Evolution at home
Revolution abroad

The 2017 Global Ecommerce Report

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Executive Summary

The global retail industry is at a crossroads.

Recent years have seen the aspirational promise of large, intelligent enterprise systems single-handedly solving issues of customer acquisition, retention, cart conversion and flexible fulfillment give way to a more pragmatic reality:

Budget-constrained merchants are faced with making difficult business model and business process changes to adapt to a dynamic market. Though retail investment in technology and services is forecasted to grow at a CAGR of 13% through 2020, there is no clear-cut answer as to where that investment will go. Omni-channel as a rallying cry has proven to be a balkanized set of priorities that range from in-store engagement to digital optimization, from high-touch experiences to automated execution.

Amid this abundance of complex answers, we have sought in this report to ask a simple question: **how can retailers grow?**

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This is the first report to comprehensively analyze the global ecommerce landscape from both the retailer and consumer perspectives, through the lens of both domestic and cross-border operations. Comprised of proprietary research conducted by IDC Research and ORC Research on behalf of Pitney Bowes, this study is the first in a series of market insight reports on the topic of retail growth opportunities.

Our research surveyed 1,275 retailers from eight countries and 12,000 consumers from 11 global markets to uncover three key trends that define growth levers to optimize and expand share of wallet for retailers today:

01 Take a cue (or two) from marketplaces.

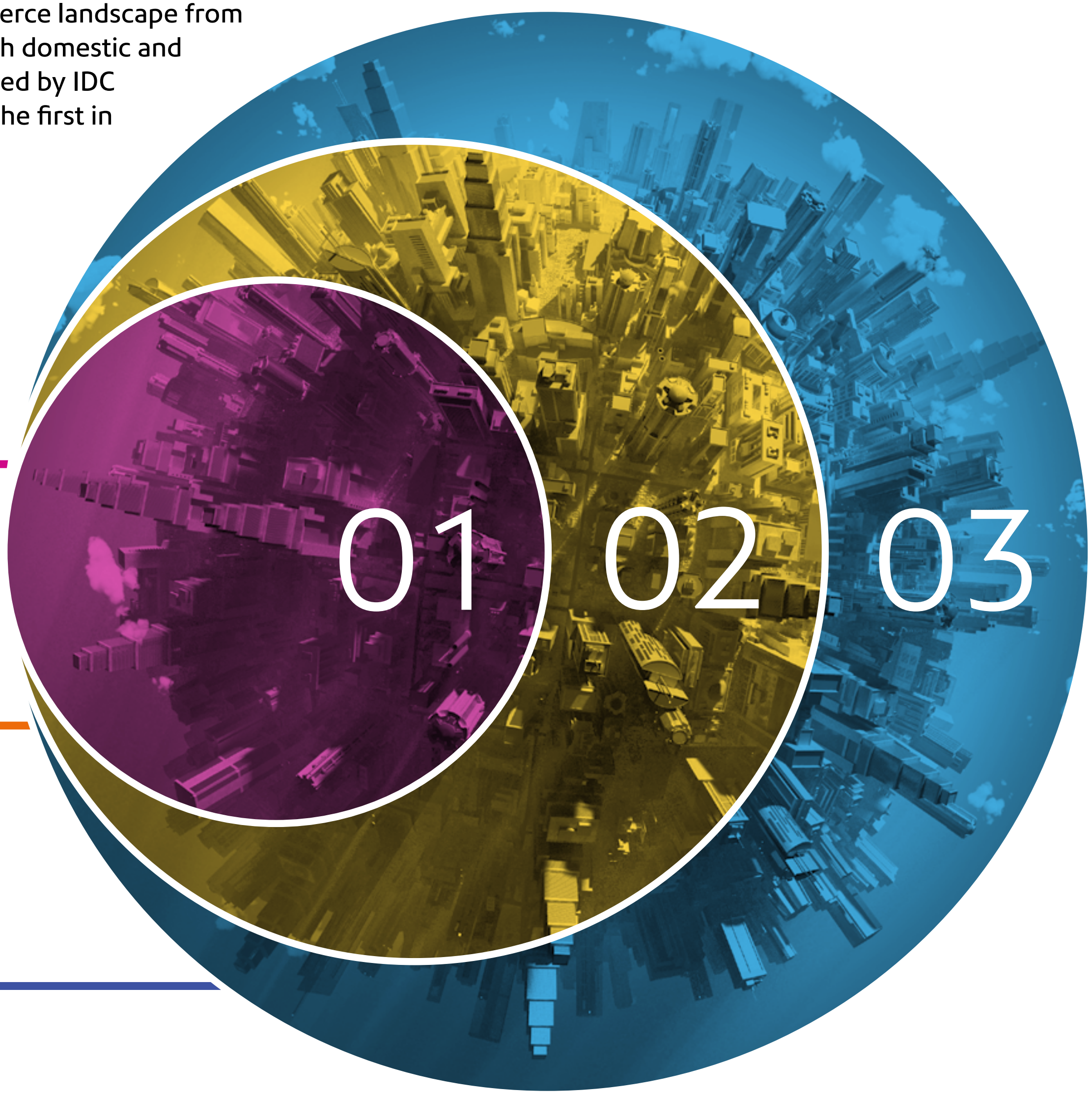
Optimizing the domestic market

02 Don't rely on brand alone.

Capturing near-border markets

03 Look like a foreigner, talk like a local.

Expanding into global markets



01

Take a cue (or two) from marketplaces.

Optimizing the domestic market

Domestic ecommerce is nearing maturity. Frequency of online purchases has increased by only 2% year over year, while online marketplaces are now attracting the majority of consumer mindshare in nearly every country surveyed.

Building loyalty is more than disappointment avoidance.
Retailers are looking for pragmatic ways to increase customer lifetime value (CLV) and customer retention. Our study found only one in eight countries whose retailers have calibrated investment in domestic ecommerce to the rate of consumer purchase frequency. Low-cost, fast and accurate shipping has become key to ensuring customers return to the brand for additional purchases, with half of retailers citing delivery speed and cost at the top of their operational wish lists.

Personalize to convert then convert to personalize more.
As retailers diversify their demand generation tactics (68%) and selling channels (78%), effectively converting customers who do engage becomes critical to achieving ROI. The enterprise technologies retailers use today to support customer experience — ecommerce platforms, mobile apps, in-store solutions — are disparate and lack close integration. As a result, customer experiences lack the personalization and accuracy that result in lower cart abandonment.

Retail leaders are learning to love shipping.
Shipping costs are also one of the top causes of margin erosion in ecommerce fulfillment. With carrier rate increases, particularly during peak seasons, retailers are looking to reduce the cost of shipping while also improving on-time delivery for more aggressive service levels. 45% of retailers surveyed have either already implemented or are piloting end-to-end shipping management capabilities.

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02 Don't rely on brand alone.

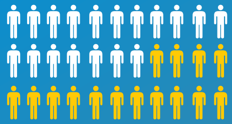
Capturing near-border markets

The majority of retailers are expanding cross-border, with a third of respondents rating international selling as a top growth lever for the business — equal to the value ascribed to domestic ecommerce growth. Most retailers, however, have prioritized selling in countries that are either geographically or culturally adjacent, creating a "near-border" market with its own growth dynamics.

Brand awareness is not enough — localized marketing is essential.
Retailers increasing their investment in near-border markets are seeking new ways to improve demand generation and site traffic. Our research shows that marketing channel preferences among consumers vary significantly by country — even neighboring and similar markets, limiting the effectiveness of duplicating domestic marketing strategies. The reward for attracting these customers, however, is significant — average cross-border order values are 17% higher than domestic AOV.

Near-border consumers are price sensitive above all.
Our consumer survey found that 58% of digital shoppers in near-border markets view shipping costs and fees as the primary inhibitors to purchase from a foreign retailer. Retailers looking to improve cart conversions are exploring ways to reduce or eliminate portions of these charges.

Operational prowess separates the winners from the laggards.
Because near-border markets are so similar to retailers' home countries, succeeding in these near-border market requires optimizing operations at or near domestic capabilities. This typically includes low cost and high visibility of delivery, localized customer care, and minimized duty & tax costs. One-third of retailers, however, are wary of expending significant operating and capital expenses in these "supplemental" markets.



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03

Look like a foreigner, talk like a local.

Expanding into global markets

Our analysis has shown that the prioritization of near-border markets has come at the cost of underserving consumers in countries with higher adoption of cross-border ecommerce. Entering these markets requires amplifying the aspects of your brand that have the highest value for consumers, while tailoring the experience with nuanced localization.

Entering new markets, as our survey has shown, is something nearly half of retailers are hesitant to do.

Breaking through the noise means positioning your brand in the right places.
Entering new markets, as our survey has shown, is something nearly half of retailers are hesitant to do. That's primarily due to concerns around the complexity of demand generation and marketplace integration. Marketplaces in Asia continue to dominate the ecommerce landscape.

Global delivery is more than finding an international carrier.
Retailers in our survey cited fast and cost-efficient delivery as a key concern in serving global markets. Consumers also saw shipping cost and delivery times as the largest impediments to shopping cross-border. Carefully and continuously managing relationships with both international carriers and last mile delivery providers is critical.

Expansion requires ownership, sponsorship and accountability.
Our analysis of retailers' domestic and cross-border budgets uncovered a tendency to invest based on historical performance rather than growth potential. Retailers are dedicating a quarter of their budgets to cross-border, even though cross-border growth rates rival those of domestic ecommerce revenue growth.

