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European Retail Round Table

European Cross-border E-commerce

The Challenge of Achieving Profitable Growth

High performance. Delivered.

Foreword

The shopping habits of customers worldwide are changing rapidly. Empowered by smart phones and social networks, and with access to unprecedented levels of information, they are increasingly using digital channels to shop. They are researching price, quality, service and delivery options, and sharing ideas and opinions all along the shopping journey–all through the power of online media.

Millions of customers still come to our stores every day. But the number of customers shopping online is constantly growing, and the trend we see is for on- and offline shopping experiences to merge more and more.

Every retailer has to adapt and evolve their business in order to continue to connect with customers. Online shopping will never completely replace physical stores, but in five or ten years, the retail landscape will no doubt be very different from what we see today. Our competition could be next door, but it could also be a well organized online outfit on a different continent.

Will it be easier to operate in cross-border markets? What should we take into account when developing or refining a multi-channel retail strategy? This report, independently compiled by Accenture and drawing on the contributions of ERRT members and others, provides a detailed overview of the challenges faced by retailers when looking at cross-border opportunities in online retail. If you're looking for an example, just take the current diversity of operational, legal and market-entry conditions.

The findings will help every retailer sharpen their focus on opportunities and challenges of a new, multi-channel, retail reality–one which is happening as we speak. The ERRT will continue to work hard with its members and relevant stakeholders to overcome the hurdles to a truly integrated on- and offline retail business model focused on customer needs.

Dick Boer
CEO, Ahold and President, ERRT

The opportunity

With e-commerce the fastest-growing segment of European retail sales and online pure plays powering ahead, going online cross-border looks like an increasingly enticing option for bricks-and-mortar retailers. New Accenture research reveals, however, that most traditional players view the opportunity as multi-channel, driven by changing consumer demand—and many are focusing on making online pay domestically before tackling Europe's diverse and challenging markets.

Few would deny the potential of the European online retail market. With 40 percent of European Union shoppers now using the Internet to buy goods and services[1], a significant portion of the €2,856 billion[2] that they will spend on retail by 2015 is likely to be online. Sales in the 13 largest online markets in the EU are already estimated to be €200 billion, and growing at just under 20 percent per annum[3].

Spurred by this surge in digital shopping, the online pure plays—retailers that trade exclusively via the Internet—are expanding across borders at break-neck speed. ASOS, for instance, has reported that half-yearly sales in the EU (excluding the UK) increased by 73 percent and now account for 58 percent of the online fashion retailer's total revenues[4]. Amazon, similarly, which has websites in France, Germany, Italy, Spain and the UK, and ships to all 27 EU member states from these sites, reported that international (non-US) sales were up over 40 percent in the nine months to 30 September 2011[5].

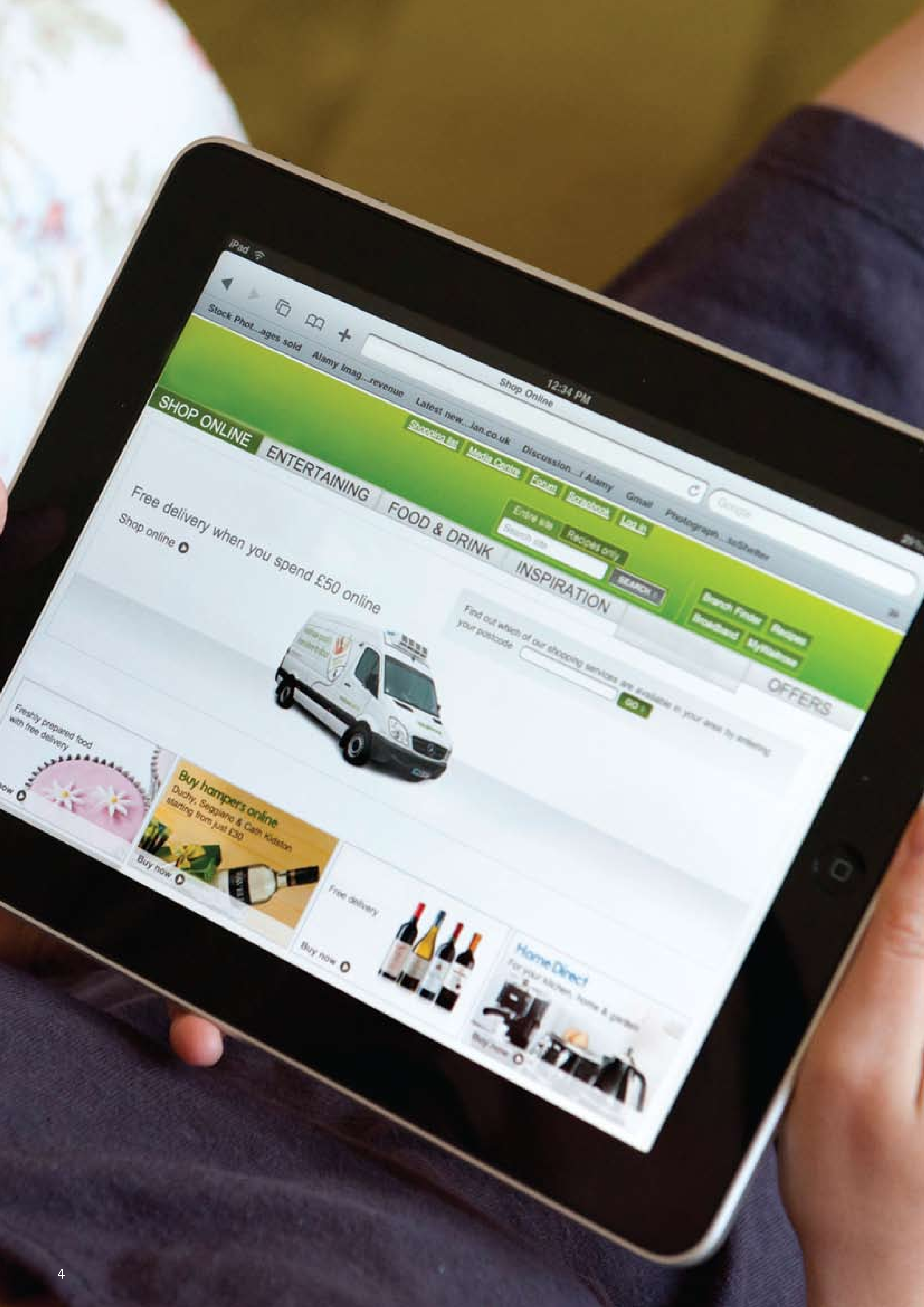
Small wonder that when Accenture recently surveyed 146 European retailers from six retail sectors and seven countries (see About the research sidebar), one quarter of respondents told us that revenues could grow by 25 percent or more if they could sell both online *and* cross-border in Europe.

