trusted brands/shops

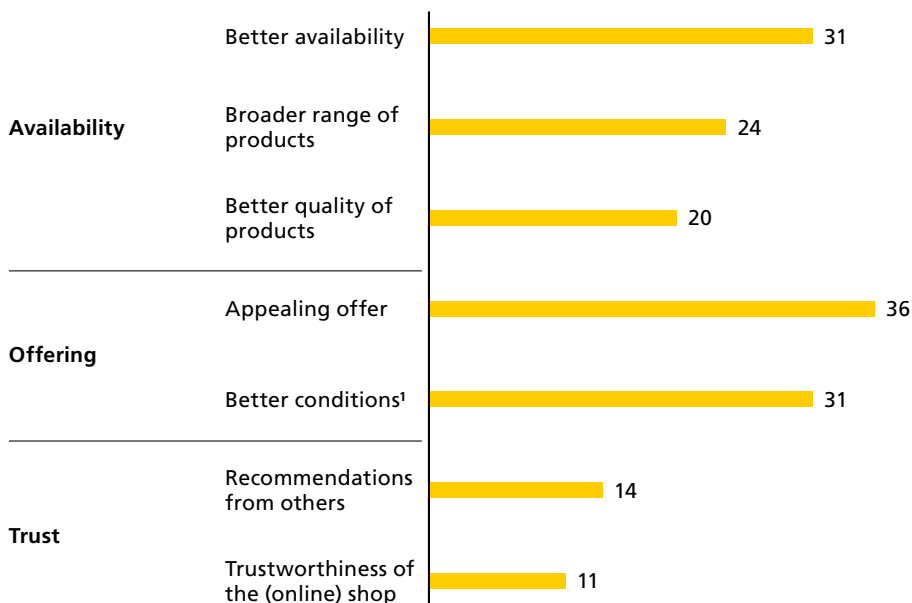
Looking at the future relevance of these reasons and strategic implications for e-tailers, availability and trust are most relevant for creating and maintaining a sustainable value proposition.

Having an attractive offering (including price) stands out as key to convincing international consumers to act. However, maintaining a long-term competitive advantage in terms of website appeal, broad range of payment options, and convenient customer service will be challenging for many e-tailers. Domestic and international competitors with a strong financial backing can easily

A competitive advantage through price is hard to maintain for online retailers

MOTIVATIONS OF CONSUMERS FOR CROSS-BORDER E-COMMERCE SHOPPING

"Why did you purchase the product online from abroad and not from within your country?" Share of respondents in percent



¹ Service, terms of payment, or price
Source: Google Consumer Barometer

MOTIVATIONS FOR CONSUMERS TO SHOP CROSS-BORDER DIFFER BY COUNTRY

"Why did you purchase the product online from abroad and not from within your country?"¹

Share of respondents, percent

	Global average	Australia	Austria	Brazil	China	Germany	India	Japan	Nigeria	Russia	Singapore	UAE	UK	US
Availability														
Better availability	31	33	33	17	35	40	16	45	11	29	36	20	40	29
Broader range of products	24	25	25	29	22	12	24	13	7	37	29	44	15	12
Better quality of products	20	12	7	19	54	7	42	17	45	17	16	66	9	13
Offering														
Appealing offer	36	32	35	46	27	36	37	9	29	47	42	54	26	30
Better conditions ²	31	27	40	31	26	32	26	38	10	35	20	40	16	21
Trust														
Recommendations from others	14	10	5	19	26	6	24	4	19	20	13	17	7	10
Trustworthiness of the (online) shop	11	10	10	10	21	5	16	7	13	14	13	36	8	11

Min. 5% higher than global average Min. 5% lower than global average

¹ Only selection of countries shown. For additional countries see Google Consumer Barometer

² Service, terms of payment or price

Source: Google Consumer Barometer

upgrade or gain the pole position in these dimensions. Lower prices as a key value proposition are also difficult to maintain over time (except for commodity players in low-factor-cost countries) – international price transparency for consumers will further increase and significant price differences in popular product categories will invite arbitrageurs into the market.

Product availability and a trusted brand are areas with natural outperformance potential for e-tailers

Therefore, most e-tailers should base their value proposition on offering product availability and trust. Differences of product availability across regions – for example, products with a protected designation of origin, niche product categories, and product trends emerging in a specific country – will continue to exist. Focusing on providing a selection of products not (easily) obtainable in other countries (e.g., fashion players offering a broad assortment in sizes and colors) can thus provide a long-term competitive advantage. And building on the international trustworthiness of a brand – be it the brand of a manufacturer or retailer – is something that is hard for other domestic and international e-tailers to replicate.

Consumers in mature markets strive for broader selection; in less mature markets, for higher quality

Digging a level deeper into consumer purchasing motivation, country-specific differences can be noted, yielding implications for e-tailers' go-to-market strategy. Better product availability appears to be a principal reason, especially in mature e-commerce markets such as Japan (45% of respondents), Germany (40%), and the UK (40%). To take advantage of this, e-tailers should especially

highlight the breadth of their product offering when conducting marketing activities. What drives consumers in less mature e-commerce markets to shop cross-border is better quality of products (e.g., 54% in China, 45% in Nigeria, and 42% in India). Highlighting quality in comparison to that of domestic e-tailers and brick-and-mortar retailers appears to be a promising communication strategy especially relevant in these countries.