Research Methodology

Retailer Survey

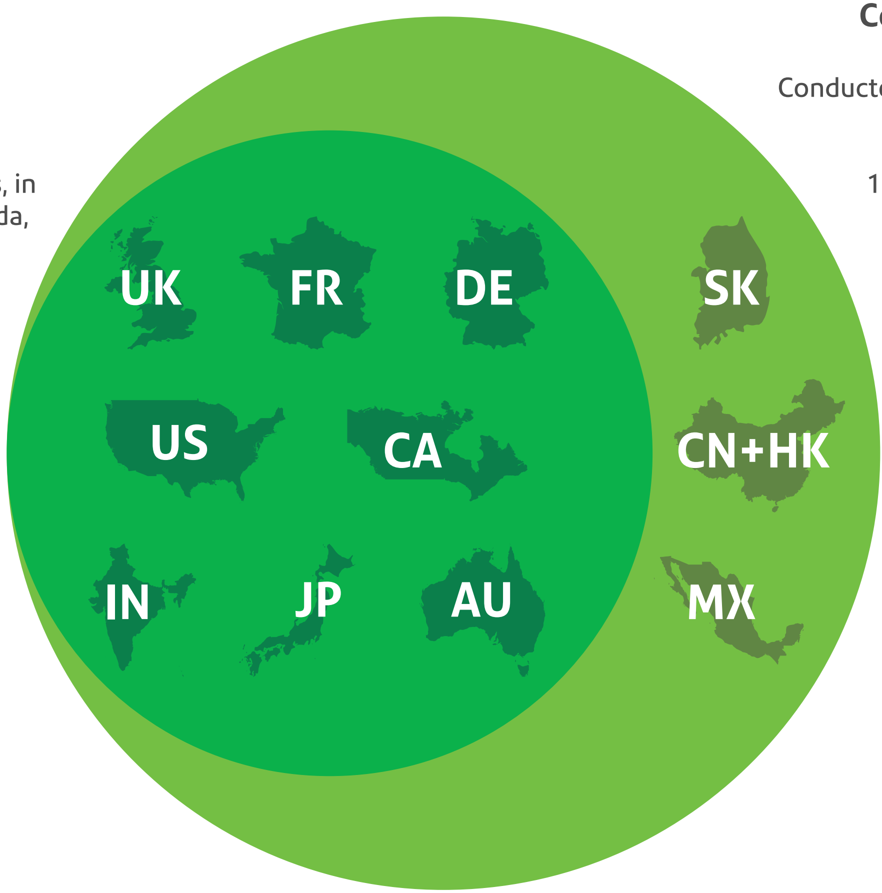
Conducted by IDC Research in June 2017.

1,275 retailers, across a broad spectrum of retail categories, in 8 countries: United States, United Kingdom, Australia, Canada, France, Germany, India, and Japan (US retailers with a minimum of $50M in online revenue; all other retailers with a minimum of $25M annual online revenue).

Consumer Survey

Conducted by ORC Research in August 2017.

12,000 consumers in 12 global markets (United States, United Kingdom, Australia, Canada, France, Germany, India, China, Hong Kong, Japan, South Korea, and Mexico) who have made a purchase online in the past 12 months.



Retail respondents by category

Apparel and Accessory Stores	14.3%
Auto Part or Auto Supply Stores	5.5%
Building Materials, Hardware and Garden Supply Stores	8.8%
Catalog and Mail Order Houses	15.2%
Pharmacies and Drug Stores	2%
General Merchandise, Club Stores, and Hypermarkets	24.3%
Home furnishing and equipment stores	17%
Other/ Specialty Retailers	12.8%

Retail respondents by annual revenue

$1B<	9.3%
$500M-1B	24.6%
$100-500M	57%
$100M>	9.1%

TREND 01

Take a cue (or two) from marketplaces.

Optimizing the domestic market

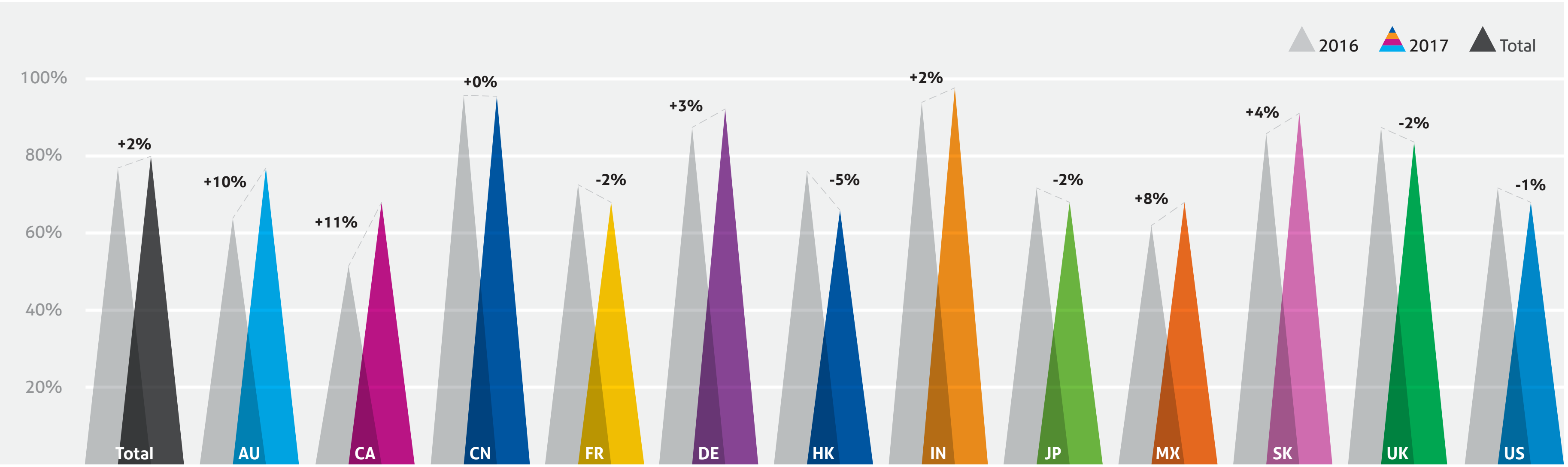
Domestic ecommerce markets have entered a period of digital saturation and maturity. Nearly half of retail respondents (47%) reported year over year domestic ecommerce revenue as flat, decreasing or increasing marginally.

Easy wins harder to come by

Frequency of online consumer purchases has increased marginally year over year in nearly all countries surveyed. Note that we surveyed only consumers who make purchases online, therefore the gauge of penetration is specific to the most valuable (e.g. most frequent) shoppers.

In the US, UK, France, Hong Kong, and Japan, online purchase frequency has peaked, indicating an advanced level of market maturation. China is home to a staggering number of frequent online shoppers—nearly all (96%) of digitally-empowered Chinese consumers shop online daily, weekly, or monthly—having now reached saturation with negligible growth. Australia, Canada and Mexico are seeing the highest growth in consumers shopping online more often.

Consumers making online purchases daily or weekly, 2017 vs 2016



Growth levers in a challenging domestic market

Faced with fewer 'easy wins', retailers are divided on what levers to pull in order to grow their businesses. No option garnered more than 50% of respondents.
On average, only 1 in 4 retailers are planning to invest in growing their domestic brick-and-mortar operations. Less than half (41.1%) of retailers surveyed cite branded domestic websites as an area of year-ahead investment, with the largest retailers favoring this option the most (49.5%). In a winner-take-all dynamic, those retailers who have struggled with domestic ecommerce are investing less in digital, while those who have experienced success are investing more. We saw this 'once bitten, twice shy' attitude across all aspects of our retail survey.

How does your organization plan to grow in the next 12 months?	AU	CA	FR	DE	IN	JP	UK	US
Domestically via brick & mortar stores	33.5%	25.3%	33.3%	23.3%	21.3%	26.7%	21.3%	26.7%
Domestically via branded ecommerce site	34.5%	37.3%	40.0%	33.3%	45.3%	40.0%	41.1%	43.3%
Domestically via online marketplaces	28.5%	18.7%	23.3%	32.0%	32.0%	25.3%	19.4%	34.0%

Dot-com double down

When examining retailer interest against consumer demand on a country-by-country basis, we see three categories of behavior →

Aligned: Indian retailers are most aligned with consumers, with investment increasing with purchase frequency growth.

Under-indexed: In high growth countries, comparatively fewer retailers are investing in domestic ecommerce.

Over-indexed: Conversely, in countries where plateauing growth, retailers are in fact more inclined to invest in domestic ecommerce than their counterparts in faster-growing markets.

	IN	AU	CA	DE	FR	JP	UK	US
Retailers who plan to grow domestically via branded ecommerce site	45.3%	34.5%	37.3%	33.3%	40.0%	40.0%	41.1%	43.3%
YoY change in consumers shopping online daily/ weekly/monthly	+2%	+10%	+11%	+3%	-2%	-2%	-2%	-1%

Of those retailers who plan to grow via their own domestic ecommerce sites, strategies fit broadly into two categories:

- **Attracting/retaining customers** (i.e., marketing and demand generation activities to drive traffic)
- **Optimizing conversions** (i.e., new digital capabilities such as payment types and personalization).

In the aggregate, more than 78% of global retailers focused on domestic online growth plan to increase marketing/demand generation activities to drive traffic, while nearly 68% plan to add capabilities such as payment types and personalization. This implies a belief that converting more site visitors, while important, is less attainable than attracting new and repeat customers to the site. A further read into this trend indicates that tried-and-true marketing and promotion tactics are preferred over the risk and effort of incorporating new technologies and processes in conversion optimization.