Yet just 8.8 percent of Europeans are currently buying online from retailers located in other countries[6], which is the usual definition of cross-border e-commerce. Wary of the potential complications of buying from foreign providers online, especially when it comes to resolving complaints, many more are staying close to home. What's more, in their quest for convenient, informed and satisfying shopping experiences, Europe's consumers are using multiple channels—stores, kiosks and catalogues, as well as online—to complete a purchase.

Empowered by smart phones and social networks, and with access to unprecedented levels of information, the continent's consumers are, to be sure, increasingly digital. They are leveraging the Internet to research price, quality, service and delivery options, and sharing ideas and opinions all along the shopping journey—right up to the point when they finalize the transaction. Even so, Europe's 27 constituent countries are at very different stages of online retail maturity. While online sales are often new sales in fast-growing geographies, they may merely reflect a channel shift in more mature markets.

Our research, which also included in-depth interviews with e-commerce executives from the members of the European Retail Round Table (ERRT), reveals that traditional bricks-and-mortar retailers recognize that they need to defend existing sales in existing markets by offering the same functionality as their more agile, pure play competitors. However, they also believe that multi-channel strategies offer the most promising path to profitable growth. "Multi-channel is now a top priority, high on the CEO's agenda," affirms one retail executive from ERRT. Fully 46 percent of another leading retailer's sales already are multi-channel[7]. And 76 percent of our survey respondents overall affirm that multi-channel customers are significantly bigger spenders than those who stick to a single channel—largely because they deepen their relationship with the retailer, thereby driving further sales (see Quantifying the multi-channel opportunity sidebar).

1. European Commission Digital Agenda Scoreboard 31 May 2011, Commission staff working paper Section 4, Page 13 of the English version
2. Planet Retail Data Analysis November 2011
3. Centre for Retail Research: http://www.retailresearch.org/onlineretailing.php
4. ASOS plc Trading Statement for the 6 months ended 30 September 2011
5. Amazon.com 3rd quarter Trading Statement 25 October 2011
6. European Commission Digital Agenda Scoreboard 31 May 2011
7. Home Retail Group Annual Report 2011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INSPIRATION
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Shop online
Buy hampers online
Duchy, Seggiano & Cath Kidston
starting from just £30
Buy now
Free delivery
Buy now
Home Direct

Quantifying the multi-channel opportunity

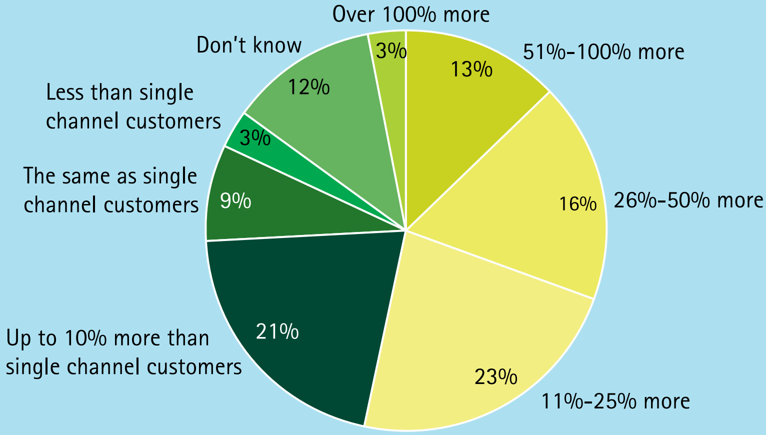
Multi-channel consumers are bigger spenders than those who stick to a single channel, with no significant differences by sector or home country of operations.

