Is U.S. E-commerce ready to take on the world?

In a fast globalizing marketplace, U.S. e-commerce must compete with international rivals or will lose market share and competitive edge

PPRO

Welcome,

This white paper was produced by PPRO, working with analysts Edgar, Dunn & Company (EDC). It explains, in detail and with reference to original research by PPRO and EDC, why U.S. e-commerce merchants need to expand cross-border now. And how they can do it.

We live in a booming time for e-commerce. If online shopping were gold in the California hills, this would be 1848. But most of that 'gold' isn't in the hills, valleys, towns or cities of California, Texas, Vermont or anywhere else in the United States. It's in the emerging markets beyond America's borders.

Every year, the number of new Internet users globally increases by 248 million people. That's a growth rate of 7%. Global e-commerce is expanding even faster, increasing annually at a rate of 14%. Even that average undersells the truly astonishing growth rates in some markets: 18% in Africa, 25% in Latin America, 28% in Asia.

The U.S. is a world leader in e-commerce, with merchants enjoying astounding success in inducing consumers to change their shopping habits to buy online rather than in store. But U.S. merchants are significantly less likely to sell cross-border than competitors from other major markets.

With the lion's share of e-commerce growth now coming from markets other than the U.S., that has to change. Now is the time for American e-commerce to go global. That's why PPRO has created this report. In it we outline why American merchants have unique advantages in the global market and how they can use those advantages to win the global race for new e-commerce markets.

PPRO and Edgar, Dunn & Company are proud to have collaborated to bring you this report. We hope you find it useful.

Best regards

Simon Black
CEO, PPRO

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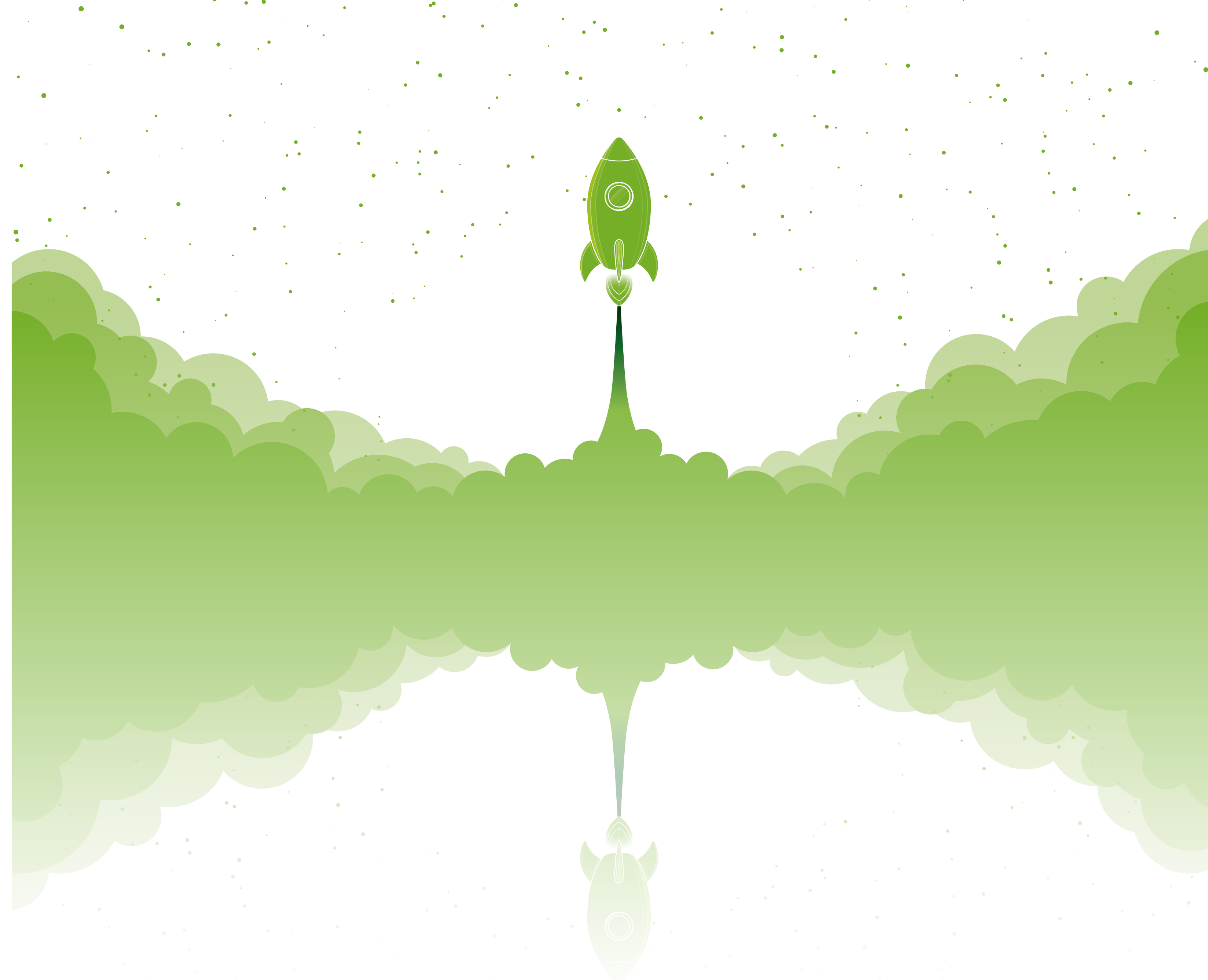