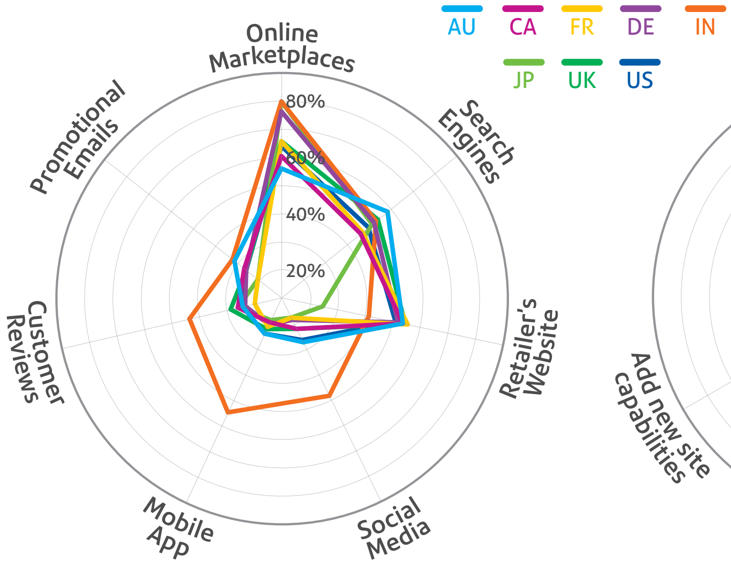
Given a challenging domestic ecommerce outlook, retailers are seeking ways to add new customers without invasive changes to their own operations and technology.

Parallel paths to purchase: marketplaces and everything else

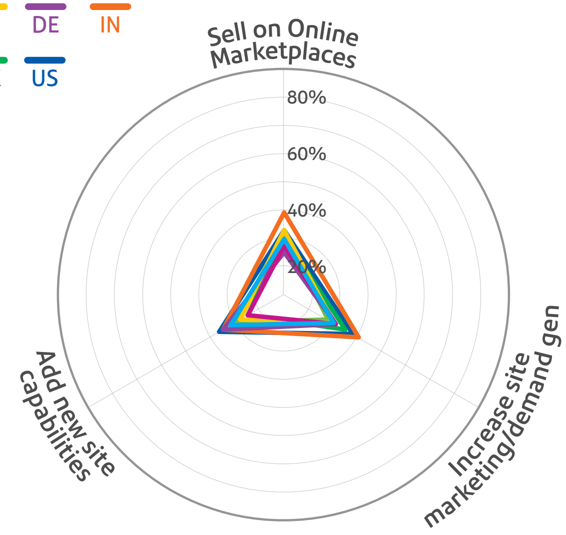
Consumers globally favor finding products on online marketplaces and by a wide margin. As of 2017, marketplaces are now #1 destination for product searches in nearly every country surveyed—Australia being the lone exception (where search engines now rank highest). Online retailers' own branded sites are the second most popular choice among consumers in Canada and France, followed closely by search engines. In the US, UK, Germany, and China, retailers' sites and search engines have equal mindshare. Retailer sites have minimal or decreasing importance in Japan, Mexico and South Korea.

Despite retailers' overwhelming interest in leveraging marketing for driving domestic online growth, many marketing channels are substantially less utilized by consumers in most countries.

Consumers flock to marketplaces, while retailers hedge their bets



How consumers prefer to shop



How retailers plan to grow

The results are highly relevant to retailers' priorities in both marketplace selling and marketing/demand generation. In this context, it should come as little surprise that nearly 30% of retailers (regardless of size) see online marketplaces as the top lever for growth—provided growth is defined as new customer acquisition. If, as seen above, maximizing site traffic is a top goal—what are marketplaces if not ecommerce sites by proxy? Or, put another way, if a retailer is struggling to bring customers to their site, why not take their site to where the customers are?

With this shift in consumer behavior and retailers are focusing on optimization—customer retention to maintain market share, and margin maximization to establish profitability in the face of increasing price competition. Small and medium sized retailers plan on retaining, replacing or adding customers through domestic online marketplaces. In fact, retailers expect their domestic retail ecommerce through marketplaces to double in the next two years.

This shift to marketplace selling, of course, comes with a set of risks beyond the challenges of developing and maintaining a new sales and marketing channel. In many cases, retailers are competing directly against the dominant marketplace in their home country. Therefore, interest and acceptance of marketplace strategies depends on a variety of factors:

01 How differentiated a retailer's product assortment is versus the marketplace's own assortment (i.e., how much does a retailer risk diluting the brand?)

02 Market presence the retailer already owns (i.e., how much does a retailer need a marketplace?)

03 Market presence the marketplace owns in the retailer's home country (i.e., has the consumer already chosen the marketplace strategy the retailer should adopt?)

While marketplace selling may not be stragically aligned to many retailers' business models, consumers' clear and growing preference for shopping on marketplaces does offer one kind of silver lining: adopting the aspects of marketplaces that retailers could adopt to capture some of that consumer interest. Our survey asked consumers to identify the reasons they shop on marketplaces vs. retailers' branded websites. Of these reasons, product assortment and better deals were ranked critical—but are intrinsic to marketplace business models.

Learning to love shipping.

Beside product assortment and better pricing, consumers are attracted to marketplaces for free shipping, fast delivery and 'one-click checkout' (highlighted in the chart on the previous page). The latter, arguably, is a benefit marketplaces accrue from sitewide, no minimum purchase free shipping programs, where consumers know cart totals well before checkout, eliminating the need to enter a multi-step checkout process. Thus, shipping sits at the nexus of marketplace advantages that retailers can most effectively emulate.

Appropriately, retailers are looking at larger investments in optimization-focused solutions—either optimizing customer lifetime value (CLV), or optimizing margin per order (MPO)—and exercising these investments increasingly in faster, more cost-effective shipping. We asked retailers to rank a 'wish list' of process improvements →

The options provided align in two ways to the two optimization paths identified above: improving speed and convenience of delivery for the consumer (thereby increasing CLV), and lowering operational costs in inventory, labor and transportation (thereby increasing MPO). Overall, retailers favored CLV-focused solutions, ranking shorter click-to-ship times and better delivery experiences as the two top choices.

01	**Fast, flexible, reliable execution cycles** (i.e., order-received to order-picked to order-shipped)
02	**Better customer delivery experience** (e.g., more options, lower prices, on-time delivery, and order status visibility and alerts)
03	**Better sourcing and optimization of inventory and labor**
04	**Better omni-channel inventory utilization** (e.g., turns, sell-through, average unit retail)
05	**Reduced total and per-order carrier costs using** (e.g., volume discounts, negotiated rate structures, and optimal rate selection)
06	**Use of store locations as point of distribution/fulfillment**

From a country-specific perspective, US retailers were more clear-cut in their preferences for CLV-focused improvements, while other retailers were broadly split. Interestingly, large and small retailers showed similar priorities—albeit for different reasons. Small retailers, presumably at the lower end of the fulfillment maturity curve, are looking to advance their scalability by adopting new fulfillment processes. Large retailers with highly sophisticated fulfillment processes, on the other hand, are looking to invest in major new technologies to cement their position at the top of the market. Medium-sized retailers, by contrast, are unclear on where to invest next.

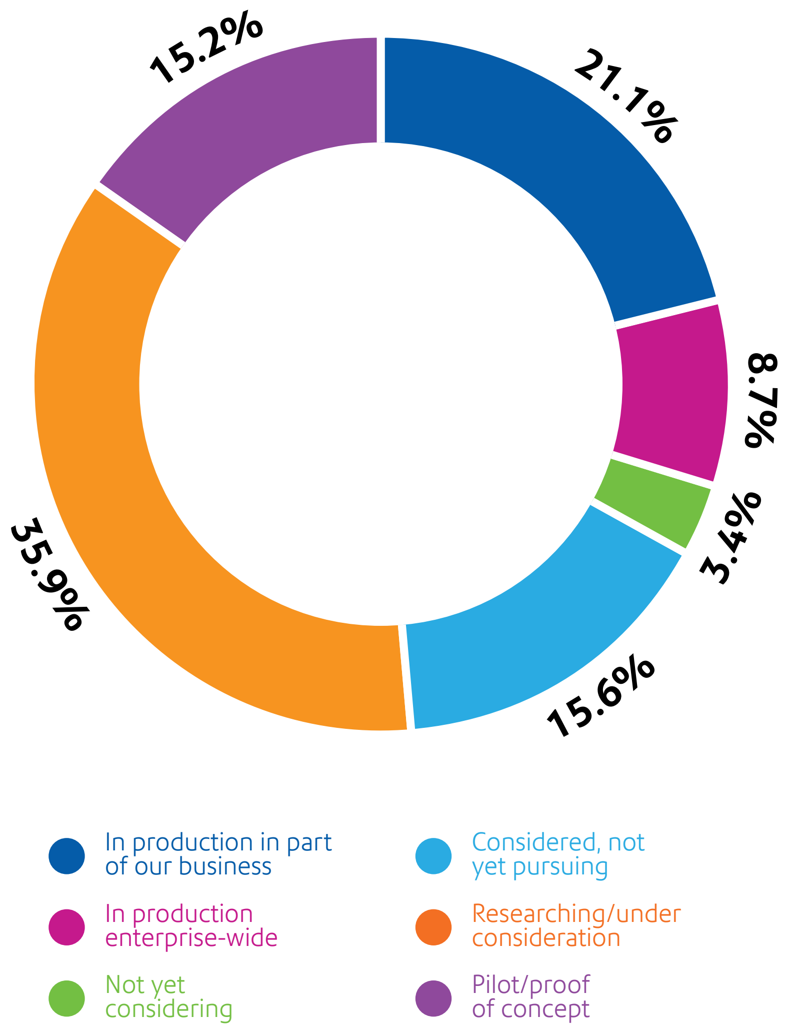
Retailers with growing domestic ecommerce businesses also rate CLV-focused initiatives at the top, while retailers with shrinking ecommerce revenues are prioritizing the other end of the spectrum—reclaiming margin in transportation and inventory costs.