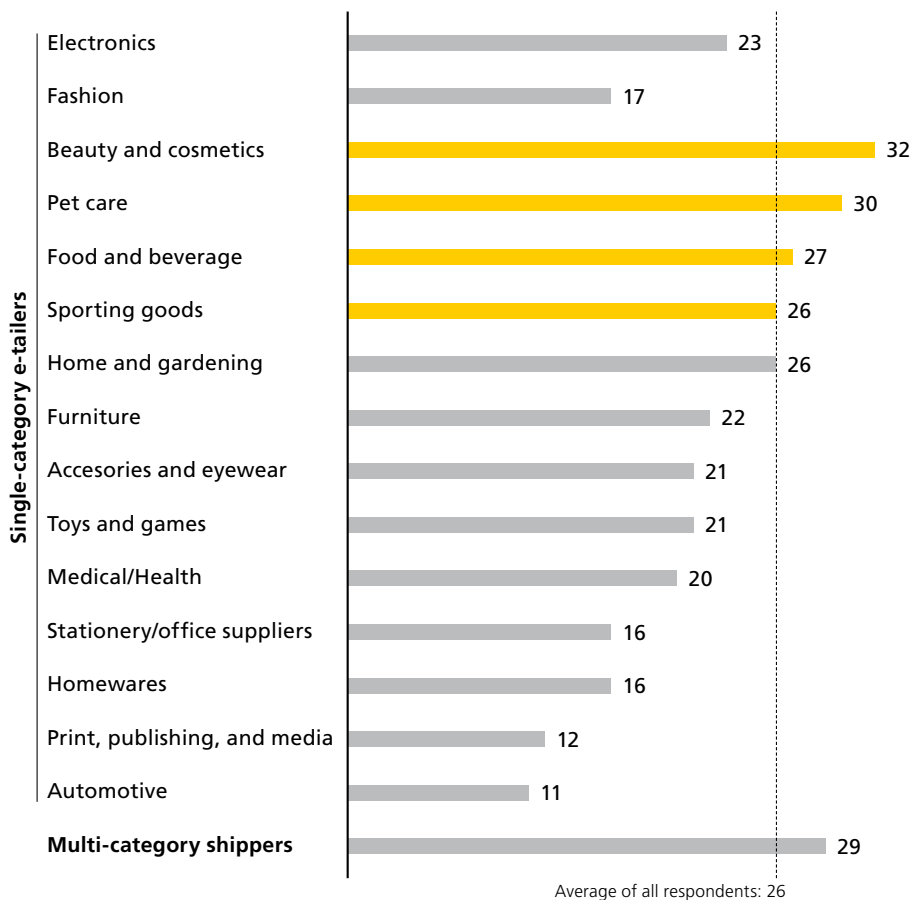
PRODUCTS PURCHASED CROSS-BORDER

Having understood the cross-border purchasing motivation the question arises: what are the products that consumers want and that sellers offer? Consumer surveys show that across regions, fashion and electronics are the dominant product categories for cross-border shopping. E-tailers active in cross-border e-commerce mirror this pattern: electronics and fashion today are the main ingredients in the product mix. Some 25% of companies surveyed sell

