THE FUTURE OF EUROPEAN ETAIL

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an internet retailing special report

Q: Can etailers operate across Europe and 'be local'?

Recent headlines about the online expansion of Zara, Next, GAP and ASOS, amongst others, make it clear that major brands can trade across Europe with success. But with only 21 per cent of EU retailers conducting cross-border transactions in the EU and with only seven per cent of online shoppers making cross-border purchases in 2009, it is worth considering what 'being local' means and how it might affect success when trading across Europe.

BARRIERS TO CROSS-BORDER TRADING

In their 2009 Insight into ecommerce, Visa Europe identified a number of challenges to cross border trading. They include:

- A general lack of confidence in non-domestic online sellers
- Non-availability of certain domestic payment methods
- Security and fraud.

The first of these is something that those successful leading brands, together with the major card schemes and the European Community, are addressing. And, as internet usage becomes evermore widespread, so is consumer confidence. But as a payment specialist, we'll consider the other two.

PAYMENTS JUNGLE

While European initiatives such as SEPA promise to simplify merchant's ability to accept payments across Europe, technical and marketing initiatives still mean that accepting the way your customers want to pay, is typified by:

Strong national preferences: German consumers have a clear preference for bank transfers (both online and offline, before and after delivery) ELV is also very popular (a one-off direct debit). In the Czech Republic, more than 50 per cent of payments are Cash On Delivery, also popular in the rest of Eastern Europe and Italy, while 15 per cent of online shoppers in France still use cheques. 44 per cent of online shoppers in Holland prefer using iDeal (an online bank transfer)

- A multiplicity of payment schemes (existing and emerging): including non-card schemes that help reduce fraud associated with cards and in many cases processing and/or acquiring costs
- Language, currency FX, reconciliation and shopper chargeback challenges
- Regulatory change

CHOICE BOOSTS SALES

Not supporting payments by bank transfer in Germany, for example, would be a clear example of not localising your proposition and losing business because of it. Not supporting local currencies might have the same effect. And web merchants are also finding that offering more payment options leads to higher sales. Studies have shown that offering three or more payment options can increase sales by more than 10 per cent, while the addition of PayPal has increased sales by as much as 14 per cent for some merchants. But to add to the complexity of doing this across Europe, accepting any payment method requires both a relationship with and payments to the issuing bank/ institution (typically a percentage). In many cases a domestic bank account in the country is also required.

All of which means its harder work to offer all shoppers the payment method they prefer – but the domestic competitors will.

SECURITY CONCERNS

While 32 per cent of adult Europeans purchased at least one item online in 2008, only seven per cent performed a cross-border transaction on the internet (Eurobarometer survey 2009). There is considerable variance within the EU. Thrity-eight per cent of those in Luxembourg made a cross-border ecommerce transaction in 2008, compared to one per cent in Bulgaria and Romania. Is security an issue?

EU reports signal the lack of a reliable cross-border payment instruments and consumer worries over safety and security of payments. Additionally, consumers point to fears over payment fraud and possible complications as well as surcharging and currency fluctuations. It's harder to recover money from foreign crooks.

When it comes to the security of online payments, the Dutch are happiest, while Italians are least happy. Interestingly, iDeal, an online bank transfer, is the preferred payment method in Holland – it's very secure compared to paying by card.

Local payment preferences are not wholly attributable to security concerns – cultural, historical and availability issues are also factors – but it stands to reason that the majority of shoppers will feel more secure if they are able to easily select the payment options in their own language, use the type of payment they know and trust, and be charged in their own currency. All of the conditions under which Eastern Europeans prefer to use Cash On Delivery mean that failure to enable this locally preferred method would have an adverse affect on your sales in this locale.

For the merchant there is also the consideration of ensuring acceptable rates of fraud and shopper charge-backs on all the payment methods they decide to offer. For example, it well known that ELV, popular in Germany, is potentially more open to fraud than other types of payment. Of course, this adds to the complexity and cost of localising.

CONCLUSIONS

Merchants can trade across Europe and localise their proposition successfully – at least as far as payments are concerned – but competing with domestic rivals rather than limiting business to customers with credit and debit cards only, is complex. The majority of large merchants now choose to use payment specialists when expanding their operations across the continent. As well as providing a host of nationally preferred payment methods through one platform, the providers that are also acquirers can aggregate the number of business relationships/bank accounts required by a merchant. And fraud screening can be enhanced by these services because the pool of available data when trying to detect fraudulent activity can be so much more extensive – all the transactions they process. This is important for high-risk and high-volume sectors.