Clearly, delivery experiences and speed of fulfillment play a key role in securing and retaining new customers and promoting a long-term relationship more now than ever before. Shipping has become not only an extension of a retailer's own brand but can make the difference between a single purchase and a repeat customer.

So, while retailers may be divided on secondary growth levers, the desire to optimize shipping capabilities appears to be one area most retailers agree upon. We asked retailers to describe their interest and progress in identifying and implementing an end-to-end shipping management solution →

97% of retailers recognize the need for fast, reliable end-to-end shipping management, with 52% of retailers actively evaluating or researching a solution. Ultimately, in a competitive selling environment, shipping has become a key differentiator in the customer experience, leading to greater investment in technology and services associated with this set of processes.

Retail shipping management system adoption



01

Take a cue (or two) from marketplaces.

Optimizing the domestic market: **Recommendations**

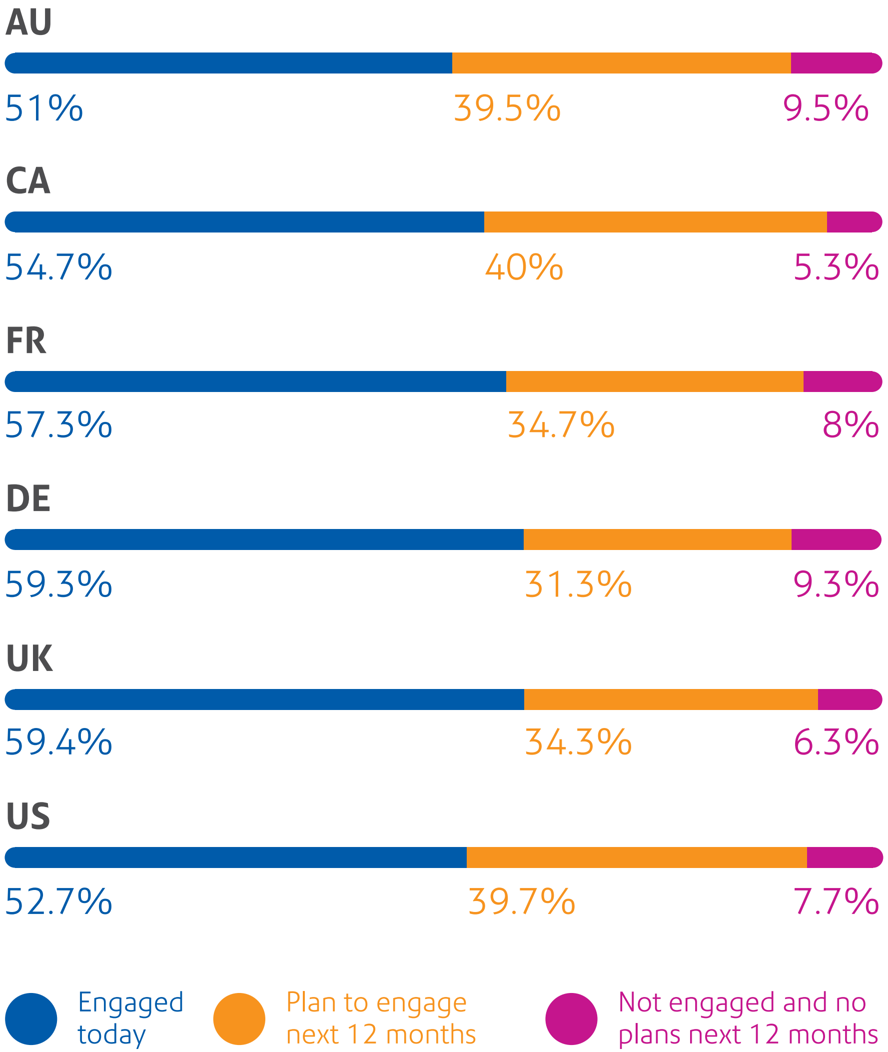
Business Challenges	Recommendations
Retaining customers With domestic ecommerce maturity on the horizon, retailers are looking for pragmatic ways to increase customer lifetime value (CLV) and customer retention. Low cost, fast, flexible and accurate shipping is key to ensuring customers return to the brand for additional purchases.	• Diversify your carrier portfolio to include carriers that specialize in delivering to specific regions or service levels at the lowest cost. • Identify partners who can own and manage carrier relationships—either through technology or as a turnkey service—to help your team optimize the shipping experience. • To learn about Pitney Bowes Complete™ Delivery Services, click here.
Boosting conversions As retailers diversify their demand generation tactics and selling channels, effectively converting customers who do engage becomes critical to achieving ROI. The enterprise technologies retailers use today to support customer experience—ecommerce platforms, mobile apps, in-store solutions—are disparate and lack close integration. As a result, customer experiences lack the personalization and accuracy that results in lower cart abandonment.	• Implement solutions that aggregate a single view of the customer. • Many Customer Intelligence (CI) capabilities are sold as components of larger systems that require replatforming and replacing expensive legacy technology. • Explore CIM solutions that take an 'over the top' approach by drawing data from disparate enterprise systems in real time to surface personalized customer information when and where needed. • To learn about Pitney Bowes Customer Information Management, click here
Improving margins Shipping costs are one of the top causes of margin erosion in ecommerce fulfillment. With carrier rate increases, particularly during peak seasons, retailers are looking to reduce the cost of shipping while also improving on-time delivery for more aggressive service levels.	• Explore services and technologies that provide plug-and-play connectivity to carriers like USPS, that also offer preferential rates, delivery guarantees and Saturday delivery. • Small and medium-sized retailers can improve cash-to-cash cycles by leveraging a partner that provides financing options and flexible payment options to regulate cash flow and ease the variability of shipping's impact on operating expenses. • Learn about Pitney Bowes Complete™ Shipping API and Complete™ Payment Services.

TREND 02

Don't rely on brand alone.

Capturing near-border markets.

Retailer cross-border adoption



With most domestic ecommerce markets seeing purchase frequency saturation, heightened competition, and unclear priorities on growth levers, retailers across the globe have been exploring growth opportunities outside their own borders.

Measuring the cross-border imperative.

On average 62% of domestic and global retailers surveyed already engage in cross-border ecommerce. Further, more than 31% of remaining retailers plan to engage in cross-border ecommerce in the next 12 months—leaving only 6% of retailers not entertaining cross-border growth opportunities. In this survey, "Cross-Border Ecommerce" has been defined as direct-to-consumer sales fulfilled across national borders, where shipments require international postage.

European countries have a higher proportion of retailers operating cross-border given the long history of international trade within that region. However, the average of (59%) across UK, France, and Germany is only marginally higher than the average among US, Canadian, and Australian retailers (53%)—indicating that intra-European commerce still has room to grow. Australia and Germany have the highest rates of retailers not planning on participating in cross-border activity, though proportions of both are under 10%.

When these statistics are analyzed based on retail category, adoption is as diverse as the product mix and is dependent upon how well the product applies to the intricacies of cross-border requirements.

Categorical Imperatives

Apparel/accessory, home improvement and other specialty retailers—the categories most likely to stock more difficult-to-find products for specific needs or more unique/differentiated products —had the lowest rates of cross-border adoption. The apparel/accessory segment had the highest proportion of retailers planning to introduce cross-border capabilities in the next 12 months, indicating a period of 'catch-up' activity within this category.

When looking at retailers' cross-border capabilities and plans based on domestic ecommerce performance, the results show two distinct trends.

01 Retailers with high performing domestic ecommerce operations are further ahead in cross-border enablement than their peers

02. Retailers with declining domestic ecommerce businesses are the most likely to engage in cross-border enablement over the next twelve months, indicating that cross-border is understood to be a growth lever for the digital business.

What is the status of your cross-border business?	Retailers with domestic ecommerce revenues **increasing**	Retailers with domestic ecommerce revenues **staying the same**	Retailers with domestic ecommerce revenues **decreasing**
Engaged today	63.1%	59.7%	56.8%
Plan to engage within 12 months	30.8%	32.7%	38.8%
Not engaged and no plans within 12 months	6.2%	7.6%	4.4%

Cross-border begins to compete with domestic mindshare.

How much of a growth lever is cross-border? Retailers were asked to rank three different cross-border initiatives alongside the domestic initiatives discussed in the previous section as sources for growth over the next 12 months. The results show a different picture (below).

In the aggregate, both cross-border ecommerce options ranked higher than both brick-and-mortar growth options. Shipping cross-border (versus maintaining inventory and distribution within a foreign market) ranked second only to domestic ecommerce investment. When comparing the two cross-border ecommerce options, retailers placed a marginally higher preference on shipping cross-border versus owning inventory and shipping within a foreign market (either via owned distribution centers, stores, or bonded warehouses). This indicates a lowering willingness to tie up capital expenses (inventory, real estate, etc.) in a foreign market with indeterminate demand.