Consumers crave more abroad than just fashion and electronics

SHARE OF RESPONDENTS EXPECTING SIGNIFICANT GROWTH OF CROSS-BORDER REVENUE SHARE

Percent



Single categories with above-average growth expectations

Source: Exporter survey, McKinsey

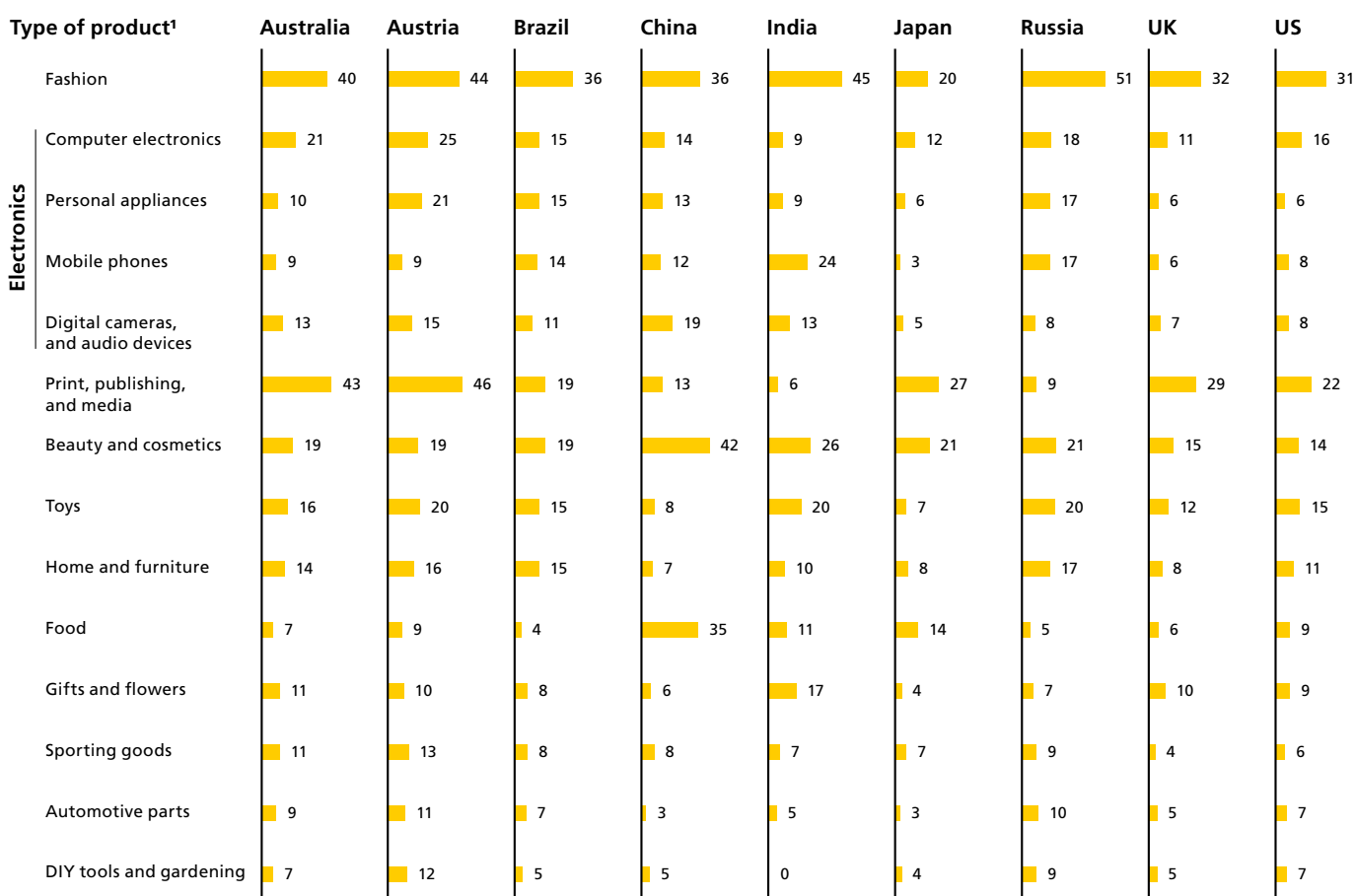
electronics, about 10% sell fashion, and approximately an additional 10% are active in both categories. However, the opportunity actually represents a much broader set of product categories. For instance, about half of the sellers offer products beyond those relating to fashion or electronics and some categories are out-performing the growth of the overall cross-border market and gaining in importance, particularly, for example, beauty and cosmetics, pet care, food and beverage, and sporting goods. This shows that there are opportunities – including for premium offerings – across a broad range of products. Also those e-tailers offering products in multiple categories are outperforming the growth of the overall cross-border market.

Different countries have appetites for different product categories

A look at consumer demand on a country level again confirms fashion and electronics as two important verticals across countries, and it also highlights the relevance of other product categories. In this context, country-specific selling opportunities can be observed. For instance, more than 40% of Chinese

SHARE OF CONSUMERS HAVING PURCHASED PRODUCT TYPE FROM FOREIGN E-COMMERCE SITES // SELECTION OF COUNTRIES

Percent



¹ Category names adjusted for legibility

Source: The consumer barometer 2016, Google and TNS, N=16,072

consumers reported cross-border purchases of beauty and cosmetics products in Google's Consumer Barometer. These products are often high-end, reflecting a quality and status that edges out domestically available alternatives.

In understanding country-specific demand peaks for certain product categories, e-tailers offering products in these segments should put more effort into pushing sales in these countries – the 'how to' in this context is discussed more in the section "How to succeed". For those e-tailers wanting to aggressively target certain markets and go beyond seizing the windfall of latent international demand, this might imply having a dedicated person or team responsible for localizing the offering as well as marketing over social media in the respective country.

3. THE MANY FACES OF E-TAILERS TAPPING INTO FOREIGN DEMAND

A SNAPSHOT OF CROSS-BORDER E-TAILER GROWTH

Looking at the market from the e-tailer's perspective begs the question of how significant the cross-border business is for them. The survey respondents reported an average of 10 to 15% in revenue contribution of cross-border selling to their overall sales – across countries, product categories, sizes, and seller types. In other words, for those not yet active in the cross-border market, a 10%+ sales uplift looks like an attainable prospect once starting to sell internationally.

Not pursuing cross-border means missing out on sales uplift

As discussed earlier, cross-border sales will prove to be a significant growth driver of overall e-commerce, a view that the survey backs strongly: 71% of e-tailers expect their cross-border sales share to increase. On an individual company level, only the sky is the limit with respect to the cross-border sales share. When looking at well-known e-tailers (in big, domestic target markets), for instance, the much larger sales potential that targeted internationalization allows is revealed. The UK-based fashion e-tailer Asos for example, an early mover into international expansion, today generates over 40% of online sales internationally.