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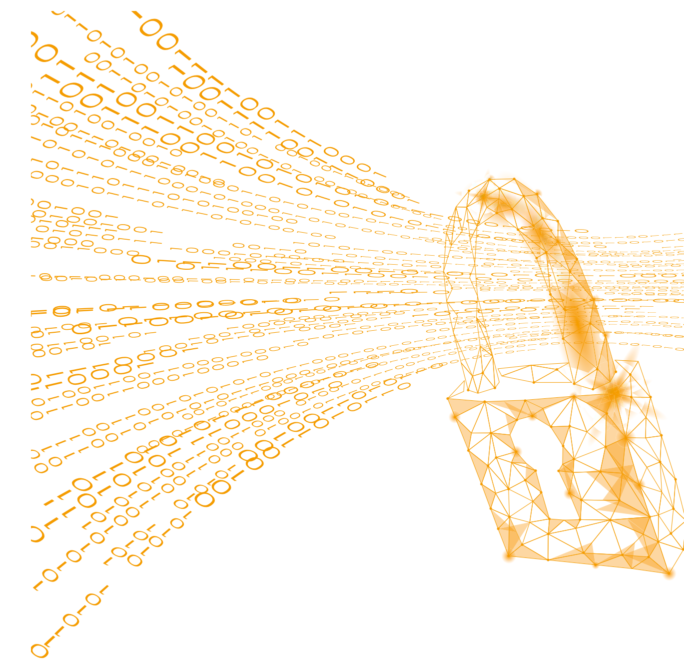
UNLOCK *GLOBAL GROWTH* WITH LOCAL PAYMENT METHODS



For Americans, who are used to a relatively mature online economy, the scale of e-commerce growth in other markets can be hard to comprehend. Consider this: according to the World Economic Forum, 42% of the world's e-commerce sales are made in China alone[1]. And the Chinese e-commerce market is still growing at a rate of 27% a year[2].

Nor is China the exception. The Indian e-commerce market is worth $31 billion a year[2]. In Brazil, online shoppers spend $22 billion a year, in Taiwan $24 billion and in Germany over $100 billion[2]. Not only are global e-commerce markets highly lucrative, they are also fast growing.

In Asia, B2C e-commerce is growing by 28% a year, in South America by 25%, in Africa by 18% and in Eastern Europe by 17%. Investing in these markets now by establishing a presence and a brand which local shoppers trust, gives merchants access to the places from which most e-commerce growth will come in the next few decades.

The world pays differently

But there is a catch. In most markets, the majority of people use something other than a credit card to pay for their online shopping. In the U.S., over 60% of consumers pay for purchases by credit card[2]. In Western Europe, the proportion paying with a credit card drops to 42%, in Asia 30% and in Eastern Europe just 20%[2].

And even this does not tell the whole story. In many markets, credit cards are likely to be a declining proportion of payment methods used in the near future. This is because those with cards, the local elite, are already connected and shopping online. The new Internet users coming online in droves are less likely to have a payment card and more likely to use one of a range of alternative local payment methods (LPMs).

And this matters for merchants. A recent study found that 14% of consumers will abandon a purchase if they can't find a preferred payment method. 23% will abandon if they don't trust payment security (more likely with an unfamiliar payment method) and 15% will abandon if they find paying too tricky[3].

