



ONLINE RETAIL CROSS-BORDER SALES: THE GLOBAL TREND THAT'S HERE TO STAY

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INTRODUCTION

Since its inception, online shopping has evolved from desktop-only capabilities to completely responsive sites with the proficiency to function on any device, from white text splashed across black backgrounds to clean and modern experiences tailored to a shopper's unique preferences. Trends and new technologies continue to expand in the ever-transforming marketplace, but recently it seems as though a lasting international movement is gaining momentum, establishing itself among digital consumers worldwide.

With the widespread availability of digital devices and the expansion of logistics capabilities, consumers who shop online can have access to a wider range of products, brands, and cheaper price tags when they shop **outside** of their own country. This trend of shopping abroad is known as cross-border commerce, or known within the retail industry as cross-border sales.

Cross-border sales have grown exponentially in the past few years, with the combined global market value exceeding \$1 trillion and showing no signs of slowing down. More frequently, shoppers would prefer the option of purchasing from a wider variety of sites, regardless of what country their order will ship from. In order to plan for and capitalize on this growing trend, it will likely be important for retailers to understand the growth of cross-border commerce. This includes knowing which countries are emerging as the top markets for cross-border transactions, recognizing what products shoppers are buying, and why shoppers are choosing certain goods.



CROSS-BORDER SALES

Digital shoppers are growing the market for cross-border sales exponentially and retailers should consider taking note, regardless of the size of their current global footprint. Digital shoppers worldwide make nearly a quarter of their purchases from websites [outside](#) of their home country, with approximately half of these purchases occurring on U.S. sites. Among U.S. digital shoppers, 54% reported making online purchases from foreign retail sites in the past.

But this behavior isn't specific to the U.S. alone. According to research conducted by UPS, 82% of global shoppers have made at least one purchase from a merchant abroad this year. Out of the 14 countries evaluated in North America, Europe, Asia, and Latin America, nearly 20,000 respondents reported making at least two digital cross-border purchases in a typical three month time period.

Worldwide, 35% of consumers currently shop on sites based outside of their home country, up from 26% in 2014. Though there can be dramatic fluctuations from country to country (for example, 90% of Canadians purchase cross-border as opposed to less than 60% of the Japanese population), shoppers around the globe that engage in cross-border commerce spend about \$300 on foreign items in a given year, an amount that is gradually increasing. As cross-border shopping becomes more habitual for consumers, it's projected that the total global revenue will amount to nearly \$2 trillion of worldwide retail sales by 2018.

With the continued maturation of the cross-border commerce network, interesting trends have been emerging from different locations across the globe and some retailers are eager to capitalize on these new opportunities.



WHY CUSTOMERS ARE SHOPPING ABROAD

With cross-border commerce becoming increasingly popular, it's important to ask *why* the trend is emerging. Globally, 67% of consumers who shop abroad are buying because prices are lower outside of their own country. These prices are usually low enough to make up for additional fees or taxes associated with cross-border commerce. Other reasons can include the accessibility of brands that aren't available in their own country, a wider range of products, and better customer service. However, it should be noted that geographic proximity and demographics can also be a key influence on what priorities global consumers place on these areas of their cross-border commerce experience.

For U.S. consumers, the top three reasons for buying goods abroad are cheaper prices (49%), the ability to obtain brands that aren't available in the U.S. (43%), and because shoppers are looking for unique or specialty products that aren't found in U.S. stores (35%). Other miscellaneous reasons include higher quality goods and the perceived status acquired from shopping internationally.

Chinese consumers have a unique hurdle to jump when shopping since many products produced domestically are counterfeit. As much as 70% of goods in their domestic market are counterfeit and one of the most popular centers for fake products is actually located across the street from the U.S. Embassy within Beijing. There is also a lack of availability of certain goods in China, so shoppers have to look abroad for the products they prefer. In a study by DHL, 77% of respondents cited the need for goods unavailable in China as their top reason for cross-border shopping, with 67% stating they wanted better quality assurance when buying items to ensure the legitimacy of their purchases. Other factors included cheaper prices and wider product selections.

