What Merchants Need to Know About Cross-Border eCommerce

The Web is a level playing field that lets businesses of all sizes participate in the global marketplace. But what is the best way for online businesses to expand internationally? Should a business create one large Web presence and then drive traffic to it? Or is it better to create a series of local market/cross-border sites optimized for regional buyers? This paper recommends the latter approach, providing an overview of cross-border eCommerce and explaining to merchants what they need to know to harvest more international business.

By Souheil Badran
Senior Vice President & General Manager, eCommerce Solutions
First Data
Going Global with eCommerce: One Size No Longer Fits All

As eCommerce extends the reach of regional business to the global marketplace, merchants are presented with huge revenue and growth opportunities. Until recently, organizations often engaged in eCommerce by building a single Web site and then driving traffic to it from around the world.

While some companies still rely on this model, the one-size-fits-all approach is increasingly being displaced by cross-border eCommerce. In this scenario, optimized, country-specific sites and eCommerce solutions are deployed for each major market. For example, iconic American motorcycle company Harley-Davidson now has 25 cross-border sites around the globe.

Country-specific sites work better to attract and service customers in those countries than the multinational approach, but they present a host of challenges for merchants unfamiliar with the territory. The challenges include maintaining information in multiple languages, greater product differentiation, customer service issues and a more complex supply chain. Additionally, the business must deal with a host of payment-related issues, including increased fraud risk, currency conversion, merchant banking relationships and regulatory requirements.

This paper is for any business that is either already engaged in global commerce or is considering expanding beyond current domestic markets. It outlines the key challenges in cross-border eCommerce with a specific focus on payments, which until now have been particularly difficult to manage for global online merchants. The paper explains how payment processors like First Data deliver turnkey cross-border solutions that reduce cost, complexity and potential fraud risks. This model enables merchants to focus on what they do best: enhance customer value by designing and delivering great products and services, while outsourcing cross-border payment management.

What Exactly Is “Cross-Border” eCommerce?

Global eCommerce and cross-border eCommerce are easily confused, and many might use the terms interchangeably. But there is more than semantics at play here.

Think of global eCommerce as the sum of all eCommerce transactions worldwide. These include transactions made between buyers and sellers in the same country and buyers and sellers in different countries. Indeed, the entire global eCommerce boat is rising. For example, according to industry analysts:

- Global eCommerce will reach $711 billion in sales by 2010 (eMarketer)
- This number is growing at a compound annual growth rate (CAGR) of 19 percent (eMarketer)
- The United States will go from $175 billion in online sales in 2007 to $335 billion by 2012 (Forrester Research)
- 32 million United Kingdom consumers will be shopping online by 2011 (Forrester Research)
- $134 billion will be spent online in China by 2012 (IDC)
The consulting and research firm Glenbrook Partners is even more bullish on the global eCommerce market, predicting it will grow to $967 billion by 2010. As Figure 1 shows, Glenbrook also sees an emerging trend in which markets outside of North America represent an increasingly greater share of eCommerce revenue.

This trend is where the distinction between global and cross-border eCommerce becomes more important. If a French buyer comes to www.amazon.com and makes a purchase, it is certainly global eCommerce. But if the buyer visits www.amazon.fr and makes a purchase on Amazon’s French-specific site, that’s considered a cross-border transaction for Amazon.

Amazon and other eMerchants know that to win more business in France—as well as in Germany, Japan, China and other fast-growing eCommerce markets—they have to have an in-country presence. Why?

→ More convenient for customers
→ More attractive localized product offerings
→ Better, more persuasive communication due to local language translation
→ Less expensive shipping options for customers
→ Higher rankings on search engines and greater ability to attract customers
→ Ease of payment options for the customer
In short, if eMerchants want to get more international business, they must deploy cross-border eCommerce solutions. Indeed, a 2007 survey by Glenbrook showed that 63 percent of all eMerchants that responded were selling internationally, and of those that were not—48 percent would be doing so within a year. Glenbrook further estimates that 15 to 20 percent of large U.S. eMerchant sales volume comes from cross-border Web sites. Figure 2 shows the breakdown by region.