Failing to provide a payment method which customers know and trust hurts conversion rates. That's why merchants need to support local payment methods in every market they serve.

Unlock global growth with local payment methods

Local payment methods vary significantly from one country to the next. In some markets, people have a cultural aversion to debt and a strong preference for cash. In such cases, consumers pay for purchases with cash on delivery or through schemes which let them pay at a local convenience store or post office. In Saudi Arabia, for instance, 66% of all online purchases are paid for in cash, in the Philippines the figure is 65% and in Argentina 44%[2].

Payment reflects local historical realities

In other markets, the payment mix may reflect historical realities that are now local preferences. In the Netherlands, for instance, customers pay for 57% of online transactions using the iDEAL bank-transfer service[2]. When the Internet first gained popularity in the Netherlands, bank-transfer payment method iDEAL was the country's most mature means of online payment, allowing it to capture the market.

Other types of LPMs include mobile-wallets for smartphones, mobile money on feature phones, pay-by-ATM and similar online-cash-systems and online e-wallets. Each local market has its own unique mix of preferred payment methods and culture.

Even neighboring markets can be very different

Often these are very different even to the payment preferences of close neighbors. In Peru, for instance, 29% of consumers pay for online purchases with bank-transfers. In nearby Chile, it's just 5%. Without the right payment methods for the market, merchants will not be able to gain acceptance or grow their business.

This means that even a merchant that is established in one regional market, is well advised to seek local advice and support before expanding into a near neighbor. Simply transplanting a payment system and online business model from one market to another is unlikely to be successful.

And the stakes are extremely high. In markets such as Western Europe and Asia, merchants are already well versed in providing a range of local payment methods for each market. This has enabled them to grow the portion of their revenues coming from cross border sales to 40.6% and 34.7% respectively. In the U.S., just 13.6% of all online sales are made cross-border[2].

If U.S. merchants do not want to lose their dominant position in global e-commerce, they must adapt to the global market when selling cross-border, now.

1. Rob Smith. "42% of global e-commerce is happening in China. Here's why". 10 April 2018. World Economic Forum.
2. Original PPRO research.
3. Worldpay Consumer Behaviour and Payments Report 2016. WorldPay. 2016.

Is U.S. E-commerce ready for a globalized market?

According to original research conducted by PPRO, 40% of Europe's retail revenue comes from business conducted outside the retailers' home markets. The same figure for the U.S., is just 14%. Just 11% of all U.S. e-commerce sales are made cross-border, in Europe, that figure is 16% and in China 20%.

But just because U.S. merchants aren't yet exploiting cross-border opportunities to their fullest, does not mean the same is true for American consumers. 34% of Americans shop with e-commerce merchants based in other countries, a figure in line with other developed markets such as the UK (38%), France (40%) and Germany (32%)[1].

The world wants to buy, why isn't America selling?

Consumers in some of the fastest-growing and most lucrative markets in the world are increasingly willing to shop cross-border in search of a good bargain. But most U.S. merchants aren't selling.

The implications of these figures should alarm U.S. e-commerce retailers. They face increasing competition in their home market and they're allowing competitors from other markets — such as Europe, Japan, India and China — to establish a dominant position in cross-border e-commerce that could put U.S. entrants at a disadvantage in the global online marketplace.

Missing out on 85% of global purchasing power

The U.S. remains the world's leading commercial nation. That's reflected in the fact that though 95% of the world's population is outside America's borders, only 85% of the world's purchasing power is.

But while Americans may spend more per capita, purchasing power in other countries is rising rapidly. Average wages in parts of China are now on a par with those in some European countries[2]. According to research by PwC, by 2050 six of the world's seven biggest economies will be what we today call 'emerging markets'.

With the right approach to localization and the right mix of LPMs, American merchants are in a strong position from which to succeed in these markets, capitalizing on the positive sentiment people around the world have for Brand America and for American brands *(see page 15)*.