When analyzed on a country-by-country basis, the researched showed a lack of substantive preference between the two cross-border options (shipping cross-border or shipping within market) among retailers in Australia, Canada, France, and Japan. Retailers in Germany, UK and the US showed marked preference for shipping cross border (versus shipping within market), by 5%—double that of the average preference given to shipping cross-border (by all respondents). This is particularly surprising given the prevalence of existing cross-border operations in Germany and the UK (two leading countries by that measure), and the preponderance of the franchise model for cross-border brick-and-mortar presence among retailers in these countries.

How does your organization plan to grow in the next 12 months?

		Total	AU	CA	FR	DE	IN	JP	UK	US
Domestic growth levers	Via brick & mortar stores	26.9%	33.5%	25.3%	33.3%	23.3%	21.3%	26.7%	21.3%	26.7%
	Via branded ecommerce site	41.1%	34.5%	37.3%	40.0%	33.3%	45.3%	40.0%	41.1%	43.3%
	Via online marketplaces	29.9%	28.5%	18.7%	23.3%	32.0%	32.0%	25.3%	19.4%	34.0%
Cross-border growth levers	Via brick & mortar stores	24.8%	35.0%	26.0%	30.0%	23.3%	36.0%	18.7%	25.1%	23.7%
	Via branded ecommerce site & ship within that market	33.9%	34.5%	37.3%	34.0%	33.3%	53.3%	25.3%	29.7%	34.0%
	Via branded ecommerce site & ship cross-border	36.4%	34.0%	38.0%	32.0%	38.0%	38.7%	25.3%	36.0%	39.0%

How do you plan to grow your cross-border business over the next 12 months? Compared to cross-border adoption.	$25-499M annual revenue	$500-999M annual revenue	$1B or more annual revenue
Engaged (in cross-border) today	58.9%	68.0%	72.7%
Plan to engage (in cross-border) within 12 months	33.7%	28.4%	21.2%
Not engaged (in cross-border) and no plans within 12 months	7.5%	3.5%	6.1%
Grow internationally via brick and mortar stores	24.5%	25.3%	26.3%
Grow in foreign markets with branded ecommerce site and ship within that market	33.7%	28.4%	21.2%
Grow in foreign markets with branded ecommerce site and ship cross-border	33.0%	44.3%	39.1%

Analyzing these responses on cross-border growth levers based on retailer size (annual revenue) yields another perspective, particularly if we compare with current cross-border adoption in the same categories.

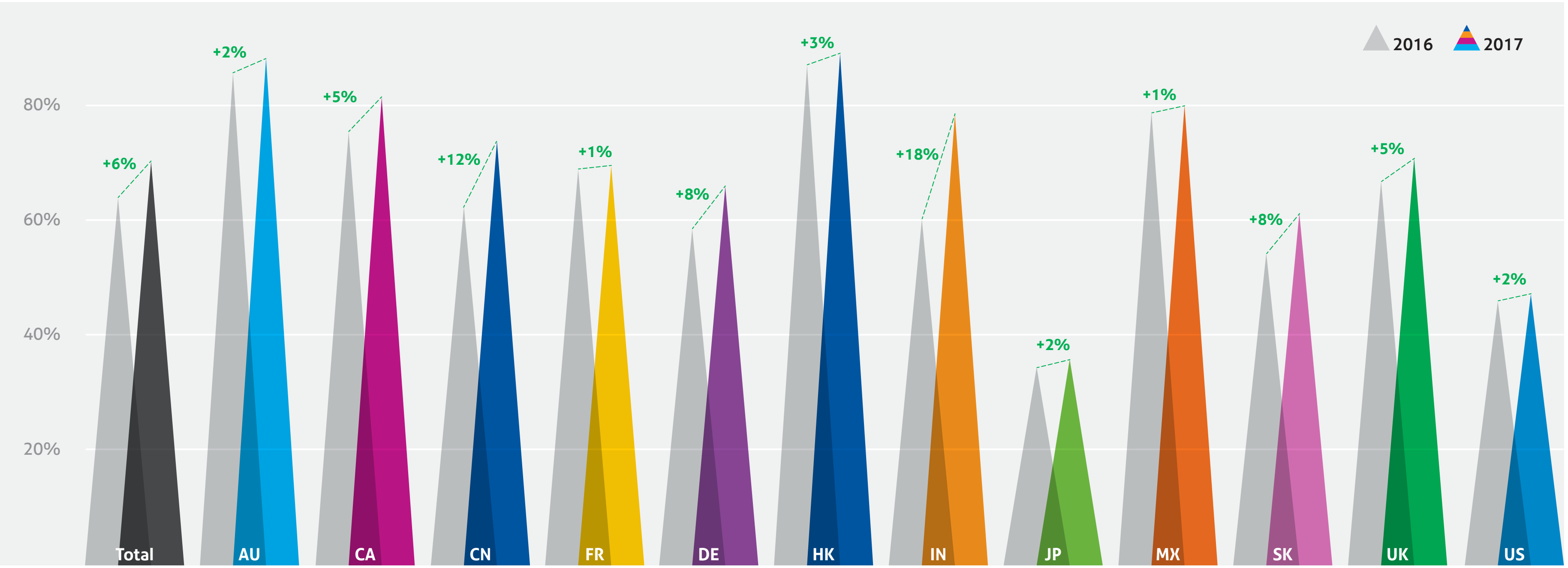
On average, medium-sized retailers ($500-999M annual revenue) were notably more positive about growth from cross-border ecommerce—despite only a negligible difference in current adoption versus large retailers (>$1B). For medium and small-sized retailers, the differences between the two cross-border ecommerce options were marginal (2-3%). For large retailers, the opportunity for growth resided markedly more in the cross-border shipping option (by nearly 6%).

This interest in cross-border investment as equal to the growth potential of domestic ecommerce is warranted, according to our consumer research. While we highlighted the plateauing growth of purchase frequency among domestic shoppers because of the maturity of that market, in the case of the developing cross-border trend we gauged adoption. Overall, 70% of consumers globally make at least one cross-border purchase annually, a 6% increase over our 2016 Global Shopping Study.

Interestingly, we found that domestic ecommerce purchase frequency had an inverse effect on adoption of cross-border. In countries with fast-growing domestic purchase frequency like Australia and Canada, cross-border adoption was already high. And in countries where domestic purchasing frequency had peaked—like China, Germany, UK, South Korea and India—our survey revealed more retailers adopting cross-border.

This dynamic represents a clearly definable trend—consumers in growing ecommerce economies were early adopters of cross-border because of a lack of domestic selection online. Now that these countries are seeing a rush of domestic retailers come online, cross-border growth has slowed slightly. Inversely, in mature digital economies, consumers are increasingly shopping cross-border because the rush of new retailers entering the domestic market growth rates have cooled.

Consumers making at least one online cross-border purchase in the past 12 months, 2017 vs 2016



Reasons to buy cross-border

What motivates consumers to seek products outside their own country's borders?

Attractive prices. 48% of consumers surveyed indicated price as the prevalent reason why they shop cross-border—a surprising result, given the high cost of fees and shipping internationally.

Product quality and brand equity. Among consumers in China, Hong Kong, South Korea, India, and Mexico, product quality figures prominently—this indicates a lack (or perceived lack) of quality of goods from domestic merchants. In these same countries, consumers also rank product authenticity and brand names as key factors. Put together, quality and authenticity indicate concerns around counterfeit and grey/black market products—but also the value afforded buying brand-name products directly from the manufacturer. Even among North American and European consumers, the value of brand names increased 7% year over year.