A substantial set of respondents (29 percent) are already generating more than 30 percent of revenues online.

The ability to cross-sell or up-sell was the biggest perceived benefit of both domestic and cross-border online selling for almost half of respondents. And when asked what benefits they had actually realized from e-commerce, 45 percent added better customer information to these advantages—information invaluable to adapting ranges, targeting promotions and driving loyalty campaigns.

Multi-channel customers versus single channel customer spending

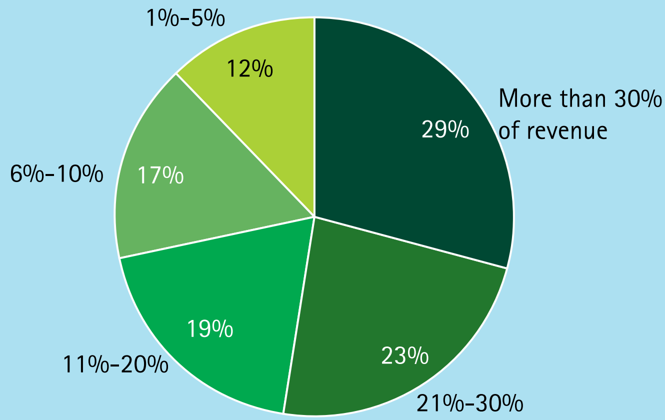
Percentage of respondents saying how much more multi-channel customers spend than single channel customers.



Source: Accenture European E-commerce Survey, 2011

Portion of total revenue from online

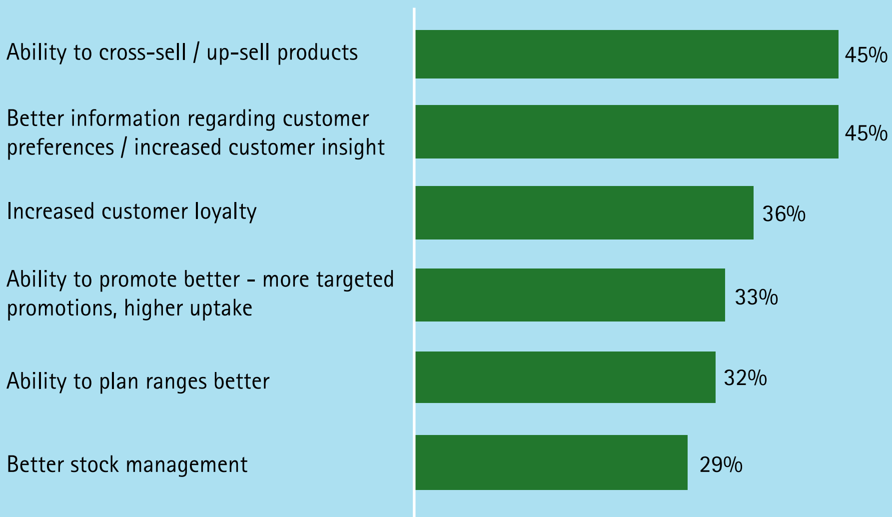
Split of respondents showing online turnover as percentage of total business turnover.



Source: Accenture European E-commerce Survey, 2011

Realized benefits of e-commerce

Percentage of respondents identifying which benefits of e-commerce they had realized.



Source: Accenture European E-commerce Survey, 2011

The challenges

Multi-channel strategies that exploit all channel options, not just online, offer bricks-and-mortar retailers an alluring means of maximizing top-line growth opportunities. But they also present these traditional players with significant internal challenges. "Going online exposes weaknesses in the rest of the business," explained one of our interviewees. "Multi-channel 'click-and-reserve' cannot be offered before achieving a very high level of accuracy in stock files. And the Internet puts your prices out there for all to see, so if you are not competitive you will struggle."

Indeed, just getting multi-channel to work seamlessly in domestic markets raises major technical, operational and organizational challenges.

Internal and Domestic Challenges

Technical

Typically, retailers have launched e-commerce operations in their domestic markets as a separate channel from their core, store-based business—a key reason why so many now struggle to deliver the consistent, multi-channel shopping experience that Europe's consumers increasingly demand.

Such seamless service ultimately requires a high level of technical integration between front-end order capture systems and core back-office processes. Yet only 38 percent of our survey respondents said they had achieved inventory integration across channels and less than half have managed to integrate pricing. Moreover, the current generation of systems does not allow a single view of the customer. "We can't do true multi-channel promotions because we are sitting on a legacy platform," explained one interviewee.

Many retailers are, however, rising to the challenge of building better performance and scalability in their IT systems—essential if they are to achieve successful channel integration and deploy business changes at speed. They are investing in building the next generation of scalable, multi-channel platforms, initially in domestic markets, but with a view to expanding internationally in the next phase.