In Asia, Europe, and Latin America collectively, customers also shop abroad primarily because the products they want are not available in their own region, the prices are lower elsewhere, and because there are better promotions that decrease the overall cost to acquire certain products.



PRIMARY SELLERS AND MARKETS

As the global cross-border market has rapidly emerged, three big players have continued to obtain the most revenue with buyers from around the world congregating on their sites. It's important to note that, collectively, Europe is the world's second largest regional online retail market behind China and ahead of the U.S. as their cross-border sales grew 16% last year to approximately \$410 billion. But as nations alone, the U.S., China, and the U.K. are the top three exporters for online purchases.

U.S.

The U.S. is favored by 26% of global cross-border shoppers, a percent higher than any other country. This can likely be attributed to the attractiveness of Western or American goods or brands, the maturity of the U.S. online retail market, and the availability of a large selection of products. According to DHL, approximately 75% of respondents who had made a foreign purchase selected the U.S. as their top destination for digital shopping. This should come as little surprise since half of the top 10 grossing online retailers worldwide are U.S. companies. Overall, online U.S. cross-border sales totaled over \$294 billion in 2014 and are projected to increase to more than \$414 billion by 2018.

China

Currently, cross-border sales account for over 17% of China's retail import and export market. Online cross-border sales in China continue to increase, with sales growing by 50% from 2014 to reach nearly \$450 billion by the first half of 2015 alone. Even though the country currently has the largest cross-border revenue in the world, this number is expected to more than double by 2018 with total sales projected to reach \$990 billion. Though China's top three purchasing countries are Hong Kong (where 68% of consumers purchase from China), Brazil (63%), and the U.S. (52%), China is capturing almost the entire growth of Russia's cross-border market, which garnered approximately \$2.5 billion in 2014 sales (a figure up 75% from the previous year).

U.K.

The U.K. amassed \$70 billion (or 18%) worth of Europe's cross-border sales in 2014 and is projected to grow to almost \$100 billion by 2018. The closest following European nations are Germany (\$49 billion in 2014) and France (\$41 billion in 2014). Approximately 67% of U.K. retailers offered worldwide delivery last year and 65% of their online sales revenue came from international orders. The growing trend shows no signs of slowing down as 161 million cross-border orders were shipped from the U.K. in 2014, a figure that's expected to reach 384 million in 2017.



Cross-border commerce enables digital customers to shop for virtually anything they want, from practically any digital store they want, at any time. This flexibility begs the question: what exactly are shoppers buying?

Approximately two-thirds of global online retail shoppers in major global markets contribute at least 10% of their monthly online spending towards cross-border commerce. Of these global shoppers, 57% reported that more than half of their online purchases are on physical items that are shipped to their doorsteps. Overall, clothing is by far the most popular physical item consumers buy online, with 61% of shoppers reporting an apparel purchase in a recent twelve month timeframe. However, geographically speaking, many countries and regions choose to buy large quantities of different categories of goods depending primarily on demographic and societal needs.

Europe

U.K. and German consumers buy clothing via cross-border commerce more than any other nations in Europe, with 53% of U.K. shoppers and 54% of German shoppers selecting apparel items to purchase. For the continent as a whole, Italy is the only other major online retail market that does not have clothing as their number one shopping category, as Italian consumers buy primarily electronics (25%) from other countries.

For nearly every other country, home electronics is the second most popular product category in the European market, with nearly 4 out of every 10 European shoppers purchasing an electronic item from a foreign country in the past twelve months. Overall, the category that comes in third place for European cross-border commerce is books, a product category that dropped from its second place spot in recent years.

Notably, a category with huge potential for cross-border growth is preserved food and groceries, especially in the U.K.; nearly one in three online shoppers in the country buy food online, making it a very unique and expanding market.

U.S.

As one of the top cross-border shopping destinations and home to one of the largest sources of cross-border shoppers, it should come as no surprise that the flow of U.S. imports and exports is remarkably larger than most countries (with the exception of China).

The primary products *purchased from the U.S. by shoppers abroad* are clothing and accessories (31%). Other categories include books, media and video games (22%), computer hardware or software (16%), toys (15%), and beauty products (14%). Other miscellaneous goods that shoppers buy are home furnishings, food and groceries (including delicacies), and flowers.

