E-tailing Across the Globe: Bridging the Geographical Gap

Executive Summary

Today’s consumers are in the driver’s seat. The best way to capture their mind and wallet share is through seamless, vibrant shopping experiences that go across channels. In an effort to continue to fuel growth, U.S. retailers are pouring resources into integrating shopping experiences across channels—they are transforming the shopping experience into “retail without boundaries.” The notion of shopping without boundaries extends beyond shopping seamlessly across channels to shopping across geographies. In other words, retailers can fuel their growth by applying a “retail without boundaries” mind-set to the markets they serve.

Today’s shoppers have broadly adopted the convenience of shopping online. So much so that online retail sales in the U.S. continue to grow in the double-digits while “brick-and-mortar” retail sales are growing in low single digits and in some cases receding. As a result, retailers are making significant investments to capitalize on the opportunity to grow market share and increase revenues. These investments in e-commerce and related digital capabilities can be amplified by targeting new markets around the globe. Not only are many e-commerce investments extensible to other markets—many of those markets are growing at much faster rates than U.S. retail.

Going Multinational

Until recently, few retailers invested in building true multinational e-commerce businesses. If they expanded their Web sites to other markets, they generally followed the bricks-and-mortar expansion to those markets. In fact, most retail e-commerce organizations grew up as part of the marketing organization and have been head’s down trying to deliver a profit through Web channel sales and supporting the store shopping experience. They’ve historically been the underdog trying to earn their seat at the table. With the maturation of the e-commerce space, that paradigm needs to change. In 2004, Web sales in the U.S. were growing at 40% a year. As of 2010 that growth rate had fallen to about 18%, according to market research. At this pace, double-digit growth cannot be sustained without a steep change in e-commerce strategy. No longer can they follow the stores and marketing organizations— they must lead. Leading a retail chain expansion into new markets through e-commerce breaks the typical mold; however, it’s a low risk pursuit with the potential for high rewards.

International e-commerce expansion is a key growth opportunity for U.S.-based retailers. They can leverage their e-commerce infrastructure and capabilities to serve new customers and drive their top lines. In addition to driving sales, they can be a low-cost, low-risk tool to test their
brand equity in new markets. When they perform strongly in a particular market, it is a powerful signal that brick-and-mortar expansion will also be successful. Furthermore, the learning they glean about customer preferences can be acquired on a relatively small scale and then multiplied to drive a more successful chain-wide expansion.

The effort to internationalize an existing e-commerce channel is material, but it is insignificant compared to the effort (and cost) to support a bricks-and-mortar expansion. There are a number of complex decisions that can make or break the sustainability of a business model. To succeed, retailers need to transform their business model to support the management of a diverse customer base (e.g. language, time zone, preferences), ensure that their products and pricing are suitable for the new markets and localize the online user experience to drive traffic and sales conversion.

At the same time, they need to ensure they are set up to leverage their core competencies such as brand appeal, infrastructure and existing people and processes. Retailers need to strike the right balance between doing it themselves and leveraging partners with expertise for key business processes such as logistics, distribution, content management, payment processing, packaging and IT services. They also need to weigh the pros and cons of an integrated end-to-end solution, customized for their environment versus a partner solution that reduces the efforts and time-to-market but also compromises the shopper experience and transaction-level profitability.

**Online Market Size by Geography**

![Pie chart showing online market size by geography](Source: Euro monitor, Google-TNS, BCG analysis, 2010)

E-commerce Internationalization: Why Should It Be a Priority?

In a recent report, “The $4.2 Trillion Growth Opportunity,” Boston Consulting Group (BCG) predicted that global e-commerce revenue would reach $1.4 trillion by 2015 and noted that it is currently spread across developed and emerging economies (see Figure 1). Early moving retailers who were willing to tackle international e-commerce challenges are already being rewarded with ever-increasing revenues. For example, foreign shoppers paid 36 million visits to Macys.com in 2010, which represented about 8% of the total number of site visits. Assuming an industry standard of a 2.5% conversion rate and an average of $50 revenue per visit, if Macy’s had supported international commerce at the time, they could have driven an incremental $50 million in revenue. Not surprisingly, it didn’t take long for Macys.com to partner with fiftyone.com to launch international shipping in 100 countries.