Operational

Online retailing incurs many additional costs for bricks-and-mortar retailers—both expected and unexpected. In fact, our research identifies significant cost impacts across all core functions, from buying, merchandizing and marketing, to planning, store operations and supply chain.

Online sales require detailed product descriptions, for instance, as well as the creation and uploading of rich digital content such as high-resolution images and videos. Digital marketing introduces new requirements in regard to managing 'paid search', personalization across consumer segments, and targeted email and promotion campaigns. And planners face the complexity of forecasting demand across multiple channels and how to allocate inventory effectively.

Nor should the impact of multi-channel on store operations be underestimated. Store staff must be trained to handle new processes associated with click-and-reserve, click-and-collect and returns to stores. Retailers that have been reducing the amount of space in store stock rooms to boost selling space, now have to find more space for "sold" stock in order to be able to hold the reserved item until the customer comes to pick it up. And in order to accommodate new consumer shopping journeys, retailers are increasing customer service desk space, introducing kiosks and adding digital signage.

It's a similar story when it comes to operating an effective supply chain across multiple channels. Direct-to-customer delivery requires significant changes to fulfillment set-up and picking processes. Several retailers we spoke to had outsourced direct-to-customer fulfillment, but were trying to bring this capability back in-house in an effort to reduce costs.

Returns handling capabilities also require significant upgrading for bricks-and-mortar retailers unaccustomed to the levels common in distance selling. Explained one interviewee: "A woman asks for three sizes in an item of clothing, and then returns two of them. That means you have to have the margin to cover both the returns [retailers rarely charge the customer the full costs] and the reverse logistics." Since return rates can be 40 percent[8] or higher for high-fashion items, the retailer has to be able to prepare goods for sending out again and then make them available for sale by putting them back into the stock control system.

8. F. Curtis Barry & company quoted in Catalog Success, How to Develop a Reverse Logistics Strategy

Retailers, who have to date focused on protecting their market share and capitalizing on their domestic market multi-channel opportunity, are now looking to grow international multi-channel sales and tackle the cross-border challenge in Europe.

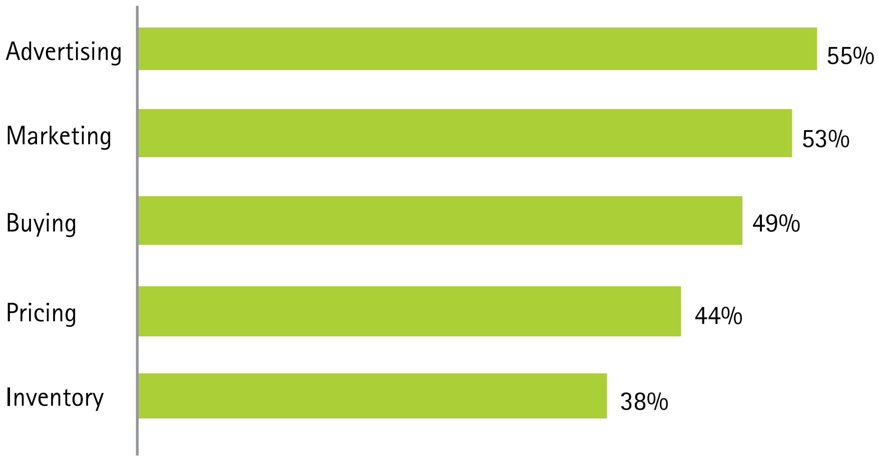
Organizational
Stores still account for more than 90 percent of sales at most bricks-and-mortar retailers—a cultural legacy that can complicate the shift of business focus to multi-channel. There is a major shortage of people with multi-channel skills. And retailers struggle to get traditional store people working with multi-channel colleagues. Indeed, one interviewee observed a "culture clash between the multi-channel explorers and the store exploiters."

Multi-channel operations are especially complex for buyers. Do you have one buying team for online and one for offline, for instance? And for those who set up online as a standalone business, when and how should they integrate the two? Best practice is to have one buying function across channels, of course, and that is already being executed by 49 percent of our survey respondents (see Figure 1).