**Most U.S. eRetailers Participate**

Two-thirds of eRetailers now sell cross-border; Glenbrook estimates that 15-20% of large US merchant purchase volume is cross-border

<table>
<thead>
<tr>
<th>Type of Merchant</th>
<th>All</th>
<th>Store</th>
<th>Catalog</th>
<th>Virtual</th>
<th>Manuf.</th>
</tr>
</thead>
<tbody>
<tr>
<td>What percent of your total web sales do foreign sales represent?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 10%</td>
<td>71%</td>
<td>87%</td>
<td>79%</td>
<td>66%</td>
<td>50%</td>
</tr>
<tr>
<td>10% to 25%</td>
<td>17%</td>
<td>0%</td>
<td>21%</td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>More than 25%</td>
<td>9%</td>
<td>13%</td>
<td>0%</td>
<td>11%</td>
<td>10%</td>
</tr>
<tr>
<td>Which foreign eCommerce markets generate the most online sales for you?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>60%</td>
<td>67%</td>
<td>64%</td>
<td>50%</td>
<td>36%</td>
</tr>
<tr>
<td>Europe</td>
<td>31%</td>
<td>22%</td>
<td>14%</td>
<td>34%</td>
<td>46%</td>
</tr>
<tr>
<td>India</td>
<td>2%</td>
<td>0%</td>
<td>0%</td>
<td>3%</td>
<td>9%</td>
</tr>
<tr>
<td>Korea and Japan</td>
<td>4%</td>
<td>0%</td>
<td>7%</td>
<td>3%</td>
<td>0%</td>
</tr>
<tr>
<td>Central &amp; South America</td>
<td>3%</td>
<td>6%</td>
<td>7%</td>
<td>2%</td>
<td>0%</td>
</tr>
<tr>
<td>Mexico</td>
<td>3%</td>
<td>0%</td>
<td>0%</td>
<td>3%</td>
<td>9%</td>
</tr>
<tr>
<td>Other</td>
<td>7%</td>
<td>6%</td>
<td>7%</td>
<td>4%</td>
<td>0%</td>
</tr>
</tbody>
</table>

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Source: Internet Retailer

| Figure 2. eCommerce by Region |

**Is Cross-Border Just for the Big Boys?**

Not at all. While everyone would expect Amazon, eBay, Nokia and Nike to be taking the lead in cross-border eCommerce, a surprising number of small and medium-sized businesses have built true international businesses. Take, for example, Crocs Inc. The U.S.-based footwear and apparel maker saw its sales soar to $840 million in 2007 (up from $354 million in 2006). The company has used an extensive network of cross-border Web sites to fuel its growth. At last count, it had more than 45 such sites, including sites in Hungary, Monaco, Thailand and Malaysia.

But even Crocs would be considered large compared to SpaFinder Inc. The online media and travel company specializes in “vertical search” by connecting consumers with spas and resorts worldwide. Dun and Bradstreet reports that the privately held company’s 2007 revenue was $6.1 million. However, business is growing and is being fueled by an array of cross-border, country-specific sites. The company has seven Web sites in the U.S., United Kingdom, Spain, France, Japan, Germany and Italy.
Crocs and SpaFinder are not alone. According to a recent survey by global delivery and logistics provider UPS, 33 percent of small U.S. eRetailers engage in cross-border eCommerce. That number is sure to increase due mostly to the huge overseas opportunity as shown in Figure 3.

**Figure 3. Markets for eCommerce**

<table>
<thead>
<tr>
<th>Country</th>
<th>Per Capita GDP in $</th>
<th>Total eRetail in Millions of $</th>
<th>Population in Millions</th>
<th>eRetail per Capita in $</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>45,845</td>
<td>136,000</td>
<td>303</td>
<td>448.84</td>
</tr>
<tr>
<td>Germany</td>
<td>34,181</td>
<td>38,600</td>
<td>82</td>
<td>470.73</td>
</tr>
<tr>
<td>France</td>
<td>33,188</td>
<td>21,600</td>
<td>64</td>
<td>337.50</td>
</tr>
<tr>
<td>Japan</td>
<td>33,577</td>
<td>38,700</td>
<td>127</td>
<td>304.72</td>
</tr>
<tr>
<td>South Korea</td>
<td>24,783</td>
<td>14,000</td>
<td>48</td>
<td>291.67</td>
</tr>
<tr>
<td>Spain</td>
<td>30,120</td>
<td>5,300</td>
<td>45</td>
<td>117.78</td>
</tr>
<tr>
<td>Italy</td>
<td>30,488</td>
<td>6,900</td>
<td>59</td>
<td>116.95</td>
</tr>
<tr>
<td>Poland</td>
<td>16,311</td>
<td>2,000</td>
<td>38</td>
<td>52.63</td>
</tr>
<tr>
<td>Brazil</td>
<td>9,695</td>
<td>8,500</td>
<td>186</td>
<td>45.70</td>
</tr>
<tr>
<td>Mexico</td>
<td>12,755</td>
<td>1,200</td>
<td>106</td>
<td>11.32</td>
</tr>
<tr>
<td>China</td>
<td>5,292</td>
<td>4,100</td>
<td>1,323</td>
<td>3.10</td>
</tr>
</tbody>
</table>