1. All figures on this page, unless explicitly stated otherwise, are derived from original PPRO research
2. Kenneth Rapoza, "China Wage Levels Equal To Or Surpass Parts Of Europe". Forbes, 16 August 2017. https://www.forbes.com/sites/kenrapoza/2017/08/16/china-wage-levels-equal-to-or-surpass-parts-of-europe

Why U.S. firms enjoy an advantage, if they choose to use it

The Internet is an American invention and so is e-commerce. The world's first e-commerce sale was made by Phil Brandenberger of Philadelphia who bought a CD from Net Market Company of Nashua, New Hampshire[1]. Even six years later, the U.S. still accounted for three-quarters of the global e-commerce market and 90% of all online merchants were U.S. based[2].

This first-mover advantage has not propelled most U.S. companies into the global markets. On average they are less likely to sell abroad than their competitors from other markets. But in other ways, it has helped to make American merchants among the most competitive in the world.

The competition for user attention

For U.S. merchants, even filling the sales funnel is harder than it is for international competitors. By revenue the digital advertising market in the U.S. is almost twice as big as the market in China ($43.9bn compared to $80.18bn)[6], the next biggest market. That's despite there being over a billion Chinese compared to just 326 million Americans.

As you'd expect, this saturation of the online ad market makes it tough for U.S. e-commerce sites. Average display times for banner ads in the U.S. are 44 seconds, compared to a global average of 58 seconds. The paid-search click-through rate in the U.S. is just 0.9%, while the global average is 1.4%[7].

U.S. merchants operate in one of the most competitive marketing environments in the world. They must fight harder for every click. That puts them at a competitive advantage when they go out into the global marketplace. They can put this experience to good use in the global marketplace. And they should, because failure to do so effectively concedes the largest and fastest-growing e-commerce markets to international competitors.

1. Peter H. Lewis. "Attention Shoppers: Internet Is Open". The New York Times, 12 August 1994. https://www.nytimes.com/1994/08/12/business/attention-shoppers-internet-is-open.html
2. "First America, then the world: A survey of e-commerce ". The Economist, 24 February 2000. https://www.economist.com/special-report/2000/02/24/first-america-then-the-world
3. "E-commerce market share of leading e-retailers worldwide in 2016, based on GMV". Statista, 2018. https://www.statista.com/statistics/664814/global-e-commerce-market-share
4. Global Ecommerce Report 2017. E-commerce Foundation, 2017.
5. Ecommerce Benchmark & Retail Report 2016. E-commerce Foundation, 2017.
6. Digital Economy Compass. Statista, May 2017.
7. Display Benchmarks, Google Rich Media Gallery. http://www.richmediagallery.com/learn/benchmarks

The world loves Brand America and American brands

Despite competing against over 1,000 domestic rivals, Coca Cola is the most popular soda in China, with a 16% market share[1]. Asked to define the Coke brand, CEO James Quincey said, "Coca-Cola is of course also American, because it all started there. The brand continues to radiate optimism and openness like the American dream"[2].

No one should be surprised that the Chinese love the Real Thing from Atlanta, where PPRO itself has laid roots for its North American office. The latest survey of 'nation brands' by the consultancy Brand Finance found that the U.S. had the strongest and most valuable brand of any country in the world (AAA-rated and with a value of USD 21.1 trillion[3].

Put simply, despite the obvious complexities of international politics and fluctuations in sentiment due to current events, most people in the world feel good about America. A study by the Pew Research Center found that at the end of 2016, 64% of those surveyed said they had a positive opinion of America[4].