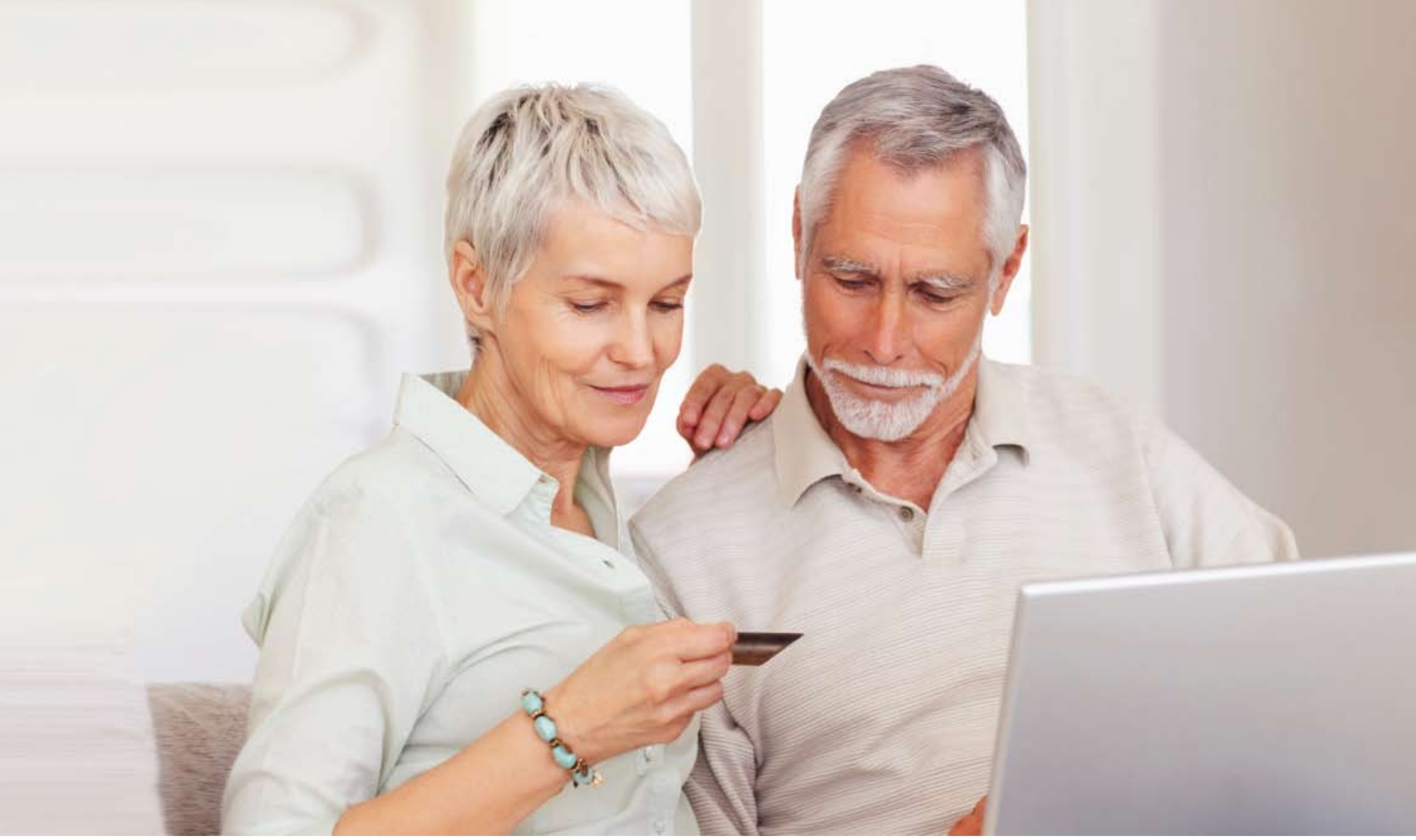
Retailers with franchise operations face a specific challenge in going online. A franchisee is usually granted a geographic territory, but the Internet has no boundaries. A franchisee will resist any attempt by the franchisor to set up a website (and take sales away) unless there is a revenue sharing agreement in place—and since these are not commonly written into franchise agreements they need to be negotiated with every individual franchisee.

Figure1: Online and Store Integrated Areas

Percentage of respondents who have integrated functional areas across stores and online.



Source: Accenture European E-commerce Survey, 2011



External and Cross-Border Challenges

Taking an online channel cross-border greatly increases operating model complexity and adds a whole new set of challenges, from classic market-entry issues, to online set-up and day-to-day operations.