**Challenges and Risks in Cross-Border eCommerce Expansion**

As anyone who has participated in setting up international businesses or cross-border Web sites will tell you, these are non-trivial endeavors. Most successful eMerchants will say it is well worth the effort, but newcomers will face a few challenges.

**Language:** Modern content management systems make handling multiple Web sites in different languages easier than before. Nonetheless, all content needs to be initially translated, then localized and then tested to make sure it is appropriate for the country or locale. This goes for site content, shopping carts, sales comparators and other related tools.

**Local product differentiation/inventory issues:** Obviously, Amazon does not want to feature Japanese books on its French Web site. The same applies to other companies that must maintain multiple SKUs, product descriptions and images, safety and regulatory guidelines, and other information on multiple sites.
Distribution/shipping costs/timing: To launch eCommerce in a new country, retailers face a host of local and global supply chain issues, including transportation, logistics and warehousing. This is why many companies, especially smaller ones, rely on outsourced regional experts known as third-party logistics (3PL) companies. These companies handle distribution, warehousing, inventory management and even enterprise resource planning (ERP) system management for a fee.

Local competition/pricing: Obviously, each local market is competitive in its own right. For large eMerchants, like Nokia, these differences can be startling. For example, in Europe, mobile phones are largely sold independent of carrier plans or promotions. In the U.S., this is completely different and most phones are purchased “bundled” with carrier plans. Marketers, webmasters and others involved in cross-border sites must be constantly attentive to the latest changes in localized consumer habits, Web traffic, promotions, and other related marketing and sales issues.

Customer service: Historically, the online channel was developed as a self-serve model for consumers who had little expectation of customer service or support. That has changed—customers now expect brick-and-mortar levels of service from eMerchants. So, how is customer service handled? Is it facilitated by a 24x7x365 centralized facility, or by a string of regional centers? What about returns, or the “reverse supply chain” as it is called? These are just two of the many important in-country customer service issues that must be handled.

Payments Present Special Challenges

Most business professionals have had some past experience or familiarity with products, inventory, merchandising, promotions and logistics. But few have any hands-on experience with electronic payments. Payments have typically been the purview of bankers and accountants. And even for financial professionals, payment systems have represented the murky “plumbing” that few really understand.

Yet managing and implementing a viable payments system is critical to cross-border eCommerce success. Here are some of the issues to be concerned with:

Payment Types

In the United States, the credit card is the most widely used method for online purchases. But studies show that alternative methods—such as PayPal, Bill Me Later and Google Checkout, to name just a few—have captured a significant market share. In fact, according to a 2008 Forrester Research survey, 74 percent of online shoppers report using an alternative payment method at least once. In Europe, although credit cards are commonplace, many purchases are made with inter-bank transfers—something that is not done in the United States except in business-to-business (B2B) markets. In the United Kingdom, debit cards are used extensively for online purchases; in China, many online purchases are made with cash.

So, deciding which payment methods to accept and how to do it can really be a critical and complex task. Yet, if you really want to optimize online sales globally, you have to be prepared to consider all the alternatives. The wider you can cast your payments net, the more sales you will harvest.

Currency Conversion

The cost of currency conversion is usually borne by the buyer—rarely by the seller or merchant. So, if German buyers want to buy an American item that is offered for sale only in U.S. dollars, then they pay a fee to have the currency converted to euros on their next card statement. Of course, depending upon exchange rates at the time, they may wish to pay directly in euros, if that is an option.
Until recently, merchants could offer consumers few choices for currency conversion or purchasing options. This inhibited global eCommerce by effectively passing on currency surcharges to consumers. That problem is rapidly diminishing, because currency conversion options are now easily available from eCommerce providers like First Data and others. This enables cardholders to make an informed decision during the checkout process to either pay in their own currency at a competitive and fully disclosed exchange rate inclusive of any fees, or to allow the card association to convert the transaction at an unknown exchange rate and assess a conversion fee. The proliferation of choice and customer control is expected to rapidly accelerate global eCommerce.