A positive sentiment toward U.S. brands

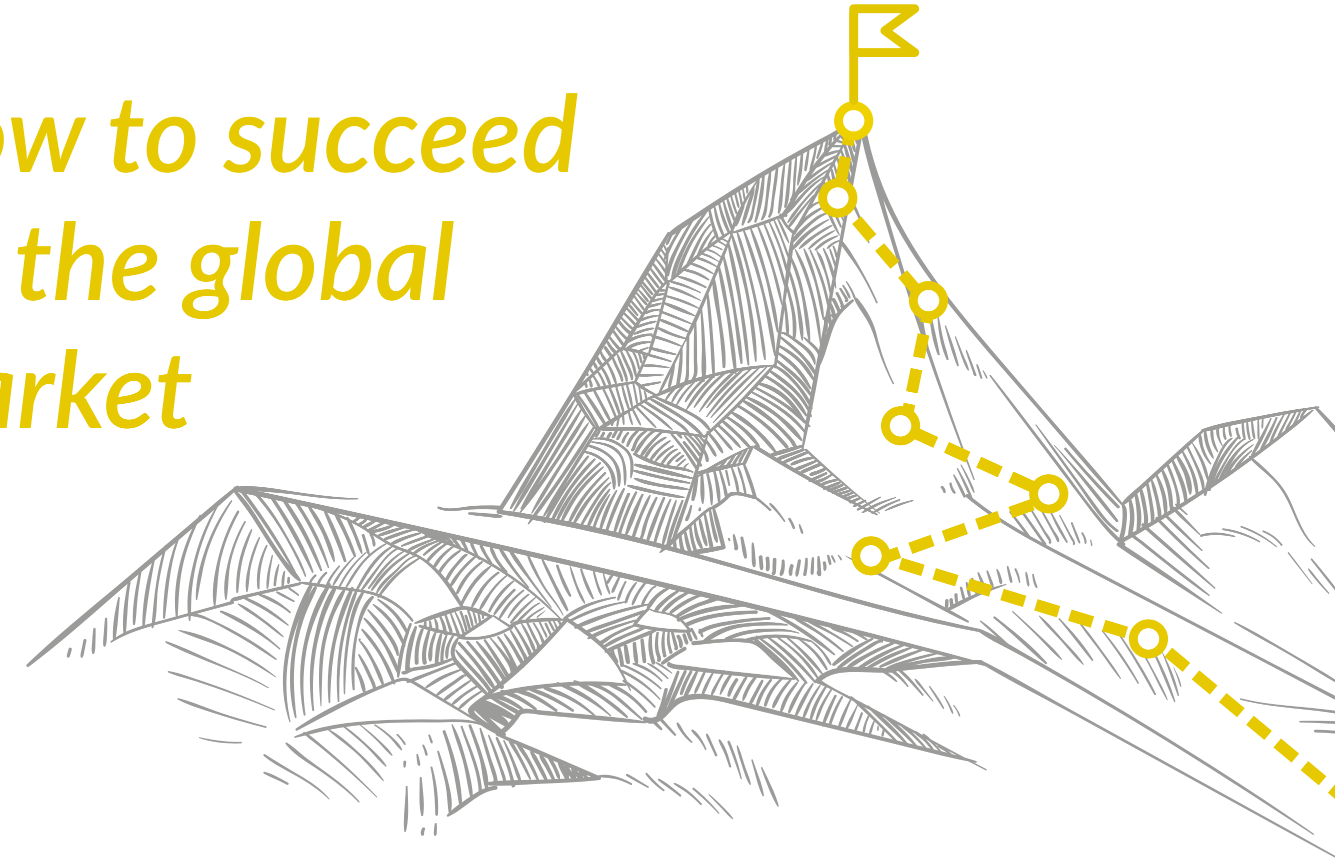
Positive sentiment toward America has a halo effect for American brands. In 2017, the advertising agency J. Walter Thompson (JWT) conducted research into the global perception of U.S. brands. It found that between 78% and 93% of people surveyed in six major markets had a positive opinion of American brands[5].

Asked what terms they associated with American brands, JWT's respondents replied "quality" and "innovative". The biggest drivers of brand affinity for American marks were quality, trustworthiness, and familiarity.

For U.S. e-commerce merchants, the strength of Brand America and of American brands is a significant advantage. The rising global middle class is hungry for consumer goods. And its members already know and trust U.S. products from years of exposure to American films and TV shows.

1. Catherine Matacic. Coca-Cola to Invest More than $4 Billion in China through 2017. China Business Review, 7 November 2013.
2. Coca-Cola CEO: ‚We Must Be Bold and Fast'. Coca Cola. 6 July, 2017. https://www.coca-colacompany.com/stories/we-are-experimenting-a-lot-at-the-moment
3. Nation Brands 2017. Brand Finance, October 2017.
4. Richard Wike. "America's Global Image". Pew Research Center, 28 June 2017. http://www.pewglobal.org/2017/06/28/americas-global-image
5. "What does „America First" mean for the American brand?" J. Walter Thompson, 25 September 2017.

How to succeed on the global market



Given the advantages U.S. brands enjoy and increasing homogenization of much of the world, particularly among urban dwellers, it's tempting to think that launching local e-commerce shops is simply a matter of cloning and re-skinning your U.S. site. This is definitely not the case.