Market Entry Challenges

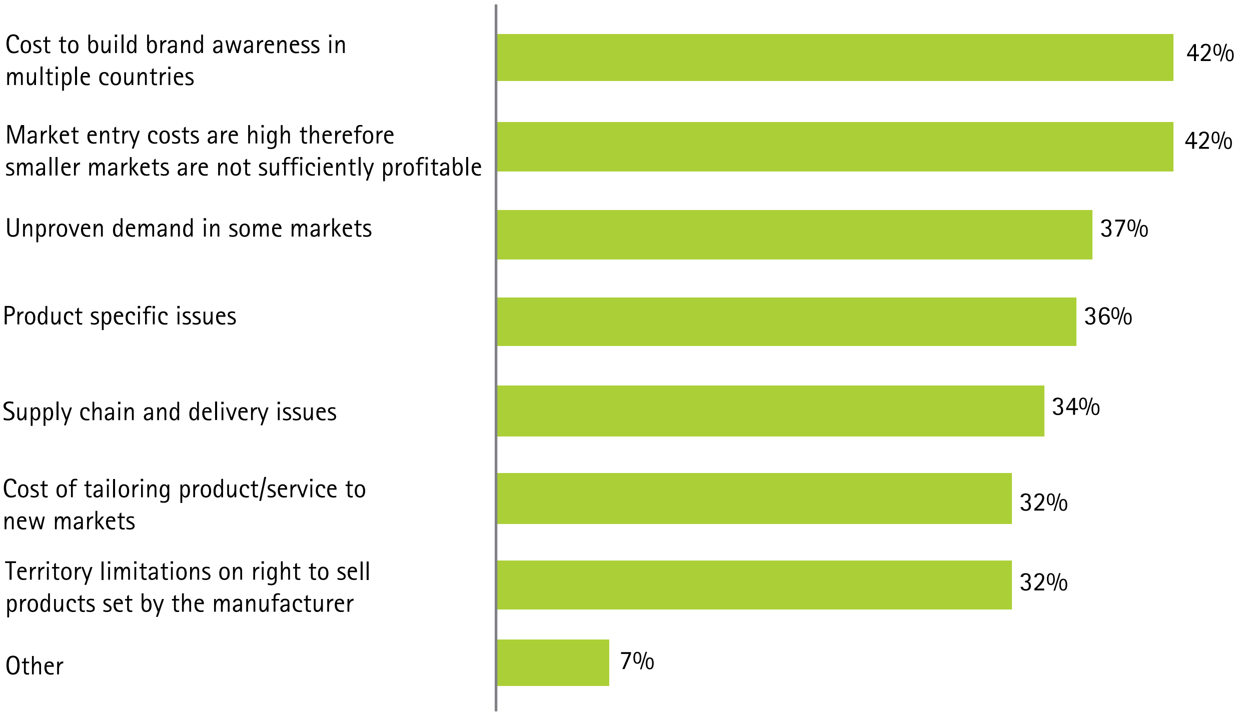
Our research reveals that the top three barriers to cross-border market entry are the cost of building brand awareness, the small scale of some markets and unproven demand (see Figure 2).

In one case, for example, a retailer did not own a key private label brand name in all the countries in which it wanted to operate and thus faced buying out the existing brand name owner, or not trading that particular product range in the affected country.

Our interviewees also cited distinct variations by product category. For example, electronics are easy to search online as the products are branded, but it's very hard to make money from selling them online due to low gross margins. Housewares confront the reverse problem.

Figure 2: Barriers to Market Entry

Percentage of respondents who identified the issues below as a barrier to market entry.



Source: Accenture European E-commerce Survey, 2011

Online Set-Up Challenges

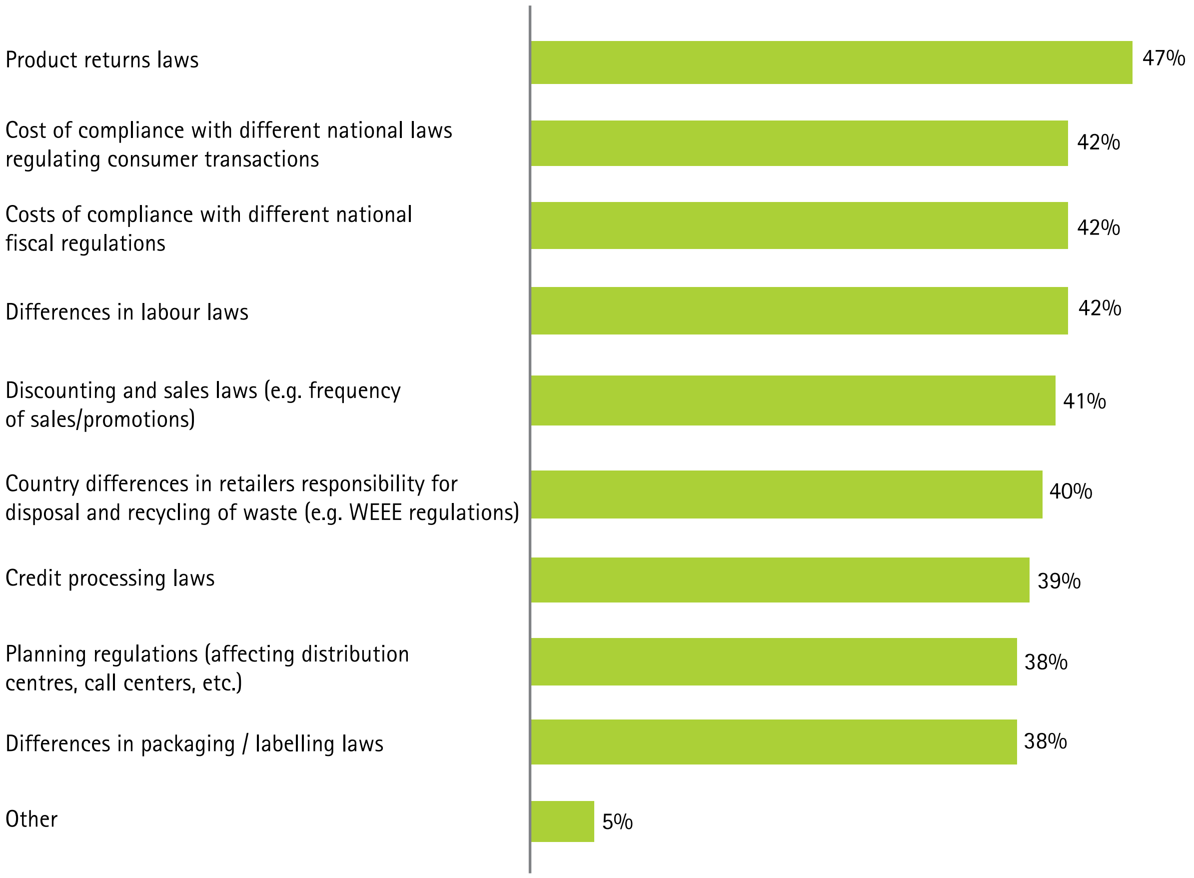
Building any online brand in a new country is expensive. And our research shows that adapting to a diversity of legal and fiscal regimes adds significantly to the cost of market entry (see Figure 3).

