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From bricks to clicks
Generating global growth through eCommerce expansion

Executive summary

In the last few years, growth rates have begun to slow in mature markets and retailers have had to look beyond their borders to find sustainable opportunities that allow them to meet growth targets. While many expansion efforts have traditionally focused on new brick-and-mortar store openings, retailers have recently turned to a new growth engine by entering global markets through eCommerce. In today's competitive global marketplace, eCommerce provides a lower risk, faster avenue to enter, test, and penetrate international markets. When properly executed, this consumer-focused approach will go a long way to differentiate brands and build customer loyalty.

With consumers becoming increasingly technologically-savvy, they demand the ability to seamlessly interact with retailers and shop through multiple channels. Thus, a digital channel can both complement an existing presence or allow a retailer to quickly test and expand its footprint into new markets, enabling retailers to better control inventory, target customers, and drive sales. Furthermore, an online shopping experience presents an opportunity for retailers to capture valuable consumer behavioral data more easily than with offline interactions. This data can be analyzed to obtain powerful consumer insights, arming retailers with the ability to run more effective marketing campaigns, adjust local assortments accordingly, and better target customers' individual preferences.

While innovation and mobile adoption continues, the emergence of all-in-one logistics providers is bolstering global competition by creating a more level playing field for international shipping and transaction processing. Whether building an omnichannel approach or simply testing a new market, the urgency for a comprehensive and well-planned international digital commerce strategy is clear. This paper explores how to think about international expansion by leveraging the strength of eCommerce to drive global growth and reach new markets.

As expansion strategies differ based on market attractiveness, target customer segment, and risk appetite, developing an eCommerce expansion strategy is not a one-size-fits-all solution. When determining why and how to expand, retailers should start by focusing on three key questions:

What is the role of eCommerce? As international markets present dynamic growth opportunities, retailers have become increasingly eager to test new markets or complement an existing physical presence with an eCommerce channel. Multiple expansion roles may be employed by a single retailer and may differ based on strategic goals for key markets.

What is the optimal method of eCommerce entry? There are multiple entry options requiring varying levels of investment and risk, but ultimately, the chosen entry method should depend on the preferred methods of shopping by target customers, the strategic priority of the market, as well as the overall cross-channel expansion strategy.

What are the operational considerations? Depending on the entry strategy, retailers should confirm operational capabilities including logistics, payment processing, customer service, and legal / regulatory considerations. In general, retailers often find that the level of effort required to implement a successful market entry strategy is made more complex and will take longer due to these operational considerations.

Given the current growth trends and rising importance of eCommerce globally, retailers should consider making eCommerce a cornerstone of their international expansion strategies.

International eCommerce key trends and outlook

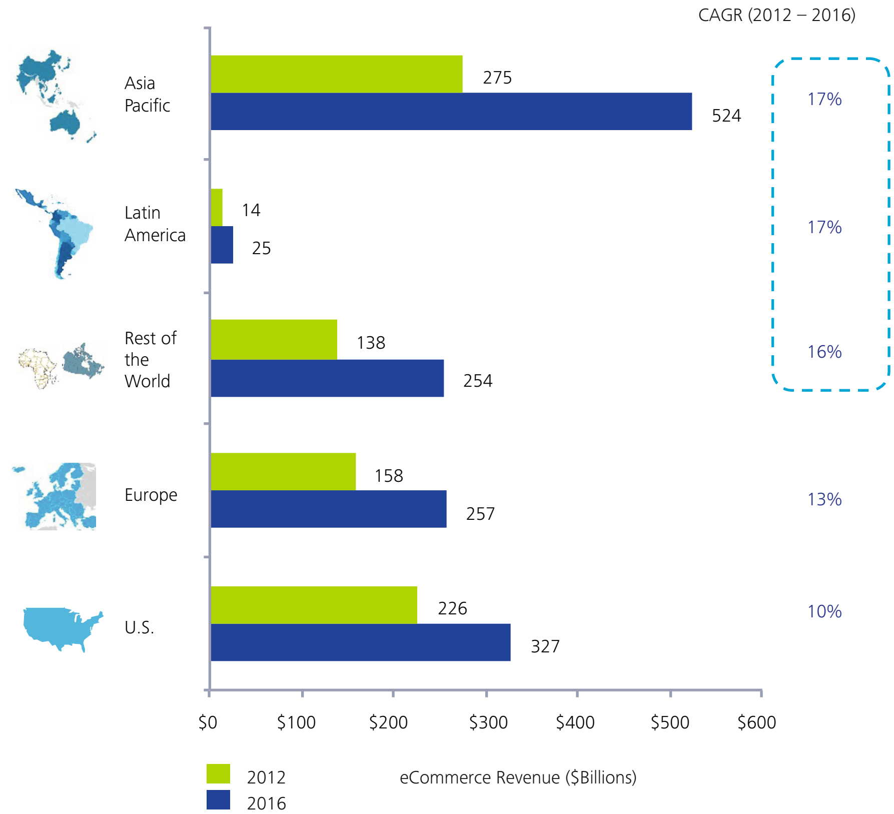
Before looking at why and how to expand globally through eCommerce, it is important to briefly review the trends in the marketplace driving global sales growth.