This example is a powerful illustration of how the proliferation of online shopping around the world is extending the concept of retail without boundaries. Emerging economies are undoubtedly a promising opportunity for U.S. retailer growth.

To further justify international e-commerce expansion, it is noteworthy that consumer demand is directly driving the online sector’s contribution to the GDP of both developed and developing countries. Overall, by 2016, BCG expects members of the G20 to see the Internet playing a bigger role
in their economies (see Figure 2). For instance, the current Indian e-commerce market is around $10 billion — but it is expected to grow to $260 billion by 2024-25. E-commerce sites like Flipkart have been projected to achieve $1 billion in annual revenue in less than five years of operation. China’s online retail sales are on track to triple, to $360 billion, by 2015, according to analysts who follow this market. Very few global retailers have started to tap these markets until recently, but no retailer can afford to ignore the revenue potential these markets present. Although there’s clear demand for online commerce in international markets, U.S.-based retailers may still be questioning whether it should be on their roadmaps, and if so with what level of urgency. Three of the key questions retailers may be wrestling with include:

- How does the size of this prize and effort compare to the other priorities on my roadmap?
- Will my product mix and customer experience resonate with international markets?
- How much change will be required across people, process and technology?

All are valid questions, but the answers vary for each retailer. One point that retailers shouldn’t lose track of is that the market is changing quickly and the competition is afoot. The Internet enables businesses of all sizes to participate in the global marketplace. More specifically, retailers must look beyond their traditional competition, as anyone who has products or services that appeal to an international market can reach that market via the Internet. The upfront investment can vary dramatically. On one hand, a small niche business such as Cooking.com may choose to leverage a third-party vendor who will provide a multilingual platform that translates existing U.S.-focused site content to serve consumers in new markets such as China and Korea. On the other hand, a retailer may choose to build a fully integrated store front, supply chain and integrated processes to serve new markets. The question is who will move first to capture the market share and build a loyal customer base. For retailers such as Macy’s or J. Crew who have aggressive growth targets and are faced with softening demand in the U.S., the question isn’t whether to expand internationally, but when.

**Ready to Internationalize Your Web Site?**

International expansion of e-commerce is a discreet, complex effort that impacts people, process and technology. There are four primary work streams required to expand an e-commerce business to a new market: defining your new market strategy, creating your store front and associated user experience, building your operations including order fulfillment and managing international regulations. Figure 3 highlights some of the key questions retailers need to answer to establish their international expansion policy framework.

**International Expansion Top 10**

Here’s our view of the challenges retailers face when seeking to internationalize their e-tail channels.

- **Payment methods:** Customers in different geographies prefer different payment methods. For example, in the U.S. payment methods such as credit, debit, PayPal, Bill Me Later and Google Checkout are prominent; in the UK debit cards are used extensively; in China cash is a prevalent tender for online purchases.
- **Fraud and credit risk prevention:** In 2007, 10% of organizations that accepted electronic

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<th>Country</th>
<th>2010 (% of GDP)</th>
<th>2016 (% of GDP)</th>
<th>% point increase</th>
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<tr>
<td>UK</td>
<td>8.3</td>
<td>12.4</td>
<td>4.1</td>
</tr>
<tr>
<td>South Korea</td>
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<td>U.S.</td>
<td>4.7</td>
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*Source: Boston Consulting Group*
*Figure 2*
payments from consumers were victims of attempted or actual consumer fraud. Merchants can reduce their exposure to credit card fraud in a number of ways. One example is the use of the address verification system (AVS), which determines whether the address on a buyer’s credit card account matches the address the buyer typed into the online order form. In some south Asian countries, like India and China, banks have introduced a “one time passcode” sent to the consumer’s mobile phone as an additional measure of fraud prevention. Understanding common methods used in new markets is essential.