In some cases, solutions can be implemented quickly to enable pilot marketing programmes to explore new markets using the predominant payment methods in the target language, while a full implementation with all local payments methods takes place once the territory is proven profitable.

This can be important. While the loss of say 5-15 per cent of sales because you don't offer local payment methods may be sustainable on a temporary basis, it's not desirable for your longer-term investment in any market.

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amazon services Europe

Amazon prides itself on its wide selection, attractive prices and great customer experience. These core principles drive Amazon's business worldwide. Amazon's vision is to be earth's most customer-centric company; to build a place where people can discover anything they might want to buy online. Amazon customers in the UK or Japan, France or Germany should be able to get access to the same selection, great prices and customer experience.

In order to continually expand the choice of products available to its customers, Amazon offers a suite of services to allow local businesses to extend their reach to millions of customers across Europe and worldwide, whilst minimizing fixed cost investments.

Through Amazon's EU Marketplace platform, retailers can sell their products to customers on Amazon.co.uk, Amazon.de and Amazon.fr. When a customer purchases from an Amazon third-party merchant, Amazon handles payment processing and fraud protection, and merchants can choose to either fulfil orders themselves or use Fulfilment by Amazon (FBA), where Amazon takes care of order picking, packing, delivery, customer service and returns handling.

FBA allows retailers to make use of Amazon's world class fulfilment infrastructure. FBA products listed on Amazon.co.uk can be purchased by millions of customers in Western Europe, namely: Ireland, France, Germany, Spain, Italy, Portugal, The Netherlands, Belgium and Luxembourg.

Senior Manager for FBA at Amazon.co.uk, Sacha Wilson, advises: "The key to being successful online is having the right selection at the right price, with the right delivery and customer service. FBA can help retailers grow their businesses by offering a window to EU customers and providing world-class delivery and customer service. For items delivered in the UK, customers benefit from Free Super Saver Delivery and Amazon Prime on FBA orders and can combine their Amazon and FBA items in a single cost-saving order. Retailers benefit from building their brands and expanding their businesses whilst adding the credibility of association with the Amazon brand."

As well as Selling on Amazon and FBA, Amazon also offers ecommerce solutions through its Amazon WebStore product. WebStore is a comprehensive, full-featured ecommerce product that enables merchants to build and operate profitable direct-to-customer businesses at a low cost of operation, leveraging the strength and reliability of Amazon's infrastructure.

For more details on these services, and extending your reach to Europe and beyond, please visit our website or e-mail bizdev-uk@amazon.co.uk.

Fits.me Virtual Fitting Room

Fits.me offers virtual fitting room technologies for online retailers. For most fashion etailers – especially in Europe – it's not as simple as customers ordering apparel, trying it on at home and returning sizes that do not fit. In fast-changing fashion, a garment returned will often be out of season. The cost of returns is not just the logistics, but more importantly the diminished value of the goods. Sizing standards vary wildly in local markets, but across borders it's even more accentuated. And it's not just the sizes that vary – so do the cultures. In Germany, for example, the return rates are much higher. Germans are used to purchasing several sizes at once, keeping the one that fits, or returning all. It's estimated that while in the US and the UK the average return rates for clothes bought online is around 25%, the return rates in Germany are almost 40%. Obviously return rates are much lower to cheaper, loosely fitted items, and higher for fitted fashions.

This is a risk that customers know well. Internationally, they tend to purchase products they know and trust, often similar to items they have bought previously. T-shirts sell well, more expensive items less so. For a customer, returning an item is more costly – it's more expensive to ship it back, takes more time to receive the refund, and more time to initiate a new shipment. So when the retailer reduces the need to return an item, or makes returning easier, the sales will increase.

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CEO of Fits.me, Heikki Haldre, says: "The biggest reason for returns – more than 60% – is poor fit. There are quite a few approaches to solving this, such as better size charts, size recommendation, or virtual fitting rooms. And solving it means sales increase – both across border, and in your own country."

For a map of virtual fitting room technologies that can help etailers today, email heikki@ fits.me

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There is much more to success in fragmented European markets than merely offering information and services in different languages. As etailers keep discovering, taking a disparate approach to individual country requirements is not the answer. Instead of engendering regional loyalty, building country and language-specific knowledge silos creates inconsistent service, increased management and maintenance costs, and negative customer experiences.

To succeed, etailers must cope with multiple languages but also deal with diversity in legal requirements, national payment methods, regional fraud specialisations, service expectations and even independent fashion trends. A unified approach to specific, local services is essential.

Instead of a myopic approach, savvy etailers are also encompassing context and culture. By delivering multilingual and multicultural services, utilising the best technology to enable automation, etailers can establish local momentum and sustain revenue growth and competitive advantage, while saving costs.