Making the case for international eCommerce expansion

In recent years, while the United States has experienced high eCommerce growth rates, one of the fastest and most promising growth areas for retailers looking to expand has been international markets. Since 2009, global eCommerce growth in new markets has significantly outpaced the U.S. as well as other mature markets. Growth in mature markets like the U.K., Japan, and Western Europe is slowing to make way for emerging markets in Latin America, Eastern Europe, and most notably, Asia Pacific, which has shown the fastest regional growth and strongest market base over the past three years. Looking forward to 2014 and beyond, these trends are expected to continue.

Overall global eCommerce is projected to grow at 14 percent from 2012 – 2016 and eCommerce sales (including the U.S.) will likely reach $1.4 trillion by 2016. Again, the main drivers of this growth will likely come from emerging markets. And though U.S. eCommerce may show continued growth, large emerging markets growing at faster rates will likely drive the U.S. to a lower overall global share (projected to decrease from 30 percent in 2011 to 24 percent in 2016).[1]

Regional eCommerce projections (2012 – 2016)[1]



Key trends driving this growth and causing changes in the international retail environment, include:

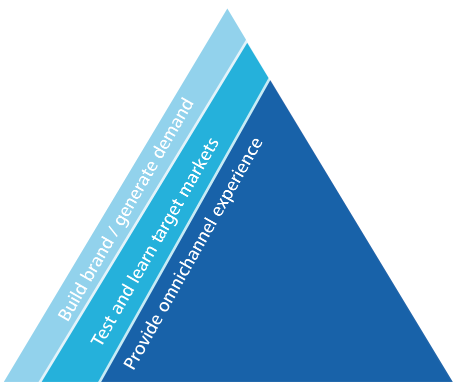
1. A shift in purchasing from brick-and-mortar stores to online: Improved online payments made possible by payment processors continue to help normalize various types of payment and regulatory issues across borders. This is significant as online payments other than debit or credit cards are expected to be 30 percent of purchase volume by 2014. In addition, retailers are seeing an increased use of mobile and online purchasing globally as positive perceptions of reputation and trust for international brands create an increased willingness to purchase.

2. A rise in demand for global products from emerging markets. Brazil is leading the global e-shopping trend with 81 percent of its consumers willing to order from international websites, followed by Indonesia (77 percent), Thailand (74 percent), China (69 percent) and Spain (66 percent).[2] As in China, consumers in other developing economies often look to established international brands, including many U.S. retailers, for quality, secure online transactions, and an enhanced retail experience.

3. A rise in international shipping is spurring growth, driven by increasingly flexible shipping options and fulfillment services that provide retailers with low-cost/low-risk options for gaining exposure in new areas. With the ability to outsource fulfillment, retailers can reach customers beyond their domestic market without having to invest in building a global infrastructure.

4. A surge in mobile purchases: Brazil is the highest ranking country worldwide in terms of retail sales that are influenced by mobile devices, citing 40% of eCommerce site traffic coming from mobile devices. Other markets show a growing mobility trend, especially China (75% smartphone ownership, 46% purchase via smartphone) and India (72% smartphone ownership, 40% purchase via smartphone).[3]

Spectrum of eCommerce Roles



Why expansion through eCommerce? Defining the role

The first step in defining the eCommerce expansion strategy is to determine **what role eCommerce will play in the overall strategy.** From the lowest-risk option to the most committed expansion, roles are defined across the following spectrum:

- Build brand / generate demand: For retailers with limited knowledge in certain markets, eCommerce can be used to build brand awareness and generate initial insights into demand. Online marketing tactics such as informational sites and social media can help generate awareness and demand for the brand whether or not it is being sold directly in the market.
- Test and learn target markets: For markets where brand awareness exists and retailers are looking to expand physically, eCommerce serves as an important channel to gain key insights into consumer preferences and price sensitivity. A dedicated regional eCommerce channel can also serve as a low-risk platform to test the market and inform the physical expansion strategy in the market.
- Provide a seamless omnichannel experience: For retailers with an existing physical presence in the target markets, eCommerce plays a crucial role in enhancing the overall shopping experience by not only providing online / mobile channel access, but also unlocking the omnichannel experience. Customers who shop more than one channel typically spend more, purchase more frequently, and are more brand loyal than those that only shop a single channel.

How to enter? Weighing the options

Determining the right entry strategy

After the role of eCommerce has been defined, a retailer should consider how best to enter target market(s). Choosing an entry strategy that aligns with strategic goals is critical, but can also be a complex and arduous process. Given this reality, retailers should carefully consider which approach will work best in the market they are looking to invest while still allowing for the delivery of the desired customer experience. There are typically six entry methods that range from opportunistic (low risk, low investment, low touch) to strategic (higher risk, higher investment, more control):

1. International shipping through a third party (example: A retailer is looking to quickly reach customers around the globe with low investment and little disruption to their core business)

Today, retailers using a third party to reach new markets is merely table stakes, with major retailers outsourcing to companies for order fulfillment. This opportunistic entry method is often the easiest to implement by simply adding international shipping to an existing domestic website. While it can provide visibility into new customer data and enable the retailer to gain insights into demand patterns in new markets, market penetration can be difficult unless the retailer invests in a marketing campaign. This should be considered as an initial step in the journey to develop eCommerce in international markets.

2. Branded informational website: (example: A retailer wants to complement an existing overseas physical presence with a digital channel, in turn reaching more customers and reinforcing the brand image)

Retailers looking to communicate the heritage and history of their brand, provide product information, and build brand awareness may opt to enter a new market or reinforce market positioning with an informational website. This method is often used by retailers that have leased stores internationally in order to maintain control and consistency of the brand. However, as no purchasing option is enabled on the informational site, retailers may find it difficult to measure the effectiveness and impact of driving interest in the brand.

3. Wholesale online: (example: A retailer wants to partner with an existing player, leveraging their infrastructure and established customer base to drive brand awareness and sales)

Entering through a wholesale online channel such as a department store provides access to an existing retailer who already has a presence in the new market. However, it may provide less control over the brand so it is important to choose a partner that has a brand positioning similar to your own.

4. Established marketplace (example: A retailer wants to exploit a new market with a complex regulatory landscape)

Emerging markets may show the largest opportunity, but they may also be the hardest markets to crack, considering cultural differences and government compliance complexities. If this is the case, entering through an established eCommerce player may be a viable option. Retailers choosing this entry point take advantage of existing infrastructure, secure payment systems, and ease of driving traffic, but may not have as much control over the brand.

5. Local market URL (example: A retailer is looking to build a strong presence in a new, target market)

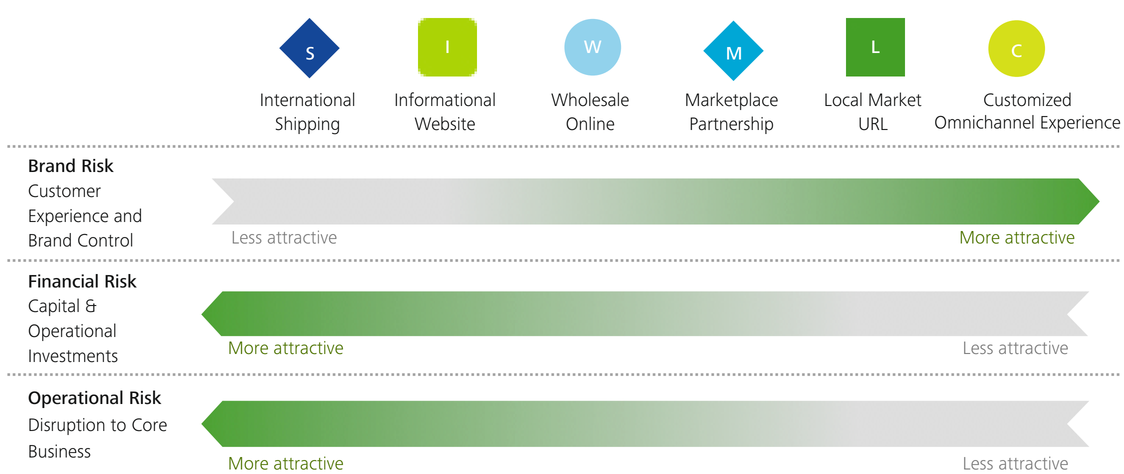
Retailers focused on controlling the customer experience and brand position may opt to enter through a local URL (e.g., .eu, .cn, .uk, .de). This may also be a preliminary step toward building a customized, seamlessly integrated customer experience in a new market and developing the critical ties to target consumers. However, it can be costly to maintain multiple sites.