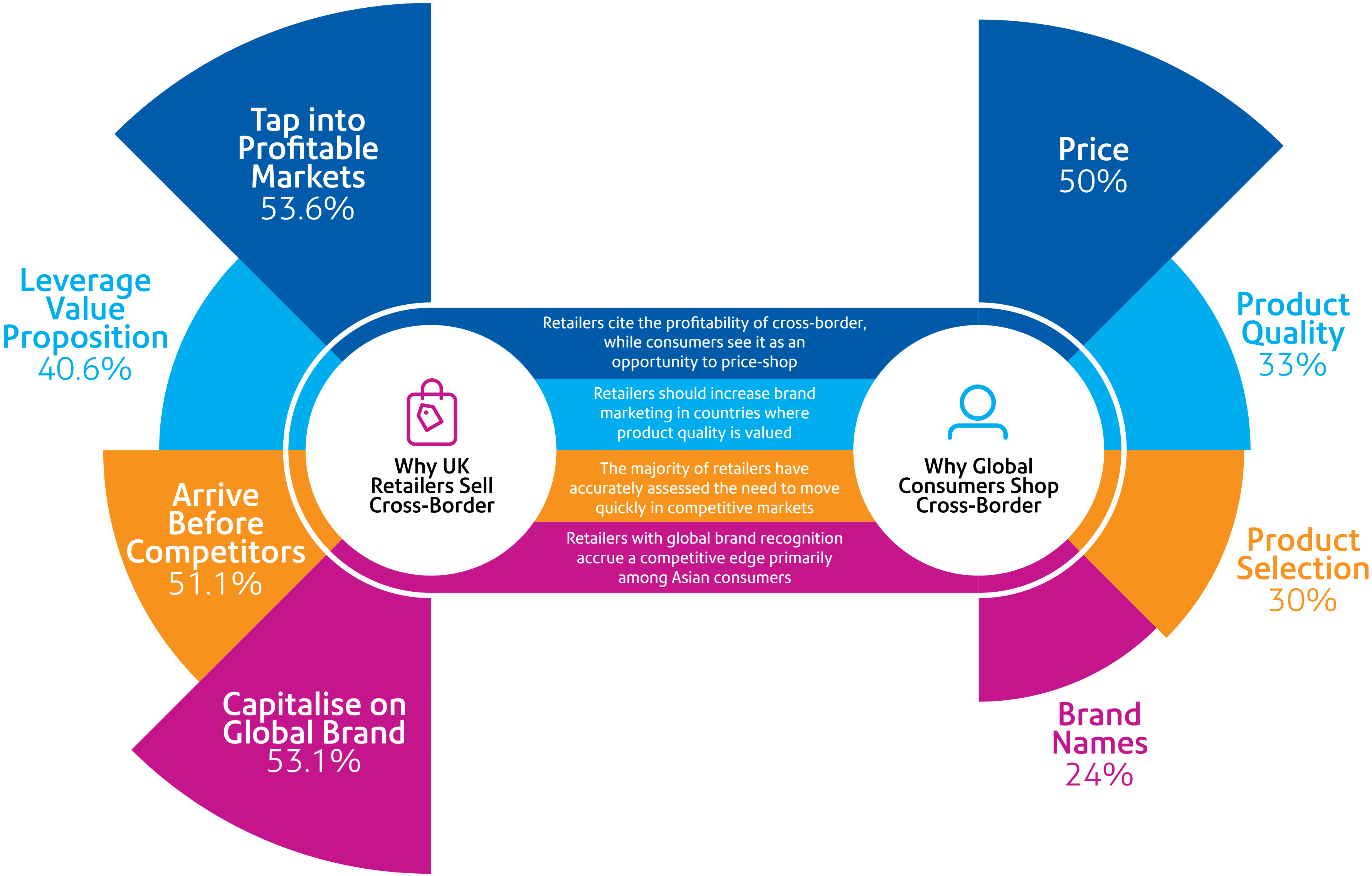
Reasons to sell cross-border

For comparison, retailers were asked what drives them to sell cross-border to online consumers.

High growth, high profits. Interestingly, the top reason retailers as a whole chose was to "tap into profitable high-growth consumer markets worldwide", with more than 53% selecting this option. This retailer sentiment runs counter to consumer sentiment: If consumers are shopping cross border to get better prices – doesn't this imply that these consumers are less profitable?

Product perception and brand awareness. Retailers seem to undervalue the importance of product quality among consumers in these markets. Retailers as a whole ranked "our products have a better value proposition in foreign markets" as one of the least important factors in going cross-border, while consumers in most countries saw "quality" as critically important. Emphasizing product quality as a pivotal feature is an underutilized opportunity for retailers looking to attract Asian and Mexican consumers.

Retailers in the US, UK, and France rated capitalizing on their global brand as a top rationale for going cross-border. This focus on brand value surfaced as one area of alignment between consumers and retailers. Consumers in China, India, South Korea and Mexico rated "product authenticity" and "brand names" as factors more important than price when shopping cross-border.


Tap into Profitable Markets
53.6%
Leverage Value Proposition
40.6%
Arrive Before Competitors
51.1%
Capitalise on Global Brand
53.1%
Why UK Retailers Sell Cross-Border
Retailers cite the profitability of cross-border, while consumers see it as an opportunity to price-shop
Retailers should increase brand marketing in countries where product quality is valued
The majority of retailers have accurately assessed the need to move quickly in competitive markets
Retailers with global brand recognition accrue a competitive edge primarily among Asian consumers
Why Global Consumers Shop Cross-Border
Price
50%
Product Quality
33%
Product Selection
30%
Brand Names
24%

For most retailers, "cross-border" means "near-border"

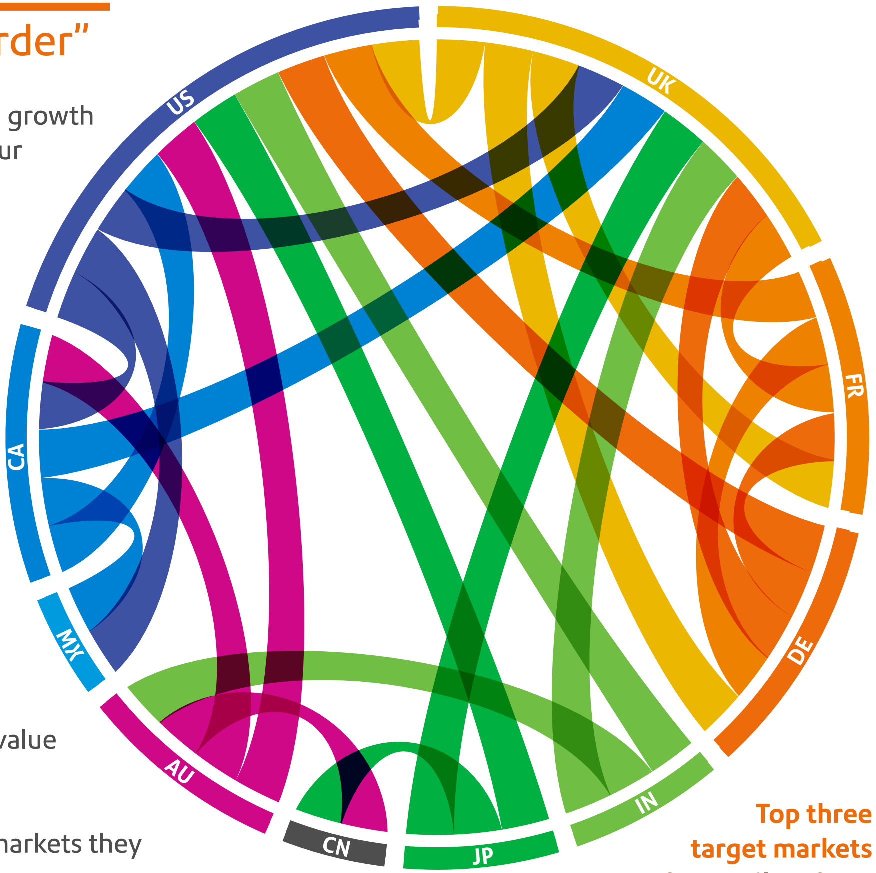
What is the cause for these two areas of misalignment—low prices vs. profitable growth and product quality vs. value proposition—between consumers and retailers? Our research indicates three possible reasons:

01. The majority of cross-border purchases are made from retailers in countries with the lowest shipping rates (i.e., neighboring countries) and favorable duty fees (countries with trade agreements). Therefore, consumers buying full price (i.e., profitable consumers) still see a price advantage in buying from a cross-border retailer.

02. Private label brands are circumventing in-market resellers by selling directly to consumers, removing markups by intermediaries and selling at lower prices. These retailers are entering markets where localization is not a significant burden (i.e., markets with similar languages, promotional calendars, product preferences, etc.).

03. Because of these 'near-market' preferences, retailers don't see a difference between how their value propositions are received by domestic vs. foreign consumers. Meanwhile, consumers who don't live in 'near-border' markets may value features like product quality, but are being underserved.

To confirm these hypotheses, we asked retailers to specify which cross-border markets they plan to invest in over the next 12 months.



Top three target markets for retailers from each country (excluding China and Mexico). Lines curving away from the center indicate near-border focus.

The top three target markets for retailers are overwhelmingly in the closest markets geographically. This is particularly and notably the case for retailers in the US, UK, Germany, France, and Canada. Further illustrating this point is that Mexico was ranked in the bottom two target markets for every country except the US and Canada—where it was in the top three. Similarly, South Korea is seen as a low-priority market by every country except Japan.

Retailers are also focusing on countries that speak the same language—inferring that directly selling to these consumers will be easier than localizing digital experiences for non-native speakers of the retailer's home language. Retailers in Australia, given the country's unique geography, overwhelmingly lean toward this sentiment.

A self-fulfilling prophecy. Retailers indicate that cross-border consumers are indeed more profitable than domestic consumers. When we asked retailers to gauge the average merchandise value of cross-border orders versus domestic orders, a clear difference emerges: average cross-border order values were 17% higher than domestic AOVs.

Maximizing the easy wins. This delta in AOV represents a significant upside to 'near-border' markets, provided retailers can find ways to increase order volumes and make cross-border a more meaningful contributor to topline growth. Similar to the question we posed in Section 3 on domestic growth, we asked how respondents plan to grow their cross-border businesses. More retailers expressed preference for investing in current cross-border markets versus expanding into new ones. In every market except India (where slightly more retailers preferred adding new countries to the portfolio), retailers aligned with the aggregate sentiment.

Small and large retailers appear aligned with the aggregate, but medium-sized retailers are split on how to prioritize growth. This indicates two underlying motivations: a need to more fully explore 'easy' and 'accessible' markets, and a perception that moving beyond these easy markets comes with uncertain return on investment.

How much further can retailers leverage 'easy' cross-border growth? And what are the opportunities and challenges of expanding cross-border operations across the globe? We explore these questions in the next section.

		Cross-border AOV (vs domestic)
Total		+17%
Country	**AUS**	+20%
	CAN	+14%
	FR	+26%
	GER	+35%
	IN	+30%
	JP	-7%
	UK	+11%
	US	+16%
Retail segment	**Apparel/Accessories**	+54%
	Auto parts	+27%
	Home improvement	+5%
	Catalog and mail order houses	+17%
	Pharmacies and drug stores	+31%
	General merchandise, club stores, hypermarkets	-3%
	Home furnishings - High frequency	+12%
	Home furnishings - Low frequency	-15%
	Specialty retailers	+33%

02

Don't rely on brand alone.