Today etailers are leveraging multilingual, multicultural Customer Interaction Hubs (CIH), to create unified service platforms. These platforms deliver service quality and operational consistency across Europe alongside in-country services that are specific, not generic.

A CIH consolidates customer engagement, business rules, workflow, knowledge bases, analytics and administration across all channels. By adding language and cultural intelligence to this through innovative reasoning engines, etailers can process language and geography data in addition to other complex values such as customer value and preferences.

Email, chat and chatbots are immediate opportunities to automate aspects of multicultural customer service. Chatbots are particularly well received mechanisms for assisting customers; culturally-sensitive 'tweaking' is proven to greatly enhance the impact for local services. Similarly, intelligent parsing of email content enables etailers to generate automatic responses to customers and recommended responses to service representatives, meeting all language, legal and service requirements.

Most critical to success is integration through a universal knowledge base. The ability to author knowledge once and leverage it quickly and simply across languages and geographies, greatly reduces management complexity, while providing consistency across European services.

To operate 'locally', etailers must demonstrate that they understand customers on a more personal level than simply language. Success depends fundamentally upon adding cultural, as well as language, intelligence to customer engagement processes

For more information about eGain products and services please visit www.egain.com. Call +44 (0) 1753 46 47 48 or email retail@egain.com

As e-retailers expand internationally to grow their sales, they are discovering that fraud prevention strategies that work in one country are not necessarily effective in another.

"Retailers can't extrapolate fraud trends from one country to another because there are differences in how criminals perpetrate fraud from country to country, and some of those differences are quite subtle," says Carl Clump, CEO of Retail Decisions Ltd (ReD), the payment fraud prevention group.

Given the variances in fraud patterns between countries, etailers selling cross-border need a partner that is up on the latest fraud trends globally across a variety of merchant categories. A global fraud prevention partner draws on a pool of data across the industries to provide retailers with deeper insight into fraud trends.

"Retailers that focus on fraud in their own industry will not immediately spot a new ploy criminals have used in another industry," says Clump. "The narrower the retailer's perspective of fraud, the harder it becomes to keep pace with changing fraud techniques."

With such a broad perspective of fraud patterns, ReD is able to quickly identify new techniques used by criminals to avoid detection – for example, the adding of suffixes to free e-mail domains, such as jeff@doctor.com, to disguise the domain name.

Adding local payment options to the mix can reduce the percentage of purchases made with credit cards, which are more prone to fraud.

"In countries where local, debit-based payment options are popular, credit card transactions are significantly lower," says Clump. "In Germany 26% of transactions are on credit cards compared to 19% in the Netherlands, and 60% in the United Kingdom."

With fraud techniques constantly evolving, etailers expanding their business internationally must become more vigilant about fraud trends globally.

"There is no silver bullet when it comes to fraud prevention," says Clump. "Etailers that sell internationally need a fraud detection partner with a multi-dimensional approach to fraud prevention and local knowledge of fraud in each country to limit their risk."

For more information contact Kami Boyer, Global Head on Marketing on +44 (0) 1483 728 700 or email kboyer@redplc.com today.

lessons from the leaders

IN 2007, the UK news was full of stories about fashion retailers compensating for negative growth in the high street with online expansion. History seems to be repeating itself in 2010 but there are two essential differences. It's no longer just market leaders such as Next going online: the idea has reached the mainstream, most major brands are now trading online. And online sales are now international – rather than making up for weak high street returns, major brands are seeking to continue growth despite weak domestic returns by taking the brands cross-border to Europe, America and other parts of the world. Zara's recent announcement is hot on the heels of a similar move from Gap earlier in the summer.

Are there any lessons the newcomers can learn form the leaders who are already established on the web. With the help of RBS WorldPay – a long time provider of payment processing, acquiring and risk management services – we consider the journey from high street to international online trading and look for the things that could have been better with the benefit of hindsight.

LESSONS FROM THE LEADERS?

Later entries to international online expansion race can learn many useful lessons from the leaders. Just considering the way in which they accept payments the following points stand out.

MORE SALES, MORE SALES, MORE SALES

The uplift in sales available by trading overseas is huge – especially when you consider that only 24 per cent of the world has internet access today but there has been 360 per cent consistent growth annually since 2002. We estimate that £100 billion will be spent across borders by 2011.

The growth rates for online sales in many first and second world countries are still higher than 60 per cent – in Eastern Europe, for example. The leaders were the first to take advantage of this situation and are reaping the rewards.