6. Customized omnichannel experience (example: A retailer is looking to invest in building a robust customer experience)

Some retailers do not just want to get their feet wet — they want to jump in. Building an omnichannel experience involves creating a customized user experience that is integrated across different sales channels. This entry option is often most effective if the market has already been tested and identified as a high-priority market with significant demand for the brand. The stakes are high with the amount of disruption to the core business and investment needed, but the reward has potential to be even higher.

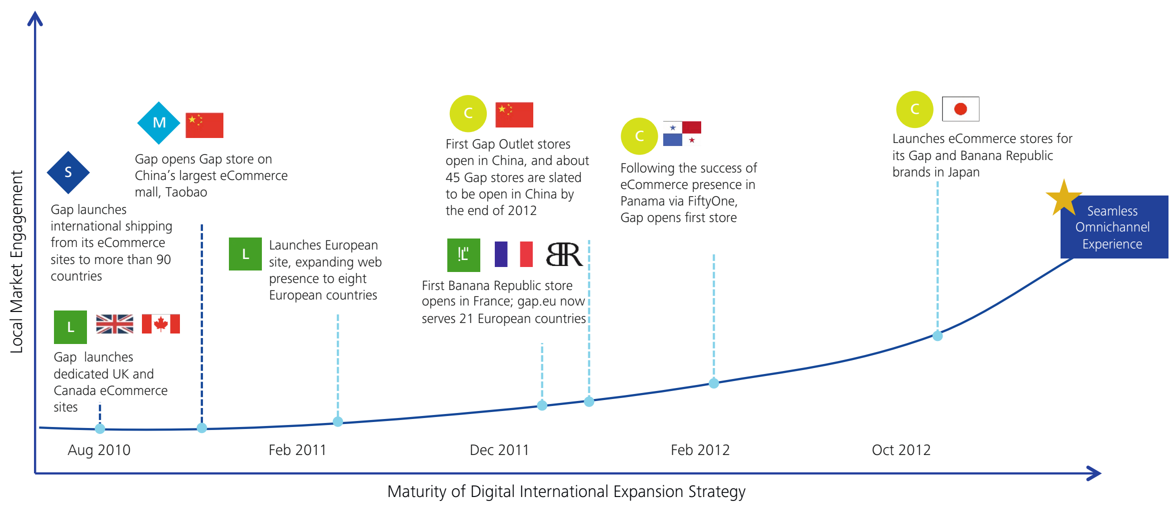
Risky business

The level of riskiness will vary depending on the market entry method chosen. Retailers should keep three important risk factors in mind: brand risk, financial risk, and operational risk. Weighing these factors may enable retailers to better navigate the global landscape when defining the strategy. The diagram below looks at how each entry point stacks up against associated risk.



Given the complexities and level of risk involved with expanding internationally, retailers often struggle to choose the right solution to establish their brand presence. So who is doing well in this arena? Deloitte takes a closer look at how global specialty apparel retailer Gap, Inc. ("Gap") successfully leveraged various market entry approaches to develop an international digital commerce strategy and deliver on providing its customers a seamless omnichannel experience.

Case Study: The Gap, Inc. — eCommerce Maturity Curve[4]



Gap's global success story

Gap has expanded its international exposure through an integrated approach consisting of physical stores and online presence, placing a particular focus on the latter to penetrate new markets. Historically, Gap operated in eight countries and only sold products online in the United States. Today, products are available through stores in more than 40 countries and available online to customers in about 90 countries worldwide.[4] Gap engaged in a combination of entry strategies in different markets to best reflect the market dynamics, risk-rewards considerations, and market priority within their overall strategy. Over time as markets matured, they often altered their strategy to better engage customers in the market.