Capturing near-border markets: **Recommendations**

Business Challenges	Recommendations
Improving brand awareness Retailers increasing their investment in near-border markets are seeking new ways to improve demand generation and site traffic. Our research shows that marketing channel preferences among consumers vary significantly by country—even neighboring and similar markets, limiting the effectiveness of duplicating domestic marketing strategies.	• Introduce country-specific personalization to search engine optimization, targeted marketing, and digital direct response tactics. • Ensure your cross-border ecommerce solution provides comprehensive and nuanced analytics and attribution analysis. To aggregate marketing insight and gain economies of scale, employ analytics tools that integrate your cross-border web stores and marketing solutions with your domestic analytics engine. • Explore partnerships with country-specific digital marketing agencies to optimize marketing and web store performance. • To learn more about Pitney Bowes Complete™ Marketing Services and network of preferred rate marketing partners, click here.
Lowering consumer fees Our consumer survey found that digital shoppers in near-border markets view shipping costs and fees as the primary inhibitors to purchase from a foreign retailer. Retailers looking to improve cart conversions are exploring ways to reduce or eliminate portions of these charges.	• Selectively and opportunistically offer Delivery Duty Unpaid (DDU) options for consumers in appropriate countries for items unlikely to be charged customs fees. • Diversify your carrier network (or work with a partner who can manage this for you) to find the lowest cost international carrier for a given order's destination, service level, and value. • Implement a more advanced site localization and pricing rules engine that allows you to selectively incorporate fees into the product price—allowing you to even discount these fees by way of a promotion to protect an item's selling price while increasing conversions.
Personalizing the consumer experience Building customer retention in a near-border market requires expanding localized and individualized offerings. These typically include customer care, customer marketing, and loyalty programs. Retailers wary of expending significant operating and capital expenses in these 'supplemental' markets are looking for solutions to personalize service with minimal risk.	• Invest in subscription-based, market-specific customer intelligence solutions to create a more complete picture of every shopper – and carefully test the efficacy of personalization, as cultural norms often prevent a 'some-sizes-fit-all approach'. • Determine if your current cross-border enablement partner offers country-specific marketing as part of their service to you. • Find out whether your cross-border enablement partner maintains a consumer loyalty program with registered accounts, and whether this program includes promotions, analytics, and site checkout integration. • To learn more about the Pitney Bowes Borderfree.com program, click here.

TREND 03

Look like a foreigner, talk like a local.

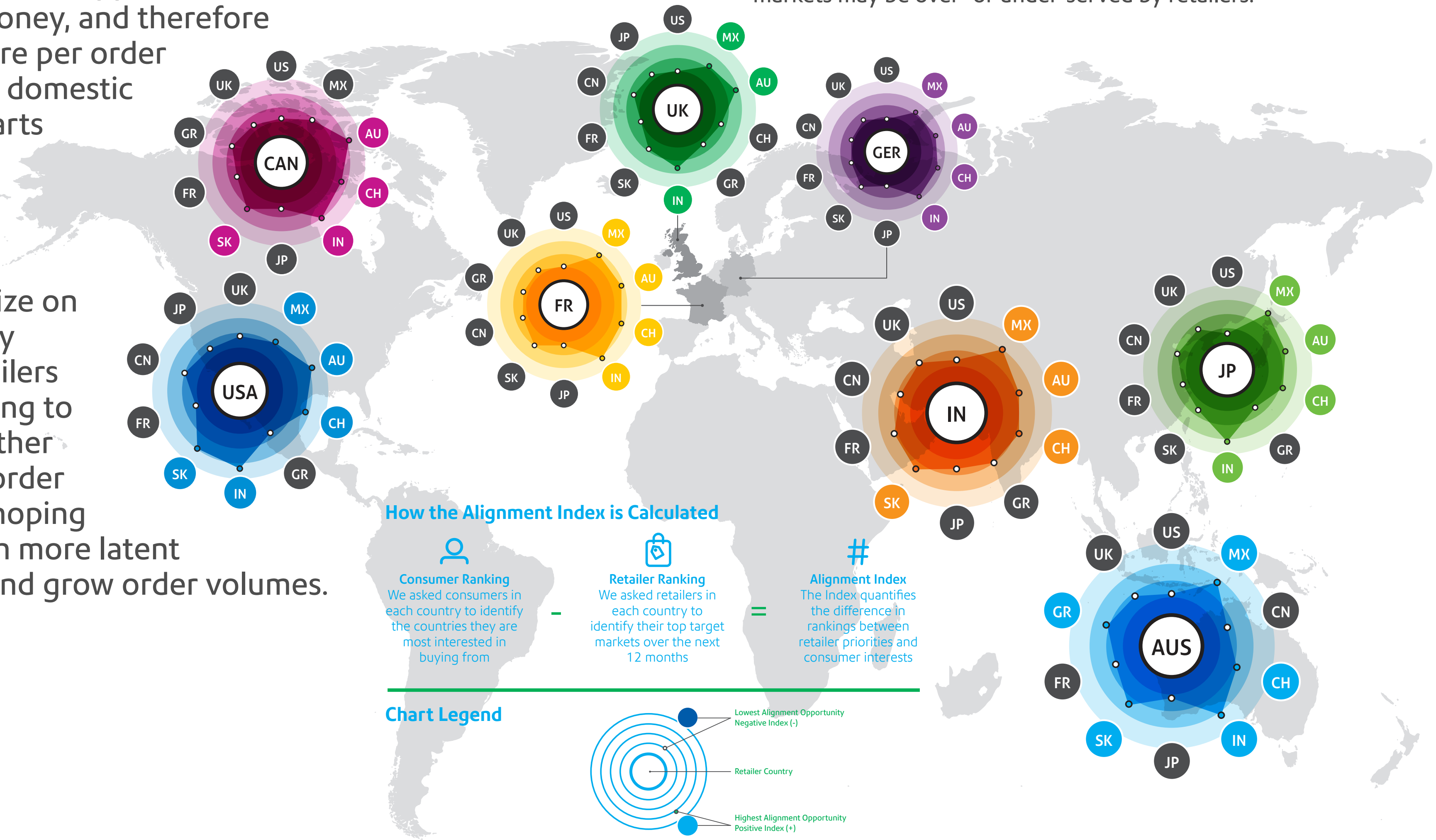
Expanding into global markets

Cross-border expansion into nearby (or easily accessible) markets has uncovered many new and highly profitable customers who, in fact, see cross-border transactions as opportunities to save money, and therefore spend more per order than their domestic counterparts (a rare win-win situation).

To capitalize on these 'easy wins', retailers are planning to invest further in near-border markets, hoping to unearth more latent demand and grow order volumes.

Measuring the height of the ceiling

In order to gauge how much room retailers have left to grow in these 'near-border' markets—and to determine if latent demand exists in other markets, we compared retailers' cross-border investment priorities to consumers' desires to buy cross-border from specific countries. Our data visualization shows where alignment exists between retailers' investments and consumer demand, and where markets may be over- or under-served by retailers.



Obstacles to market expansion

Given the numerous instances of misalignment between retailers' priorities and consumer demand, we sought to find out why retailers might be under investing in certain markets. We asked retailers what countries were the most challenging in terms of their cross-border ecommerce experience.

In the aggregate, China was rated as the most challenging country for cross-border operations, with double the number of respondents who selected the second-most challenging country, the US. Interestingly, Canadian retailers (as well as respondents in Germany and India) viewed the US as a more challenging cross-border market than China. France and the UK were seen as the least challenging markets from a cross-border perspective—despite consumers in both countries having a fairly lukewarm attitude toward purchasing products cross-border.

Retailers faring poorly with cross-border in general (those whose cross-border revenues are on the decline) cited Mexico as a more challenging market than China. Those retailers experiencing success in cross-border see France as the least challenging market—notably less so than the UK.

Moving beyond country-specific challenges, we asked retailers what types of concerns they held when considering entering a new market and outlined the top three overarching themes below.

Demand Generation. Retailers rated generating demand as their largest concern—understandable in the context of new market entry—with nearly half of global respondents selecting this option. Retailers in France and Germany appear significantly less concerned about demand generation, however, perhaps because of their focus on neighboring European markets where brand awareness already exists.

Demand Capture. Two additional options represented the paths retailers use to capture demand in a new market: (1) localizing the retailer's branded website, and (2) selling on a country's primary online marketplaces. Here, retailers on the whole felt that online marketplaces represented the greatest source of concern. Retailers in the US and UK markets, however, felt that localization and marketplaces were roughly on par in terms of demand capture concern.

Post-Purchase Processes. Retailers in the US and UK once again diverged noticeably from the aggregate: retailers as a whole felt strongly that duty and tax (D&T) calculations along with customs compliance processes were the most critical post-purchase concern. In the US and UK, that concern was spread more evenly across shipping and handling calculations and logistics processes. Interestingly, medium sized retailers and those struggling with cross-border ranked D&T and compliance concerns above every other option—even demand generation. In fact, the marked difference in responses of struggling cross-border retailers indicates that customer retention (hindered by a negative checkout and post-purchase experience) is a primary cause of these retailers' cross-border struggles.