Growth in cross-border share of sales to flourish

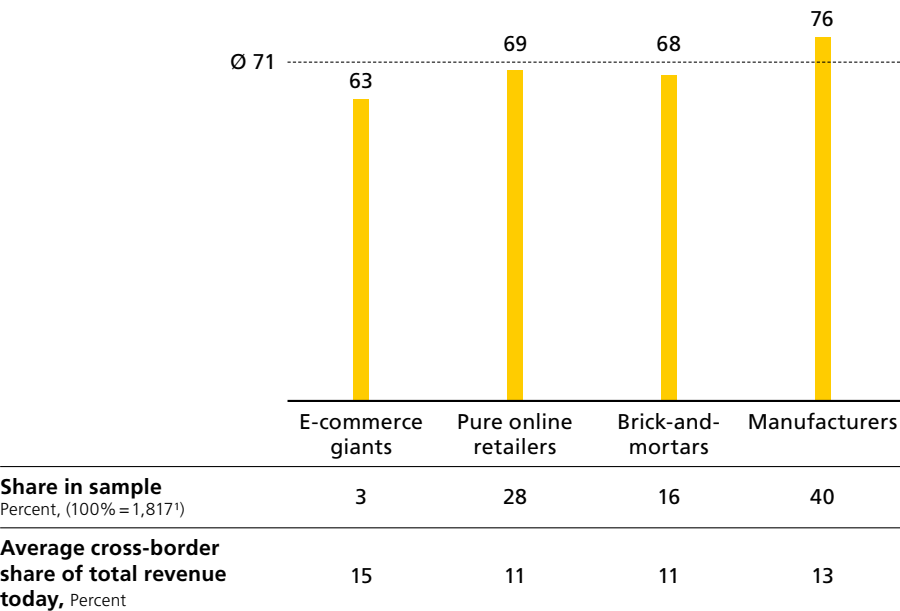
THE 4 TYPES OF SUCCESSFUL CROSS-BORDER E-TAILERS

Now, if cross-border e-commerce is a large and fast-growing market that connects many different countries, one might wonder: who are the players that successfully tap into that opportunity? One thing is for sure: contrary to common belief, it is not only the online giants like Amazon, eBay, or Alibaba. In fact, the cross-border e-tailer landscape has many faces today: all types of e-tailers can actively play in that market, with remarkably widespread success. At least four types of e-tailers can be distinguished. All of them manage to successfully 'go global,' but show strong differences in their starting points and

Different types of retailers and manufacturers successfully internationalize

ALL TYPES OF E-TAILERS EXPECT VERY HIGH GROWTH RATES IN THE NEXT 2–3 YEARS

Share of respondents expecting growth of cross-border revenue share
Percent



1 "Logistics consolidator for physical products," "other," or "don't know" not shown
Source: Exporteur survey, McKinsey

success. All of these e-retailer types show the potential to take part in attractive high-value transactions, depending, for example, on the product category offered and the target price point.

E-commerce giants set the standards for consumer experience

E-commerce giants are the usual suspects in cross-border selling. In numbers, they are also a rare species and constitute only 3% of our survey sample. As multibillion dollar businesses, they have the financial firepower to move abroad. Their appetite for doing so with force depends, however, on factors including company maturity and the state of their home market. Amazon, for instance, has carefully gone market by market since the late 1990s and now generates 40% of sales outside the US. For Alibaba, on the other hand, sales outside China still represent less than 10% of its revenue. Overall, survey respondents associated with such e-commerce giants confirm their role as early movers: they report the largest average share of cross-border sales (15%) among e-tailer types. How do these behemoths impact the wider e-tailer landscape? They can be a veritable threat, of course, through their sheer size, but also an ally when they contribute to the development of online shopping culture in new frontier markets or provide consumer access via their marketplace solutions for third parties. Perhaps most importantly from an executional perspective, they set the standards with respect to the consumer experience in domestic and international online shopping. Their striving for market-leading

3 Large defined as more than EUR 500 million revenue/year, medium/small as less than EUR 500 million/year.

standards shows, for example, in the high importance placed on state-of-the-art last-mile logistics features: 54% of e-commerce giants surveyed consider these features very important, compared to just 32% of the overall survey sample.

Pure online retailers are a group that stands much to gain from cross-border e-commerce and constitute 28% of our survey sample. As 'online natives,' they can count on a very good grasp of online shopper behavior in their target vertical(s) as well as on how to influence it. Cross-border selling can give them access to less penetrated market opportunities abroad, where further sales growth may be cheaper to generate even than in their respective domestic market. Additionally, they often have a sufficiently specialized value proposition to be relevant in foreign markets, be it related to availability or price. International market penetration of pure online retailers, however, is region specific today: they are particularly prominent in the UK where they constitute 39% of the overall sample, versus only 14% in China. This gap highlights the larger dependence of such sellers on conducive market conditions relative to other clusters. In the UK, they grow on fertile soil, with major demand markets in close proximity, connected via free-trade agreements and the commonly understood English language. From a Chinese perspective, the major demand markets tend to be further removed and harder to reach, given a more protected trade environment and language barriers that need to be overcome. We will talk in the later section on "How to succeed" about how such players can more effectively overcome the hurdles to international selling.

Online native e-tailers with English as mother tongue have a natural advantage

Distinguishing between single and multi-category pure online retailers shows that historic growth of cross-border B2C revenues has been 20% higher for multi-category players than for single category ones. And even more, almost 80% of multi-category online retailers expect their share of cross-border sales to further increase while only around 55% of single-category online retailers believe so. Therefore, developing towards a multi-category offering certainly pays off for online retailers' cross-border success. Consumers across the globe reward the convenience offered by multi-category players (the e-commerce giants lead by example here) and retailers benefit from a much broader cross-selling opportunity.