China

In China, there are more than 5,000 cross-border online retail sites for shoppers to import and export products through. In fact, although the U.S. still remains the largest cross-border market from a consumer popularity perspective, China has actually moved ahead of the U.S. to claim the top spot worldwide in terms of online sales. As the Chinese middle class is growing (as well as their disposable income), 84% of Chinese consumers who buy cross-border goods make their purchases primarily from U.S. sites. In general, the top three categories purchased by cross-border shoppers in China include apparel and accessories (43%), cosmetics and personal care products (41%), and mother and baby products (30%). Other popular categories included electronics, jewelry, and household goods.



CROSS-BORDER OBSTACLES

As shoppers look for deals and unique items worldwide, they are concerned about numerous factors including poor shopping experiences, complicated or fraudulent transactions, seller reputations, the authenticity of purchased goods, and slow shipping times. A study conducted by Forrester Research stated that consumers considering cross-border purchases are primarily concerned about high shipping costs (51%) and long delivery times (47%). North Americans are more apprehensive than shoppers in other regions in regards to these costs (63%) and delivery times (53%) while Latin Americans are more concerned with transactions security (50%) and receiving damaged products (50%).

When it comes to shipment duration, most shoppers expect cross-border delivery within one to two weeks of purchasing an item. This can prove tricky for small and medium-sized retailers depending on the time of year and how far from their store or distribution center the shipping destination is. Brazilians (45%), Australians (36%), and shoppers in the U.S. (33%) expect cross-border shipments to take two or more weeks, which could possibly be contributed to how geographically expansive these countries are. In comparison, the countries with typically the longest delivery times include South Korea, Brazil, and Singapore.

High shipping costs are also a global impediment for cross-border customers, a factor that largely depends on destination. Shoppers in India (49%), Canada (43%), and Singapore (41%) traditionally have the highest shipping costs, but at a regional level North Americans experience the most problems with steep freight charges.

Shoppers were also particularly reluctant to shop directly with independent small and medium-sized sites for cross-border commerce due to logistics, reputation (or lack thereof), and cost concerns, with 57% of respondents ranking direct shopping with these sites as their last choice when shopping abroad. However, the overwhelming majority of respondents chose major multi-brand online retailers or marketplaces as their top cross-border shopping destination. In response, many smaller or specialty shops around the world have been embracing the utilization of large online marketplaces to create cross-border opportunities as they have broader and more trusted online presences, a proficiency in complex logistical efficiencies, and reliable service due to their maturity within the cross-border market. For the most part, these large marketplaces have minimized duties and taxes, simplifying cross-border returns and lowering the overall cost for the shopper. These are all factors that ultimately make the cross-border experience and products more attractive and desirable.



In conclusion, global retail statistics continue to display the recent and ongoing growth of the online retail cross-border phenomenon. As businesses, technologies, and economies become more globalized, online shopping continues to spread far and wide, surpassing once present boundaries and increasing product availability to more areas than ever before.

In the coming years, Asia (and in particular the Asia-Pacific region) is anticipated to become the largest global cross-border region in online retail, with an expected **40% of all cross-border sales** being shipped to the region. Currently, nearly a third of online shoppers in China have made purchases from foreign sites, and the nation itself is predicted to become the world's biggest importing and exporting cross-border market by 2020.

Regarding consumer behavior, more shoppers are becoming comfortable purchasing goods directly from foreign sites, to the point that it's becoming more habitual depending on the country of origin, and this behavior continues to propel the growth of the cross-border commerce industry as a whole. Online marketplaces are also modifying their offerings to meet this newfound behavior, including expanding the number of currencies (both physical and digital) accepted by their sites as they look to cater to a wider and more global consumer base. Though each region and demographic has its own motivations for shopping in different countries (such as broader product selections and lower prices), as well as challenges including customs charges and steep shipping costs with longer delivery times, the growth of cross-border sales shows no sign of slowing down any time soon.

Sources: Deloitte Touche Tohmatsu Limited (DTTL), DHL Global Mail, eMarketer, Eurostat, Forrester, Kroll Associates, Nielsen, PayPal, Pitney Bowes, PostNord, Research and Markets