New market entry challenges

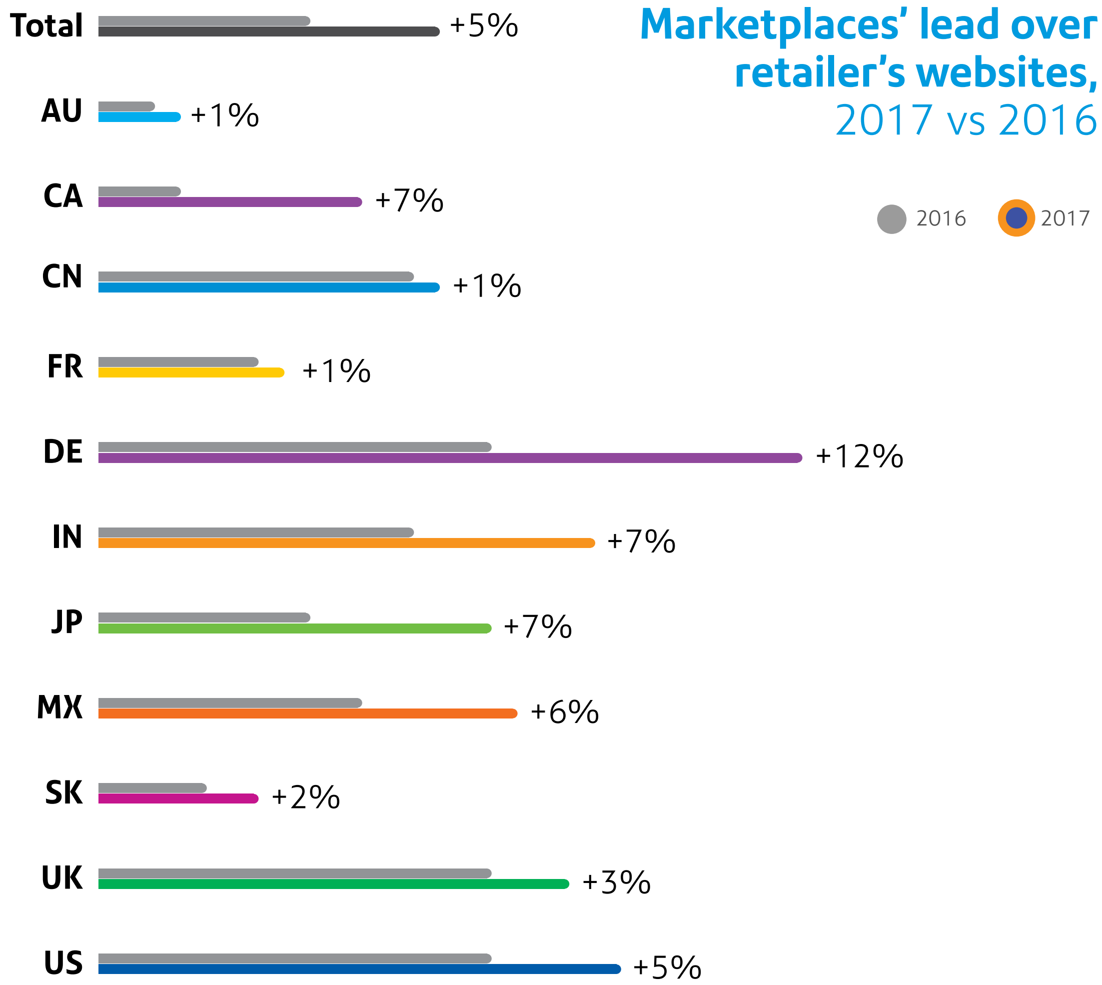
Generating demand	41.1%
Participating in national marketplaces (e.g., Alibaba's Taobao/T-mall in China, Flipkart and Snapdeal in India, Amazon and eBay in the United States)	36.0%
Calculating accurate item-level cross-border tax/tariff calculations and import/export compliance, keeping your product catalog compliant with HS codes	34.3%
Calculating accurate customer-paid shipping and handling cost during checkout	27.1%
Localizing branded website	27.0%
Managing international shipping and logistics carriers, brokers, 3PL's, managing in-country distribution, transportation and warehouse suppliers	25.7%
Managing returns and reverse logistics processes	17.7%
Integrating to local payment processors	16.9%
Preventing and mitigating fraud, security, and cyber risk	13.5%
Answering customer questions about shipment tracking, order status, and returns	4.2%

Marketplaces Are Becoming the Market

Given demand generation and online marketplaces are top retailer concerns when trying to expand globally, it's important to understand consumer buying preferences. The following table shows change in consumer preference (over a 12-month period as a percent) of buying cross-border via marketplace, and retailer branded websites respectively. Note, the options are not mutually exclusive and thus consumers could choose both.

In every country surveyed, more consumers had made cross-border purchases via marketplaces than via retailers' own websites—13% more globally, a 5% increase over last year. Leading this trend are German consumers, whose cross-border marketplace purchases surged by 12% to give marketplaces a 27% greater consumer mindshare than branded websites. Consumers in Canada, India, Japan, and Mexico all increased their preference for cross-border marketplace purchases by over 5%.

Marketplaces' lead over retailer's websites, 2017 vs 2016



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Comparing these consumer preferences to retailers' plans, we evaluated how retailers are ranking cross-border marketplace selling against other growth levers—both domestic and cross-border. In the aggregate, retailers rank cross-border market place selling near the bottom of the list of growth levers—second only to international store expansion. Clearly, this low vote-of-confidence deals stems from the concerns retailers have with selling via marketplaces in new markets. That said, comparing the results to consumer behavior indicates an extraordinary upside to overcoming retailers' concerns.

Indian, Australian and US retailers are nominally more interested in cross-border marketplace growth, while Japan and France rank lowest in interest. A remarkably higher percentage of retailers seeing success in cross-border rate foreign marketplaces as a more important growth lever than those seeing less success—suggesting retailers who are struggling with cross-border see marketplaces as an aspiration rather than a necessity.

How does your organization plan to grow in the next 12 months?

		Total	AU	CA	FR	DE	IN	JP	UK	US
Domestic growth levers	Via brick & mortar stores	26.9%	33.5%	25.3%	33.3%	23.3%	21.3%	26.7%	21.3%	26.7%
	Via branded ecommerce site	41.1%	34.5%	37.3%	40.0%	33.3%	45.3%	40.0%	41.1%	43.3%
	Via online marketplaces	29.9%	28.5%	18.7%	23.3%	32.0%	32.0%	25.3%	19.4%	34.0%
Cross-border growth levers	Via brick & mortar stores	24.8%	35.0%	26.0%	30.0%	23.3%	36.0%	18.7%	25.1%	23.7%
	Via branded ecommerce site & ship within that market	33.9%	34.5%	37.3%	34.0%	33.3%	53.3%	25.3%	29.7%	34.0%
	Via branded ecommerce site & ship cross-border	36.4%	34.0%	38.0%	32.0%	38.0%	38.7%	25.3%	36.0%	39.0%
	Via cross-border marketplaces	25.6%	27.2%	23.3%	22.3%	23.3%	34.7%	18.7%	24.6%	27.2%

03

Look like a foreigner, talk like a local.

Expanding into global markets: **Recommendations**

Business Challenges	Recommendations
Creating brand awareness Entering new markets, as our survey has shown, is something nearly half of retailers are hesitant to do. That's primarily due to concerns around the complexity of demand generation and marketplace integration.	• Identify priority markets and seek out partners that can support a variety of needs within those markets—including site localization, ongoing marketing, logistics management, customer care, returns, and marketplace operations. • Start with a localized site using a partner that offers fast implementation and turnkey operations, then build a marketplace storefront on top of that platform of capabilities. • Ensure a staff (nominal at minimum) is tasked with understanding the unique requirements of those new markets, and work closely with a partner to adapt promotions, creative assets, and demand gen activities. • Click here to learn more about Pitney Bowes Complete™ Marketplace solution.
Improving delivery efficiency Retailers in our survey cited fast and cost-efficient delivery as a key concern in serving global markets. Consumers also saw shipping cost and delivery times as the largest impediments to shopping cross-border.	• Diversify the carriers and logistics service providers you use to improve shipping rates and service levels. If you use a partner for cross-border enablement, determine whether they have a diversified carrier/LSP portfolio and are constantly re-evaluating relationships to obtain the lowest rates and best service. • Ensure your team or your cross-border partner's team has a sizable staff dedicated to compliance, payment processing, fraud/risk mitigation, and localized customer service.Click here to learn about Pitney Bowes Complete™ Cross-Border solution.
Prioritizing expansion to the most valuable markets Our comparison of retail investment priorities and consumer demand uncovered areas of misalignment regarding the countries on which retailers should focus. In many cases, these misaligned priorities may leave significant revenue opportunities on the table.	• Engage a partner who has the necessary breadth of clients to advise, based on your company's profile, on the correct prioritization of target markets and the opportunities and caveats resident within each. • Assign a C-level executive sponsor (if not owner) for your cross-border operations, to give this high-growth area the strategic priority and resource support it needs to meaningfully contribute to growing your business. • Ensure your cross-border enablement platform is consistent across your key target markets, so you can benefit from economies of scale and reduce the risk associated with new market entry.

The global leader in customer experience-driven commerce.

Pitney Bowes provides the most proven, scalable and complete suite of global commerce solutions for market expansion and profitable operation. We specialize in supporting every phase of the domestic and cross-border customer journey with technology and services that support marketing, selling, purchase, shipping and customer care. **Ranked by Internet Retailer as the #1 Vendor for International Ecommerce and Fulfillment**, we help over 300 merchants deliver to 220+ countries and territories, processing over 1 billion transactions annually.

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