Multi-category players capture more cross-border growth

Brick-and-mortar retailers, i.e., retailers selling primarily through physical stores with a secondary online sales channel, constitute 16% of our survey sample. They report the lowest cross-border sales share (on average 11% of total sales) today, although by a small margin. While 68% of respondents from this cluster expect the cross-border share of sales to increase going forward, they, to varying degrees, face a twofold challenge. First of all, they need to build out the digital capabilities that allow them to go head to head with online-first competitors, such as best-in-class webshop design or online marketing, tasks in the domestic market already that only become more complex in an international context with locally or regionally specific consumer expectations. And secondly, they need to find a new winning formula in order to re-engineer their store-based assets and processes to be relevant in the digital world. The

For brick and mortars cross-border sales is challenging

chance of managing this transformation depend on their organizational flexibility, but also on the transferability of core assets, in particular the ownership of internationally trusted, perhaps iconic brands.

Manufacturers increasingly skip the middlemen and grow 1.3x as fast as retailers

Manufacturers who sell directly to consumers are the rising stars of cross-border selling. They are the largest group in our survey sample and account for 40% of all responses. They are on the fastest growth path of all surveyed e-tailer types and report growth 1.3 times as fast as the average e-tailer who responded to our survey. They attribute the highest importance to cross-border selling for further growth, with 76% of all manufacturers expecting the cross-border revenue share of their business to increase further, and even more among high-value manufacturers with average basket sizes of over USD 500. The appeal for them is clear: By selling through their own webshop they have direct access to an international consumer base without requiring a huge amount of local knowledge. Also by cutting out the middlemen, such as general importers or local retailers, they can move into new markets more quickly, with better control of their brand and the overall customer experience, and potentially with much higher margins. If they offer a unique product or an aspirational brand, chances are that they can tap into latent demand from foreign consumers or create it easily. This could be true for a range of businesses from Alessi, an Italian houseware manufacturer established 95 years ago, to handicraft designers who started selling via platforms like Etsy or DaWanda three months ago. If factors other than uniqueness are the main differentiator, however, such as superior choice or price, manufacturers may need to work harder to generate consumer interest in the right target segments abroad.

Premium shipping helps small manufacturers to compensate for parts of the natural disadvantages compared to large manufacturers

Distinguishing between the size of manufacturers shows that the larger ones are on a faster cross-border growth trajectory than the medium/smaller ones³. The vast majority of all manufacturers expect their cross-border share of sales to increase over time (74% of medium/small manufacturers, 76% of large manufacturers). However, the share of manufacturers expecting this increase to be a significant one differs between different sizes of manufacturers: 36% of large manufacturers are convinced of a significant increase of their cross-border sales share while only 26% of medium/small manufacturers think so. This effect is mainly driven by the advantage of larger manufacturers having generally a higher international brand strength, more resources, and valuable knowledge on further building their cross-border business. For smaller manufacturers this implies the need for international brand building and strengthening of cross-border selling capabilities (including localization of the product offering online marketing) in order to fully participate in the cross-border sales opportunity. Using premium shipping can be one way for smaller manufacturers to compensate for at least parts of the natural disadvantages compared to larger manufacturers. This finding is also backed by our survey data stating that smaller manufacturers rate speed of delivery as even more important than larger manufacturers. We will talk more about how manufacturers can find their entry path to global success in the following section "How to succeed."

The strong cross-border performance of large manufacturers does not only extend to growth but also to the basket sizes obtained. 60% of large manufacturers report a higher basket size cross-border than domestically while only 35% of small manufacturers report this. Large manufacturers thus also have a good chance to sell cross-border with especially high profitability.

For retailers, the accelerated growth of manufacturers raises the question of how to deal with the fact that they are increasingly selling directly to end consumers – a question that obviously doesn't only apply for cross-border sales. Clearly, the cross-border e-commerce pie is large enough for both retailers and manufacturers. But retailers will need to find a distinct value proposition in order to compete with the increasing international direct-to-consumer sales of manufacturers. Example areas for achieving a distinct value proposition include a convenient-to-use online shop, consumer product reviews, reward programs for loyal consumers, and providing superior service. Also offering consumers a value add through premium shipping is another.

Retailers need to find a distinct value proposition to compete with manufacturers' own webshops

HOW TO SUCCEED?



As illustrated so far, cross-border e-commerce represents a huge opportunity for e-tailers around the world. Consumers in many countries currently shop abroad for a wide range of products that are either unavailable locally or if so, higher priced, of less quality, or coming from a less trusted source – and they will do it even more in the future. Today's diverse cross-border e-tailer landscape demonstrates that businesses of all shapes and sizes have the potential to 'go global' and benefit from new emerging spice routes. That does not mean, of course, that tapping into the cross-border opportunity is any trivial endeavor – although it is considerably easier than many might perceive. Fundamental questions on what to sell, where to sell, and how to sell need to be answered by all e-tailers.

The following offers a more in-depth look at what it takes for e-tailers to succeed in cross-border e-commerce. It includes a discussion about how successful cross-border e-tailers eliminate consumers' concerns when it comes to buying cross-border, how latent demand of cross-border consumers can be identified, and what five steps need to be taken on the path to becoming an international champion.