Operational considerations for retailers

Defining the why and the how to enter new markets is just the beginning and serves as the foundation for building a retailer's eCommerce growth story. The next step involves assessing the operational impact that will result from the entry methods selected.

Recognizing that each company will have specific needs and issues to consider when turning expansion goals from strategy to reality, retailers should review key questions for each of the seven operational pillars defined below. These questions may aid companies in assessing market readiness and better understanding how chosen entry method(s) could impact operations.

Customer site experience

Do you have the right eCommerce functionality and platform capabilities to provide consumers in your target market with a rich, customized customer experience? Website look-and-feel, language, and currency should be tailored to local audiences. Local consumer tastes and preferences or differences in purchasing behaviors must be considered in tailoring the shopping experience.

Marketing and promotions

How will you reach your new consumer base? Even if a brand is widely known in the home market, brand equity may need to be built from the ground up in a new market, taking into careful consideration the cultural connotations of brand naming and imagery. Reaching new consumers often relies on a well-executed marketing campaign. Consider social media site preferences in the target market, the appropriate localized content, smartphone adoption rates, and the most effective form of media such as email, paid search, mobile marketing, social media, etc., as this can vary from market to market.

Planning and merchandising

Will you localize your product mix? Due to differences in cultural norms, demographics, language, and other factors, the product assortment demanded by target market may be different than that of the home market. Pricing based on an understanding of local demand and the local and international competitive set can lead to greater initial acceptance and build brand loyalty.

Logistics

How will you handle global fulfillment? How will returns be processed? Retailers entering a new market should consider the tradeoffs between shipping from the home country versus running an in-country or regional distribution center. Consider the cost of shipping, associated customs, duties, and taxes. Having an in-region distribution center can provide faster response time and lower freight costs, but requires significant up-front capital investment and time to launch.

Payment processing

How will you handle secure payments and fraud protection? What are the purchasing behaviors in your target market? Different countries employ different payment options for goods purchased online; implementing the cultural norms for payments can increase site adoption. Retailers should also consider exchange rate fluctuation and risk, which can lead to unpredictable margins.

Customer service

How will customer service queries be handled? It is important that retailers have processes in place to provide customer care in a timely manner that meets the expectations of the local customer. Depending on what level of support is needed, customer service options can range from online FAQs to local toll-free numbers to a full in-country call center.

Legal and regulatory

How will government regulations and compliance affect your strategy? The legal and regulatory environment of a market can have a substantial impact on the viability of a retailer entering the market. If the retailer plans to ship internationally from its home country, it should be aware that countries often impose restrictions on what products may be exported and imported. Large fines can be incurred for violating these restrictions.

Level of Impact of Entry Method on Operational Areas

Entry Method		Operational Area						
		Customer site experience	Marketing and promotions	Planning and merchandising	Logistics	Payment processing	Customer service	Legal and regulatory
S	Offer international shipping through third-party provider	Low	Low	Low	Low	Low	Low	Low
I	Offer branded informational website	Moderate	Moderate	Low	Low	Low	Low	Low
W	Sell through wholesale retailers' digital operations	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate	Low
M	Sell through an established digital site or marketplace	High	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate
L	Offer products to consumers via a local URL (e.g., .eu)	High	High	High	Moderate	Moderate	Moderate	Moderate
C	Develop a customized, seamless omnichannel experience	High	High	High	High	High	High	High

Summary

As eCommerce markets in Asia, South America, and Eastern Europe continue to outpace their mature counterparts in the United States and Europe, retailers should focus on the importance of using eCommerce as a growth driver to reach new markets. Not only does it allow retailers to interact with new customers, but it provides an opportunity to better understand new markets through low risk, low cost test-and-learn digital expansion strategies, which then allows retailers to further penetrate those with the highest growth potential. An eCommerce international expansion approach can be used to help build out a comprehensive digital growth strategy that aligns to an organization's overall strategic growth goals. Taking time to understand the roles, entry methods, and operational considerations is the first step for retailers to build out a global eCommerce presence that can ultimately return greater long-term success and continued growth opportunities. How will you optimize your digital channels to shape your growth story?

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