Taxes (VAT)

Value-added tax (VAT) is a tax paid by buyers located in the European Union, Canada, Australia and many other countries. If you sell online to someone located in Europe, you have to calculate the VAT and pay it to the country in which the item was sold. Complicating the issue, each country can set its own VAT rates. The good news for the merchant is that the buyer pays the VAT. The bad news is that merchants have to collect it and submit it to the proper authority. One of the advantages of using third-party payment networks is that they can handle these complex VAT issues for you.

Global Network of Acquiring Banks

To conduct business online and accept credit cards and some other forms of payments, merchants must establish merchant banking relationships. The merchant’s bank is known as the acquiring bank, and the consumer’s bank that issued the credit card is known as the issuer bank.

To provide global eCommerce services, many companies have traditionally set up relationships with multiple acquiring banks in the various regions they do business in. Sometimes this is because it was the only viable solution. In other cases, foreign countries may insist upon an in-country banking relationship as a prerequisite for doing business in that country. Merchants often pay a price for these multiple banking relationships in the form of higher fees as well as the increased complexity of reporting and managing multiple relationships. Next-generation eCommerce infrastructure is now providing for a single acquiring relationship, which is helping to reduce the cost and complexity of global eCommerce.

Fraud and Credit Risk Prevention

With the increased sophistication of hackers and the proliferation of stolen identities, global merchants must protect themselves with better mechanisms for mitigating fraud and reducing risks. Fraud prevention and reduction is one of the most important aspects of global and cross-border eCommerce for merchants.

Online fraud is still relatively high. For example, according to a 2008 Association of Financial Professionals (AFP) Payments survey, in 2007, 10 percent of organizations that accepted electronic payments from consumers were victims of attempted or actual consumer fraud.

There are many fraud-prevention methods, including address matching, card security code validation and explicit password authorization. The critical decision for merchants is to choose the right technique or techniques that will minimize fraud but not result in too many false positives that turn away honest customers. Merchants must also be sure to choose a solution that accounts for the nuances in fraud activity and compliance standards across different geographies and cultures.

At the same time, dynamic credit risk assessment is essential. Merchants need sophisticated tools that can instantly weigh the buyer’s ability to qualify and/or pay for whatever products or services are being offered—regardless of the country from which the purchase originates.
Presenting a New Model for Cross-Border eCommerce Payments

The issues described above are real. But they are by no means insurmountable. The good news is that a new model is emerging that addresses them and makes it much easier for merchants to literally “plug in” to cross-border eCommerce solutions.

For example, First Data has developed a turnkey offering that provides a comprehensive cross-border payments solution to eMerchants. Much as IT professionals might avail themselves of outsourced or hosted applications, financial professionals can utilize the First Data service for a comprehensive, outsourced cross-border eCommerce solution. Instead of taking months to deploy a secure and compliant payments system on their own, eMerchants can enlist First Data for help in deploying a comprehensive cross-border eCommerce payments solution. Deployment can take as little as a few weeks.

The keys to this new approach are First Data’s existing global network of acquiring banks, new technology for data security and currency conversion, and advanced fraud detection techniques. Below are some of the key components of this solution:

**Single point of access to established acquirer and processor relationships.** First Data offers merchants a single global acquiring option that simplifies banking choices and consolidates banking relationships. For instance, First Data’s complete infrastructure service solution gives merchants access to the First Data merchant banking network—the largest in the world. By consolidating banking choices, merchants not only simplify management and reporting but also achieve the lowest possible interchange rates. Although a merchant is potentially using many First Data-affiliated banks, the merchant enjoys the simplicity of working with just a single entity.

**Support for all relevant local payment methods and types.** The solution provides a global payment network that can accept payments in almost any currency, and offer merchants a wide variety of currency-conversion options. Furthermore, it can accept a wide variety of payment options from European debit card systems like Carte Bleue and Maestro to German ELV cash debit charges or PayPal and Bill Me Later. The system also handles tax and VAT accounting and payment submission.