1. MEANS TO OVERCOMING CONSUMERS' RESERVATIONS

For e-tailers to be able to successfully sell cross-border, the hurdles perceived by consumers regarding placement of their order with a foreign online shop need to be convincingly addressed. Google's Consumer Barometer shows that besides lack of interest in international offerings, the most prominent hurdles of international consumers are related to logistics, trust, price, and experience.

Consumers' hurdles are related to logistics, trust, price, and experience

Taking hurdles stemming from logistics, 24% of consumers state that they have concerns related to returns, and 18% have concerns related to the time required for delivery. Consumer research⁴ shows that 18% of consumers expect delivery from and within Europe in less than three days, 14% expect delivery in less than three days to Australia, and 7% expect this time window for delivery into the US. These stringent delivery expectations can be easily addressed by offering premium (i.e., time-definite) shipping options, inducing the fastest delivery time possible and convenient returns solutions. Offering this product for a surcharge with respect to a deferred or day-definite shipping product will lead consumers to self-segment according to their most important needs.

Logistics hurdles are easy to solve with premium shipping

When it comes to trust, 19% of consumers state that they do not trust foreign shops in general, 18% worry about problems with customer service, and 14% are concerned about paying in a foreign currency. Trust building among an international audience is not an easy or quickly solved task for e-tailers; it very much depends on the size and brand of the e-tailer. The brands of e-commerce giants are trusted per se, as are strong retail and manufacturing brands – however, smaller pure online players and SME manufacturers are at a disadvantage here. These less renowned players depend all the more on the strong brand of

Borrowing a shipper's brand can create trust

4 IPC Online Shopper Survey

a trusted logistics partner. Additional steps toward building trust with consumers include leveraging trust marks on the website (e.g., locally trusted shops and data security certificates) and offering regionally well-established payment methods (e.g., PayPal, Alipay, and cash on delivery).

Price needs to be transparent

As far as price goes, 15% of consumers think that shopping from an e-tailer abroad is basically more expensive. As discussed in the earlier section on the opportunity from “The consumer perspective”, maintaining a long-term competitive advantage through price is hard to maintain for most e-tailers (except for commodity players in low-factor-cost countries). However providing price transparency for international consumers, which means stating the fully landed costs including potential surcharges for shipping and customs taxes, serves as a good first step in addressing this hurdle.

A convenient international experience can go a long way

Regarding experience, 15% of international consumers state that their experience on foreign websites was not convenient, 12% report struggling with the language, and 2% perceive foreign websites as having a low quality. Addressing shortfalls in consumer experience includes a few relatively easy, but also a number of challenging, tasks. The necessary steps to take are outlined in the following subchapters.

2. THE QUICK START INTO CROSS-BORDER E-COMMERCE

In having the right measures in place and partners on board to address cross-border consumers’ hurdles such as logistics, trust, price, and experience, e-tailers have the infrastructure side of the equation already in the bag. But how can they now go out and actually start selling cross-border?

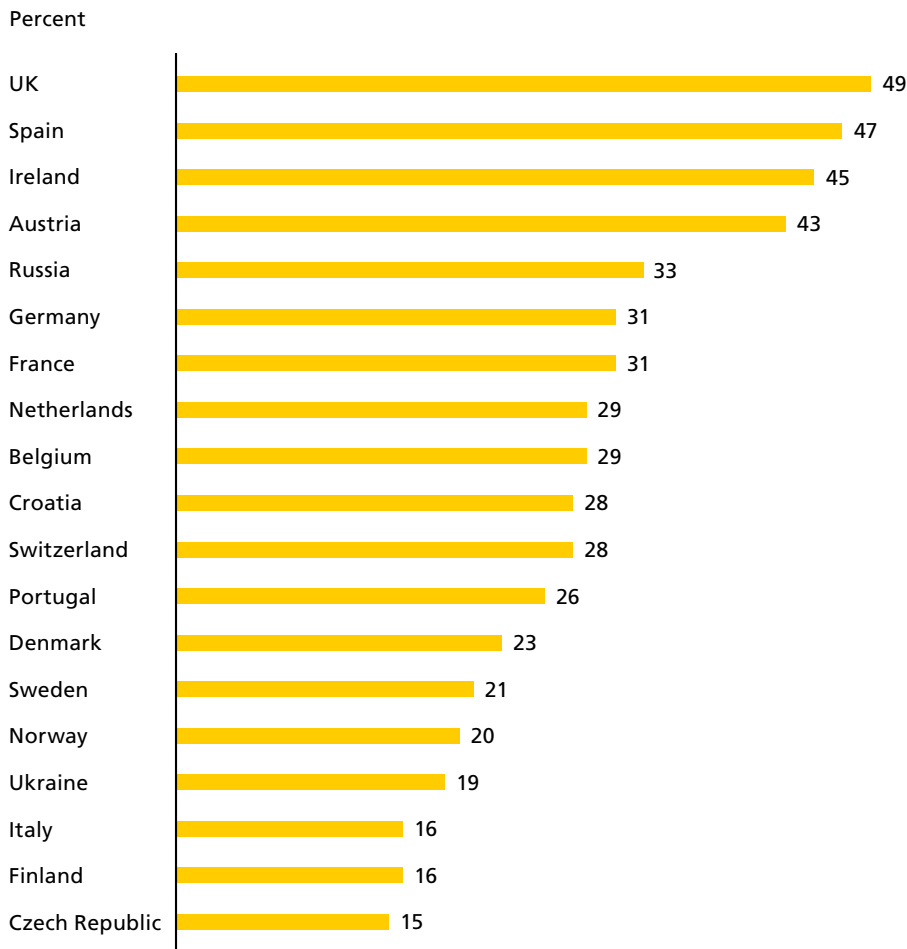
Checking for latent international demand only takes a few minutes