One interviewee described the issue in detail: "The main problem is the diversity in regulations and the varying levels of law enforcement. General Terms and Conditions can't be transferred directly to other countries. Legal advice is needed in order to analyze local product return laws, distance selling law and data transfer possibilities." In addition, "varying personal records handling regulations mean that the marketing, sales and customer relationship and interaction processes need to be adapted per country." Meanwhile, "the credit acceptance process in itself is very complex and involves substantial legal requirements associated with vendor responsibility, payment terms, bank settlements, security and risk, all of which differ by country."

Retailers, in short, have to adapt their IT systems to reflect each individual country's peculiarities—and build call-center, delivery and returns capabilities to match.

Figure 3: Impact of Laws and Regulations

Percentage of respondents who said that the laws and regulations below had a high or somewhat high impact on their EU cross-border trading online.



Source: Accenture European E-commerce Survey, 2011

Moreover, while hiring good lawyers and adapting IT systems and processes can overcome most challenges, some regulations have an especially severe impact on potential profitability. Take labeling. Retailers with one, common inventory for both stores and online operations must put the same label on all inventory—and in multiple languages, regardless of the goods' specific destination. "The additional cost of fabric to print these labels costs us millions," explained one interviewee, "yet most of sales are through our home country stores. So we either have to increase our prices, which is hard to do, or take a hit on profitability."

Product returns laws, meanwhile, can be show stopping in some categories—notably grocery. One food retailer observed, for example, that while the 14-day right to return a product rule works for wine, "the whole notion is impossible to apply to food." And differences in domestic regulations across Europe deepen the complexity. In Poland, for example, a grocer must offer items at an exact, rather than a guide price—a headache for two reasons. Firstly, because a customer may be buying one week for delivery the next, before promotions that can change the basket price are finalized. Secondly, although the retailer can specify the price of, say, 400g of cheese, in practice they cannot deliver exactly a 400g piece because of the way cheese is cut off a truckle. The amount will always be just over or just under.

Day-to-Day Operating Challenges

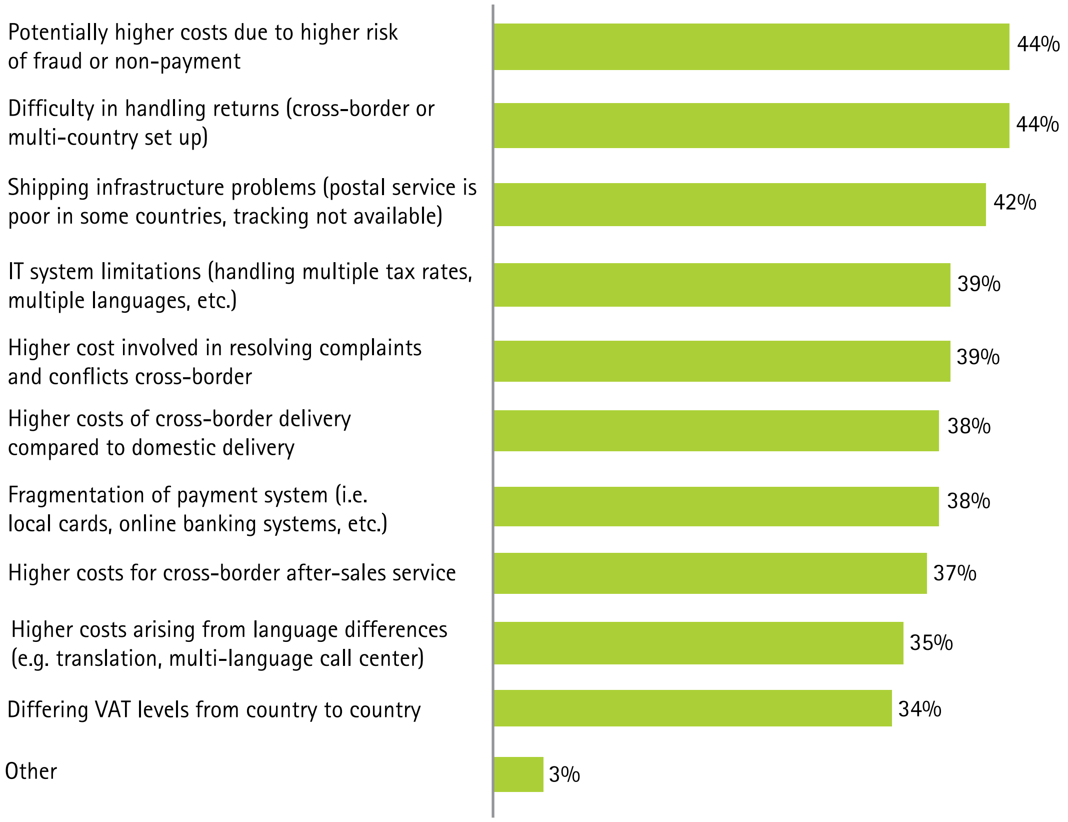
Our respondents also cited a number of specific, cost-related issues that had a high impact on their business profitability when operating cross-border (see Figure 4).