Although preference for American brands is strong, the preferred brand or the strongest categories can differ starkly from one market to the next. In Argentina, for instance, electrical goods are the second most popular category, with an 11% market share. In neighboring Chile, they don't even feature in the top-three categories[1].

Preferred local payment methods

As already discussed at the start of this paper, payment localization can have a significant impact on a merchant's success in a local market. One recent study found that up to 13% of shoppers will abandon a shopping cart if they are not offered a locally preferred payment method[4].

With familiar and trusted local payment services, seamlessly integrated into the checkout, merchants increase trust, reduce barriers to conversion and cut cart abandonment rates. With the right mix of LPMs for each market, merchants can maximize reach and consumer uptake.

The importance of local partners

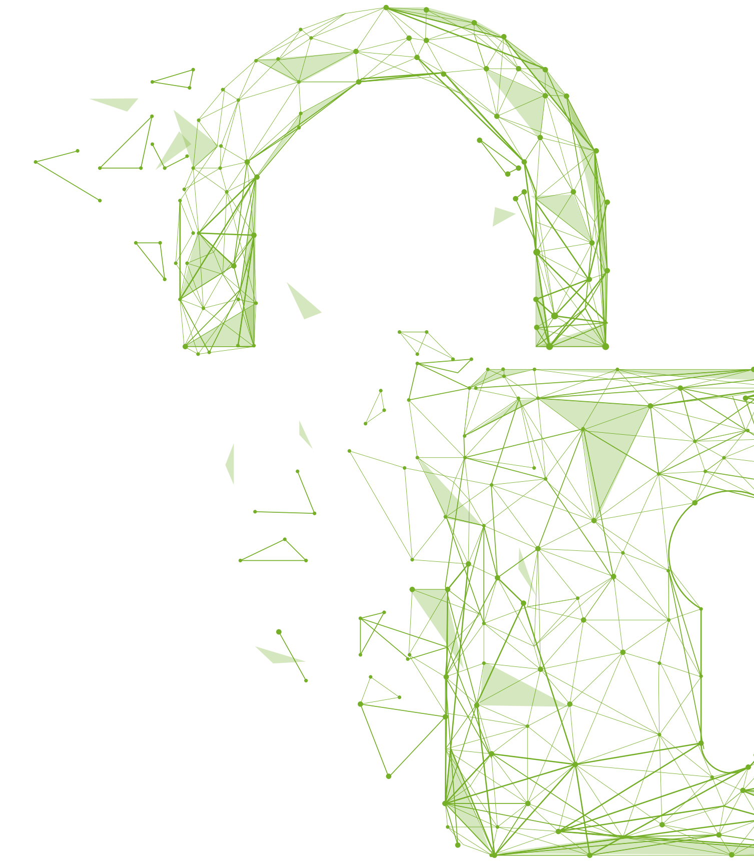
In Taiwan, you can send a customer six parcels in any six-month period without that customer having to pay import duties. From parcel seven onwards, he or she must pay tax at the normal rate. In November 2017, Poland banned Sunday trading. But unlike a similar ban in Hungary, which forbade e-commerce deliveries on Sunday, the Polish ban is expected to give online shopping a boost[3].

Every market has its local peculiarities. These range from cultural taboos through product preferences right through to the impact of local laws and regulations. For a newcomer to the market, it's impossible to navigate the subtleties of local business culture without help.

You may wish to recruit your own staff locally, work with consultants, or use one of the many global or local market places which allow you to sell in market without the overheads of setting up your own infrastructure. However you find them, local partners with detailed market knowledge are vital.

1. Original PPRO research
2. Taiwan Customs Changes for Inbound Shipments. UPS, 3 July 2017. https://www.ups.com/tw/en/about/news/tw-customs-changes.page
3. James Shotter. "Polish government passes bill to limit Sunday trading by 2020." The Financial Times, 24 November 2017. https://www.ft.com/content/f4438444-2227-3e4b-8dbb-fbcf621db9a3
4. Mike Misasi. "5 Reasons Cross-Border Payments Fail (& The Solutions)". BlueSnap, 15 September 2017.

Localization *is the* KEY



75% of shoppers, according to one survey, prefer to use e-commerce sites that have been translated into their own language[1]. By localizing into just twenty-one languages, you can reach 90% of global web users[2]. Done properly, localization is about more than just translation. It involves in-market experts customizing the presentation on your site, your customer journey and even your idiomatic use of language. And the good news is that by localizing, you can increase click-through rates by as much as 42% and conversion rates by 22%[3].