It may even be as simple as ‘any supply attracts its demand.’ If players sell unique products or offer a unique selection, international buyers may in fact already be waiting in line for them. By conducting an analysis of their web traffic, e-tailers can determine if they have latent demand coming from abroad that is not being met. Running a comparison with competitors’ web traffic using tools such as SimilarWeb or Searchmetrics, allows a better view of the international opportunity for an individual product segment and potential target countries or regions. A joint large-scale analysis run in cooperation with SimilarWeb of the top 1,000 shopping websites in each European country shows that more than one in four of them had significant international traffic, even in smaller, less-connected markets such as Ireland or Croatia. The opportunity really is a broad one – and in many cases, it involves no further market research or marketing spend.

Off-the-shelf solutions allow a quick start into cross-border

In order to make the lives of international buyers a little simpler by offering some hand-holding support, service providers that are specialized in cross-border shipping come into play. Global-e, for instance, promises retailers that they can “go global” and “be local.” Rather than taking a market by market

SHARE OF LOCAL TOP RETAILERS WITH INTERNATIONAL TRAFFIC SHARE > 15%¹



¹ Analysis of top 1,000 shopping websites, international sellers removed
Source: SimilarWeb, McKinsey

approach, Global-e allows e-tailers to sell to more than 200 countries and still offer the localized browsing and checkout experience that international shoppers expect, including adjusted currencies, prices, languages, VAT, duty calculations, or payment options. Thanks to APIs and prebuilt plug-ins, such services can help e tailers kick off their selling on a global scale in just a matter of days.

3. BECOMING AN INTERNATIONAL CHAMPION IN FIVE STEPS

A 'test-and-learn' approach that targets latent international demand can be a good springboard for players on their way to becoming international champions. But realizing the full promise of cross-border e-commerce demands that e-tailers do more. They will need to take five steps on their path to becoming an international champion.

1. STRATEGIC CLARITY

Identify your cross-border opportunity

In order to really go after the most promising demand markets, players need to apply a strong offense and target the right consumers actively. As this will take effort, time, and money, e-tailers must first systematically find the most attractive consumer markets. Conducting a web traffic analysis is one source already discussed for enabling a better understanding of existing demand patterns for both the e-tailers' webshops and the broader market segment in which they play. It is also helpful to review general indicators of current market attractiveness, such as e-commerce penetration or the degree of local e-commerce offering in a country or region – facts easily found online. However, this will only provide a static look at today's market, not the future landscape once players start actively shaping it. It is therefore helpful to consider consumer tastes and trends more broadly. For instance, strong cultural proximity has allowed UK-based retailers to successfully sell to former Commonwealth markets; and Scandinavian fashion designers that have realized the lifestyle appeal of their look have conquered other European markets.

Next, the sales pitch needs to be defined. As discussed earlier, this can be availability, offering (including price), and trust based. Availability based players should try to find their product (or close substitutes) in the demand market under consideration. If they cannot find it, they need to ask themselves why. Is it too new or perhaps too unusual for foreign buyers to be aware of it? They need to find out if they have a source of differentiation and if it is defensible. For instance, in the case of a specialist manufacturer, selling under a protected designation of origin (e.g., in food) or having exclusive rights means you have most likely got a winner. And even for a nonexclusive retailer, unique scale or capabilities including a superior online shopping experience, product reviews, and superior customer service can offer a lasting advantage.

Ultimately, companies must plan their execution. They have to ask themselves: "What do we internally need to have in place in order to successfully sell into these countries? Do we have sufficient funding and capabilities to cope with international growth? To what extent does the plan rest on assumptions around regulations, changing consumer trends, or competitive dynamics? What is the level of confidence in these assumptions, have preparations been made, and is it going to be possible to change course if some of them turn out to be wrong?"

Thus, having strategic clarity requires researching and selecting the most attractive cross-border markets, tailoring the company's sales pitch and value proposition to consumer preferences, and thoroughly planning how to execute the strategy, including among other things, establishing internal resources and challenging assumptions regarding the cross-border business.

2. THE RIGHT ASSORTMENT

After having strategic clarity on the cross-border target markets, e-tailers have to figure out how to tailor their offering to these markets in order to address cultural preferences or demand gaps not served domestically. Adapting the assortment involves some researching of local tastes. When operating in life-style categories such as home furnishings or fashion, taking a look not only at local competition but also at existing consumer research or even simply life-style magazines can be helpful. How many people, for example, are aware that purple, a noble color in many cultures, is the color of mourning in Brazil, to the extent that it is considered unlucky to wear it on any occasion other than a funeral? It pays to understand such specifics when entering new markets. If operating in a slightly more opaque category, being inventive is what counts. For a car parts supplier, for instance, taking an in-depth look at historical car sales from the past 20 years turned out to be a good predictor of the local demand it sees today. Such research can provide the starting point for establishing a localized webshop. Thus, A/B testing and big data analysis can help companies familiarize themselves with their target audience and iteratively tailor the experience for this audience.