"The new year has started very positively, retail sales are up 56 per cent in April (UK +25 per cent and International +148 per cent) the top six international markets being US, Denmark, France, Australia, Ireland and Germany respectively." The Times

But with 76 per cent of the world population yet to go online, it's by no means too late to enter the market.

NEW MARKETS CAN MEAN NEW SYSTEMS

The leaders had to develop new systems to support the new channels. As we all know the cost of IT services and the cost of changing core systems can be enormous, and the required investment can get in the way of business expansion and growth. There are plenty of other logistical challenges involved in trading in another country so a payment processing service that is extensible to offer both

Case History: Rags To Riches

The journey from domestic high street to international online sales is still being completed by many very big brands. RBS WorldPay provide payment management services for a number of the leaders and provide this summary of the progress of Rags to Riches, a fictional leader in the online fashion pack based on real experience with the real thing.

the payment methods shoppers in those countries prefer and to aid with the complex task of reconciling a volume of payments received for thousands of orders in multiple currencies with multiple settlement routes, can remove one significant barrier to your plans.

Preferred payment methods? In Holland more than 60 per cent of online payments are made using a payment method called iDeal – it's a one-off direct debit made from the shopper's bank account online (no card). In Czechoslovakia, more than 50 per cent of payments are made using Cash on Delivery – payment is taken 'on the doorstep' by the delivery service provider – TNT, for example – either in cash or by card. While credit and debit cards are still the dominant payment method online across the world, usage has decreased to as low as 15 per cent in some countries. This trend is set to continue as the newer payment methods offer ease-of-use and security for the shopper – PayPal and iDeal, for example – and in many cases they reduce processing and banking costs for the merchant.

The good news about alternative payment methods has another side too. A UK company looking to trade in Germany would lose too many sales if it failed to offer ELV as one of the most popular payment method for Germans. Accepting ELV requires a payment page in German that the shopper can use to select ELV, technical connections to the German banks and probably a bank account in Germany which may only be possible with a registered address in Germany. That's a lot of work. More so if you multiply that by all the preferred payment methods in all the countries into which you might want to expand. A payments specialist such as RBS WorldPay can simplify this significantly by providing both the technical connections and the acquiring relationships required to accept a wide range of local payments methods through one secure platform.

Many of the leaders in the international fashion pack built their first website themselves, the website and the payment systems that captured shoppers payment details, communicated with the banks and card schemes to get authorisation. Some of them brought in a payments specialist after they introduced mail and telephone order catalogs in the 1970s – or in the 1980s when the web became more significant – only to find that they had chosen a domestic specialist with little capability overseas or only technical processing capability leaving the merchant to establish the banking relationships (merchant acquiring services) required to accept each payment type.

Changing payment systems several times is costly and has an impact on many aspects of an operation: sales, fulfillment and accounting being the obvious ones. But security and fraud management are others. Integration with the Customer Relationship Management for that important MI about your customer's behavior is another. Assimilating and calibrating new systems to optimise business performance in all of these areas takes significant time and money.

The leaders in this space did not have the benefit of hindsight and have had to change their payments services a numbers of time to deal with the different stages in their journey: first to take cards not just cash; then to take payments over the phone or by mail order; then to take payments online; then to accept all of the exotic payments types and currencies in Europe and around the world, including new types of payments such as PayPal, GiroPay, ELV, iDeal and many more today, as well as those on the horizon such as G-Pay, AliPay and more.

If the leaders had the benefit of hindsight they might have been more careful in their selection of a payments strategy and associated services in the first place: choosing a service that would grow with their needs and reduce the number of times they had to change horses in mid-stream.

REGULATION IS REQUIRED

The leaders have also learned that complying with increasing regulation is too much for in-house development resources and requires the economies of scale that an outsourced solution can provide.

The payments industry is now subject to much greater regulation in response to a number of factors including shoppers' concerns over security that European studies have reported as a significant barrier to online purchase.

To help ensure consumers' funds are secure, mandatory card scheme programmes such as PCI DSS have demanded major changes for most merchants – but they also require ongoing maintenance and inspection. The costs have been enormous. Some of the leaders who were running their own payment acceptance systems in-house took on the task of changing their systems to meet the new standards. But with the dawning realisation of the final costs (IT projects tend to grow as the projects develop) and the ongoing requirements, including annual inspections, most are now calling in outsourced specialists.

The capture and storage of consumers' payment details is the biggest issue for PCI DSS. Retailers prefer to remain in control of this for a number of reasons including continuity of the brand experience at point of sale and data capture to feed order management, accounting, CRM and marketing systems ('know your customer').

RBS WorldPay and the better payment service providers