While different product returns laws (see Figure 3) had by far the highest impact for 47 percent of respondents, difficulties in handling returns cross-border were cited by 44 percent of them (see Figure 4). And other, similar issues—including the need to report VAT via locally registered companies, and different rules governing the disposal and recycling of waste—were almost as vexatious.

France, for example, requires detailed packaging information at the individual product level, while in Germany retailers only need to report how much packaging is used annually. And in certain cultures where customers are accustomed to paying on delivery oblige delivery drivers to carry portable payment terminals, which they must be trained to use. Worse yet, drivers have to carry cash, which results in additional security and cash handling costs, as well as heightening the risk of fraud or attacks on the vans.

Figure 4: Impact of Issues

Percentage of respondents who said that the issues below had a high or somewhat high impact on their online EU cross-border trading.



Source: Accenture European E-commerce Survey, 2011

Conclusion

Driven by the preferences of Europe's many new, digitally empowered consumers, the continent's traditional retailers increasingly view multi-channel, rather than standalone e-commerce, as the ultimate strategic destination in European markets. However, due to differing levels of market maturity and a diversity of operational, legal and market-entry conditions, taking multi-channel across borders is significantly more challenging than simply enabling European delivery options from a retailer's existing online operation.

Until recently, traditional retail players were focused on defending market share and capitalizing on the multi-channel opportunity in their domestic markets. But they are now beginning to tackle the cross-border challenge, and in a variety of ways.

Some retailers we interviewed are opening their domestic websites to European and/or international orders, or pursuing cross-border European sales from a domestic location. Several are considering entering new markets with a pure play online model to test the market, and following up by opening stores. Still others are entering new, high-growth or under-served European markets via multiple channels, or upgrading to multi-channel in locations where they already have stores—an approach that is particularly pronounced in food, where the most successful players pick their online orders in stores local to the customer.

Retailers are beginning to tackle their internal challenges. More than half of our respondents are investing in technology to streamline and manage cross-border differences in Europe, with half offering local languages on their website and almost as many (49 percent) offering local currency payment facilities. But operating costs will remain an issue until retailers achieve scale. For most, international supply chain and fulfillment operations are still immature and sub-scale relative to domestic market operations.

Retailers, moreover, face competing investment choices—entering new markets in Latin America or Asia Pacific, or building multi-channel capability in Europe. With high average per capita wealth, Europe's 500 million shoppers clearly represent a potentially significant growth opportunity. And Europe also enjoys a relatively robust infrastructure. According to many of our interviewees, Europe's attractiveness needs to be improved, by continuing to make progress towards a single market in e-commerce, which will make it easier to do business in multiple channels across borders.

Meanwhile, leading retailers are focused on the next growth opportunity. They are creating innovative, low-cost operating models that combine the agility and flexibility of the pure plays with the brand power and convenience of store-based businesses. In addition, they are investing in new collaborative alliances among partners in order to drive down costs. Having invested billions of dollars to build an infrastructure, Amazon.com took more than 6 years to turn a profit[9].

But traditional retailers don't have that luxury. They need to move quickly to establish first-mover multi-channel international advantage.

9. Amazon.com Annual Report 2001

About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 244,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US$25.5 billion for the fiscal year ended Aug. 31, 2011. Its home page is www.accenture.com.

About ERRT

The European Retail Round Table is a network of business leaders established to express the views of large retailers on a range of issues of common interest. The ERRT businesses operate worldwide and represent a cross-section of the retail sector. Collectively, ERRT members have a turnover of more than €420 billion and employ 2.4 million people in over 44,000 stores. More information on the ERRT's activities is available at www.errt.org

About the research

Accenture's investigation into European cross-border e-commerce comprised a survey of 146 retailers with more than 100 million euros in annual revenues across six retail sectors—grocery, home goods, consumer electronics, clothing, toiletries and leisure goods—and seven European Union countries: Denmark, France, Germany, Italy, Poland, Spain and the UK. Interviews with relevant executives from the 14-member European Retail Round Table (ERRT), which also included participants from the Netherlands, Sweden and Belgium, supplemented and enhanced the survey results.

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