The world is waiting

America is home to some of the world's most loved brands and retailers. But beyond a few tech giants, relatively few have ventured into cross-border selling. This is a lost opportunity. And there's nothing inevitable about it. The world's growing middle class is hungry for consumer goods. With their experience of providing a world-class online retail experience, U.S. merchants are well placed to fulfil that demand and benefit from the massive market growth expected as more and more citizens of emerging economies come online. With the right strategy, the right partners and the right local payment methods, the U.S. e-commerce sector can take the global market by storm. And now is the time to start.

1. "Survey of 3,000 Online Shoppers". Common Sense Advisory, April 2014.
2. The Value of Language in eCommerce. Capita.
3. "How much does localization increase ad engagement?" E2F, 28 June, 2015.
4. Original PPRO research

5-year cross-border e-commerce **growth in the US**

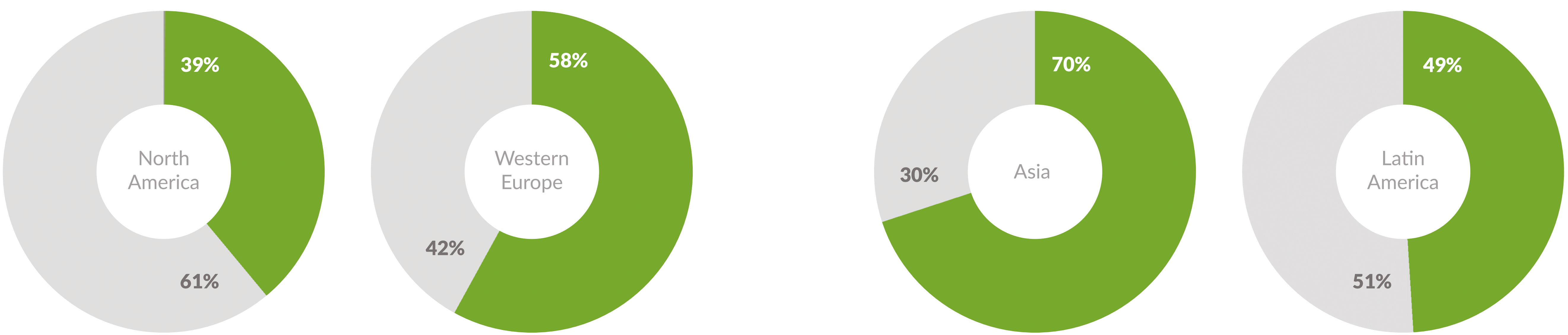
Values depicted in USD billions

Only **36%** of all US merchants **currently sell cross-border**

Top cross-border e-commerce countries **purchasing goods from the US**

Local VS **Traditional**

Payment method usage across the globe



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CONCLUSION

As the statistics compiled by Edgar, Dunn & Company show, the global e-commerce market outside America's borders is huge and growing fast. More people come online every day and millions of them are eager to shop. The U.S. has some of the world's most loved consumer and retail brands. This puts U.S. merchants in a strong position to reach and be accepted by global consumers.

But right now, except for a few well known U.S. e-commerce giants, American merchants are not making the most of these opportunities. The dollars that U.S. merchants leave on the table, are eagerly picked up by rivals from Asia and Europe. If American e-commerce does not expand into the global market now, at the point when millions of new consumers are coming online every year, then it effectively cedes those markets to its competitors. And once competitors are established and those markets mature, entry will be far harder.

To find out how to help your merchants start cross-border selling, speak to PPRO today:

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About PPRO

E-payment specialist PPRO helps people pay and get paid. Through its Girogate platform, payment service providers (PSPs) and the merchants they service get access to hundreds of local payment methods (LPMs) from around the world through a single application programming interface (API), a single integration, and a single contract.

For its customers, PPRO provides not only seamless access to the LPMs they need, it also takes care of all commercial aspects when dealing with payments, negotiates fee structures with payment methods, handles regulatory and contractual issues, and maintains the relationship with the payment method.

The PPRO Girogate platform, combined with PPRO's unmatched expertise in international e-payments, gives PSPs access to a payments back-end and a portfolio of back-office commercial expertise that most would not be able to maintain or keep up to date on their own.

To find out more, visit **www.ppro.com**