Understand local tastes
and rules

One potential source of uncertainty for the product assortment can be regulation, especially when it comes to categories such as toys or electronics. Companies need to understand what trade barriers they face and how to deal with them. For instance, products need to be classified according to the Harmonized Commodity Description and Coding System (HS). An easy option to solve this challenge is to consult specialist providers in this area. Borderlinx, for instance, offers an "eligibility engine" that automatically catalogs SKUs for international selling and triggers a "prohibited goods alert" to protect both companies and their international customers from pursuing noncompliant transactions.

3. THE GLOBAL LOCAL WEBSHOP

Consumers coming from abroad want to be able to shop like locals. Translating a website is easy nowadays with consumers having services such as browser plug-ins for website translation at their fingertips. A truly global webshop needs to be multilingual and actually, multieverything. This means offering multiple locally adapted landing pages (showing a tailored assortment as described previously and a welcome message that promotes players' international shipping options), multiple locally preferred payment options, or

Let the world shop like locals

multiple currencies in which users find adjusted prices that are rounded as they are used to (e.g., USD 99.99 is a more common price tag in the US than USD 100.07 and likely to convert better). Success in offering the right localized experience can be monitored when comparing bounce rates, number of page visits, or the average duration spent on the page of domestic and international visitors – the better providers manage to convert foreign users, the better they are doing.

One major concern for shoppers is non-transparency about the real cost of an international purchase. Companies can ease consumers' minds by offering them fully landed cost calculation at checkout, including accurately calculated shipping rates, VAT, and duties. As mentioned earlier, service specialists such as Global-e or Borderlinx can help in this area. Another option is to leverage the customs brokerage services that logistics providers make available as part of their door-to-door offering. For example, Delivery Duty Paid (DDP) is a particularly handy service that allows merchants to pay all charges for their customers up front. Buyers can still be charged a fee, but the risk of unpleasant surprises and an underwhelming customer experience after checkout is eliminated.

Not only sales through companies' webshops drive cross-border sales, but also sales through third-party platforms. Whereas in Western markets, especially North America and Europe, consumers tend to use e-commerce platforms like Amazon and eBay, it is mainly locally grown platforms that are popular in China or India. Chinese consumers shop for instance from marketplaces such as Alibaba's offerings T-mall and Taobao, and Indian consumers from Flipkart – all are marketplaces that have not been established in Western countries, but have been founded specifically to meet local consumer preferences. In order to successfully sell into international markets, e-tailers should look to build a presence on those platforms.

4. WAREHOUSING AND FULFILLMENT

Find the footprint with the best company fit

Once having successfully set up a locally adjusted offering that allows consumers in the right target markets to shop like locals, players should ask themselves how they can best fulfill their orders. The spectrum of fulfillment options goes from one central hub to serve all global demand to a fully localized approach. Finding the best model depends on a number of factors, primarily overall demand, regional differences and predictability of consumer tastes, breadth of product offering, as well as required speed to market.

A more centralized approach will often be optimal from a cost perspective, but may limit a player's ability to compete with local or regional competitors on speed and customer experience. One way to compensate for this is to establish a hub-and-spoke network in order to move the top-selling SKUs closer to the local markets once some level of scale has been reached. Another way – and really the only one for small and medium-sized players – is to go with faster

shipping options. Premium logistics providers offer guaranteed next-day delivery to intra-continental and 2- to 3-day delivery to inter-continental destinations, both with specified morning delivery times if required.

5. DELIVERY CHOICES

Once the described ingredients for successful cross-border selling have been secured, companies are set to attract consumers and have a footprint in place to serve them. Delivery would now seem to be the simple part of the equation – but it is not. Offering the right delivery choices can prove to be an important conversion driver.

Use delivery choices as a powerful tool for conversion

Many e-tailers find this difficult. In the survey, e-tailers that do not offer cross-border options noted logistics-related aspects as the biggest challenges for selling cross-border, with 74% of all respondents naming high shipping costs and 67% noting complex logistics as significant hurdles. They also pointed out that speed trumps price: most e-tailers covered in the survey ranked speed (37% of respondents) as the most important logistics need, not price (24% of respondents).

Reporting on the role of logistics as a differentiator, they noted that guaranteed delivery days or times (named by 22% of all respondents) and fully transparent track and trace (17% of respondents) could be the elements of a winning formula that sets them apart from their competitors.

So what should players make of this information? With long delivery times as the one thing that is probably keeping both buyers and sellers awake at night, premium shipping is the necessary gold standard in some product categories. In medium- to high-priced fashion, for instance, it is common for e-tailers to only offer time-definite shipping. Their margin easily pays for the extra cost, especially when it comes to cross-border, in which average order values can be significantly higher than domestic ones.

In other product categories or at lower price points, the trade-off between speed and price as the two biggest “wants” in the market may not be as clear-cut. But even where premium shipping is not a one-size-fits-all solution, it is an important addition to any e-tailer’s shipping options since consumers like having choices. If a company does not offer it, consumers will buy their last-minute gifts somewhere else. One major consolidator explained how 20% of all international sales they fulfill on behalf of a diverse customer base ship with an express option. And the survey results confirm this as a smart choice: as mentioned before, those businesses in the survey sample that offered expedited/premium shipping – across all segments – grew 60% faster than peers who only offered standard deferred shipping.

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