**Export and trade regulations:** In order to sell across boundaries, company employees must be trained and knowledgeable about export administration regulations and free-trade agreements, which adds complexity to selling internationally. For example, some European countries mandate the inclusion of tax within the manufacturer’s suggested retail price (MSRP), unlike in the U.S.

**Product and information localization:** Merchants must localize their product catalog and information for each target market. Product preferences, descriptions and images, safety regulatory guidelines and other information all will vary by market. At minimum, seasonality and language preferences must be considered. Beyond that, there are nuances among customers in different markets that must be understood in order to tailor offerings to be most relevant.

**Pricing and promotions:** Tariffs and taxes can significantly raise the final price of products, so not only is it important to understand how these charges will affect sales and pricing but also how to communicate these extra charges to avoid creating customer confusion. International shipping can be expensive, and may make it very tough to compete with local retailers. Furthermore, the types and frequency of promotions that appeal to one customer segment may not appeal to another.

**User experience:** Web site usability best practices vary from market to market. For example, user preferences for the ideal placement for the shopping cart, use of colors and “busy-ness” of the site vary.

**Language:** Although English is widely spoken in other markets, retailers need to evaluate whether to translate the content on their Web sites and into what languages. Some retailers elect to translate only portions of their Web site whereas others translate their entire site. Wherever content is translated, it needs to be localized and then tested to make sure it is accurate.

**Shipping:** Like tariffs and other taxes, shipping costs can significantly affect the price of the transaction – especially when they are international rates. The cost to the retailer to fulfill orders will vary dramatically based on the placement of their inventory and use of a partner. Merchants need to determine how to calculate shipping costs, such as whether rates will be based on the item’s value, dimension or weight, and what the profit margins shall be. Retailers also need to understand their customers’ expectations related to speed of delivery and ensure their solution meets those demands.
• **Returns:** Returns handling is an expensive proposition for a domestic transaction and even more so for international transactions. Carefully defining return policies and procedures and devising a focused reverse supply-chain strategy can help manage customer expectations and save money. For example, depending upon the cost of the product, retailers may be better off sending a replacement product for a damaged product rather than paying for the return shipping.

• **Customer service:** Retailers cannot bank solely on e-commerce being a self-service model; customers demand a 24x7x365 customer service option. The hours of service, languages supported and policies and procedures all need to be customized for each market.

### What’s the First Step

Retailers can increase their chance of success out of the gates and reduce the pain of the journey by doing their homework and following a structured approach. They need to start by defining clear business objectives in both quantitative and qualitative terms. Next, they need to establish a policy framework that codifies their definitive point of view. This becomes their foundation for success. The business objectives and policy framework should be supported by market intelligence, including gathering key information on target market potential, competitive threats, regulations and customer preferences. The next step is to capture business requirements and align them with the business objectives and policy framework for internationalization. When defining requirements, it is important to start by assessing current capabilities and understanding the gap to achieve their international objectives. The goal should be to retain as much reusability as possible in order to improve time-to-market and ensure that the end solution is sustainable. Finally, retailers need to examine their organizational structure, business processes and underlying infrastructure to deliver a solution to the market that provides a superior customer experience, is operationally sustainable and delivers on the business objectives. Of course, a major element in ensuring your success is learning from those who have gone before you by choosing the right partners.

### Want to Go Global?

Global e-commerce expansion provides a unique opportunity for retailers to sustain and grow their revenue streams. For many retailers, now is the right time to act. Our deep expertise in e-commerce, experience in working globally and unique consulting model for e-commerce internationalization will serve as an advantage in identifying best-fit alternatives and a fast-paced delivery.

### Contacts

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**Footnotes**


4 According to the 2008 Association of Financial Professionals (AFP) payments survey.
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