The payment network can accept transactions in eCommerce, mail order/telephone order (MOTO) or retail environments. The network also supplies fast, robust, and fully Payment Card Industry (PCI)-compliant routing of transactions.

**Ease of integration and support.** The cross-border eCommerce offering is fully deployed and usable as a service (similar to salesforce.com or other well-known managed solutions). Merchants can avail themselves of the most advanced global eCommerce solutions on an on-demand basis via Internet Protocol (IP) connections and remote (yet secure) computing nodes. The data transmitted to, from and within the solution are fully encrypted and secure, as are the transaction files and customer records held within the system. Regulatory compliance and other security and fraud-prevention mechanisms are handled within the networks as a service by First Data.

All this ensures that merchants benefit from industry best practices—without having to develop or manage those practices for themselves.
Dynamic currency conversion. Dynamic currency conversion allows merchants to offer their goods and services to consumers in local currencies. This takes the guesswork out of the purchase price for the consumer and typically leads to increased sales for the merchant. In addition to cross-border implementations, dynamic currency conversion can also be used by eMerchants who have neither a physical presence nor a cross-border Web site in a particular country. With First Data’s dynamic currency conversion, U.S. merchants can sell their goods and services in the most common global currencies and receive guaranteed funding in U.S. dollars. By offering dynamic currency conversion, merchants may also generate a new revenue stream through international currency selection fees.

Integrated Web-based management tools. The First Data solution provides a single Web interface for managing multiple payment networks and for reconciling and researching transactions. Corporate treasury personnel don’t have to spend hours searching for and converting data. The system allows managers to look at all transactions across all cross-border Web sites and to more easily perform analysis and currency hedge calculations.

Local risk management. The system provides differentiated risk models based on payment type and geography. It also makes exclusive use of local data and credit histories to create more accurate models to reduce risk and prevent fraud.

Benefits of the New Model

Here are just a few of the significant benefits of the new plug-and-play model:

- Faster time to market; most eMerchants would have to spend 60 to 90 days to put together the required network of banks, payment gateways and compliant processes just to get started; using the First Data system, they can be up and running from a payments perspective in a few weeks
- More rapid expansion and entry into subsequent markets
- Management simplicity; with a single gateway, there is no duplication of vendors and fewer integrations to manage
- Reduced maintenance and personnel costs; many of the functions are essentially outsourced
- Simplified reporting and management through consolidated Web interfaces
- Increased ability for merchants to focus on core product and sales strengths while First Data handles payments issues
- Reduced fraud

Conclusion

Establishing a global presence is quickly becoming a necessity for many eMerchants that have not yet done so. The best way to capitalize on this opportunity is to create a series of cross-border Web sites. However, from a payments perspective, this means creating a complex network of acquiring banks and payment processors and making sure your customers have a wide variety of options for payment types and security. Most importantly, this network has to be secure and trustworthy.

First Data has developed a comprehensive plug-and-play offering that makes cross-border eCommerce much easier for expanding merchants. The new system is built on First Data’s many years of experience and leadership in payments processing and settlement.
About the Author

Souheil Badran leads First Data eCommerce Solutions as senior vice president and general manager. Powered by a suite of industry-leading services, First Data eCommerce Solutions enables businesses to transact securely in an eCommerce and Card-Not-Present environment and tailors to the unique needs of conducting commerce in the digital age.

Badran joined First Data in January 2008 with extensive experience in high-technology organizations including sales and marketing, product management, strategic development, mergers and acquisitions, and high-growth initiatives.

Prior to First Data, Badran was president and general manager for Rebtel, responsible for driving Rebtel’s growth strategy and operations in the Americas and APAC regions.

Badran joined Rebtel from VeriSign, where he served as vice president and general manager for their international operations across Europe, Middle East, Africa, India, Central and Latin America, and Asia-Pacific. He also had responsibility for VeriSign’s Global Channel and Partner programs.

Prior to VeriSign, Badran was at Digital Insight, an Internet banking provider, where he launched their Cash Management solution running in a service bureau environment. He was part of the management team that positioned the firm through a successful IPO in October 1999. He has also held senior positions at Metavante Corporation in Milwaukee, Wisc.

Badran serves on the board of trustees for Cardinal Stritch University and is on several technology advisory boards.

Badran received his M.B.A. in marketing and undergraduate degree in computer studies from Cardinal Stritch University in Milwaukee.

For more information, contact your First Data Sales Representative or visit firstdata.com.