Cracking the world’s largest eCommerce markets
International ecommerce is here to stay, and several UK retailers, both pureplay and multichannel are successfully winning outside their home market.

Previous studies by OC&C and Google, have shown the UK to be the largest net exporter, with international retail outpacing domestic retail by 4x and expected to be worth £28bn by 2020.

Much of this success to date has come from UK retailers ‘skimming’ a large number of markets through international shipping and payment solutions.

Success in the future will require them to move from this ‘go broad’ strategy to one that enables them to ‘go deep’ and be locally relevant in some of the world’s largest and fastest growing ecommerce markets. The USA, China and Germany, in particular, represent key opportunities for UK retailers to access via ecommerce.

The study examines today’s winners; the barriers that, once removed, would accelerate cross-border shopping, and what it takes to win in three large markets, each of which has some highly unique characteristics.

Bringing together for the first time insight from OC&C with search data from Google and transaction data from PayPal, this report looks at the opportunities for UK retailers to win in these three of the world’s largest ecommerce economies.
Alongside the UK, the biggest growth markets in ecommerce are USA, China and Germany.

In total these 4 markets are expected to double in size by 2018, adding £320bn.

Source: Analysts consensus, OC&C analysis
UK retailers are already punching above their weight in these markets, ranking as #1 or #2 cross-border destination

Top 5 Countries for Cross-Border Shopping

<table>
<thead>
<tr>
<th>Country</th>
<th>US Shoppers</th>
<th>Chinese Shoppers</th>
<th>German Shoppers</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>13%</td>
<td>14%</td>
<td>15%</td>
</tr>
<tr>
<td>UK</td>
<td>9%</td>
<td>6%</td>
<td>13%</td>
</tr>
<tr>
<td>Canada</td>
<td>9%</td>
<td>3%</td>
<td>6%</td>
</tr>
<tr>
<td>Japan</td>
<td>4%</td>
<td>6%</td>
<td>9%</td>
</tr>
<tr>
<td>France</td>
<td>2%</td>
<td>3%</td>
<td>3%</td>
</tr>
</tbody>
</table>

1. Question: “Thinking about shopping online, from which of the following country or geographies’ websites in the past 12 months” US n=563; China n=639; Germany n=614
2. Hong Kong responses are assumed to be a subset of customers shopping from China

Source: Ipsos MORI PayPal study 2014, OC&C analysis
These markets merit greater focus - international consumers are both valuable and loyal

Cross-Border Shoppers to UK Merchants¹

Average Paypal Transaction Value

Multiple of UK Average Paypal Transaction Value

- China: 2.7x
- Germany: 1.7x
- USA: 1.4x
- UK: 1x

China may be skewed by category mix as well as customers purchasing on behalf of others.

Annual Repeat Paypal Transactions with Same UK Retailer

Multiple of UK median

- China: 0.9x
- Germany: 0.6x
- USA: 0.8x
- UK: 1x

¹ Excludes sales from online marketplaces e.g. eBay, tangible goods only

Source: PayPal, OC&C analysis

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6 essentials to win in the world’s largest ecommerce markets

1. Know your Pull Factors
   Even in well-served markets like the US, there are reasons why UK retailers should do well
   Harness the power of your proposition

2. Focus to Climb Fast
   When we look at the fastest rising retailers in the ranks, they all appear to pick their battles
   Take lessons from the leaders

3. Adapt for Online Ecosystems
   Some markets are fundamentally different where you will need to change the way you operate
   Consider a specifically Chinese approach

4. Break Barriers Beyond the Basics
   Many of the original barriers still exist but you need to be tackling the tier beyond the obvious
   Go beyond the basics to tailoring your proposition

5. Price Smart for Currency Movements
   Currency may not be a primary barrier but it’s clear that it is still an influencing factor for cross-border shoppers
   Evolve your approach to pricing

6. Lead the Growth of Mobile
   UK retailers are uniquely well-positioned to exploit the international growth of retail
   Invest in the mobile journey

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International consumers purchase from the UK due to the unique products, price and quality

1. Know your pull factors

Pull Factors for Consumers to Buy From UK Retailer vs Local Retailer

<table>
<thead>
<tr>
<th>Reason</th>
<th>% Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Products that I cannot find in my own country</td>
<td>40%</td>
</tr>
<tr>
<td>Cheaper overall</td>
<td>30%</td>
</tr>
<tr>
<td>Trust the quality</td>
<td>29%</td>
</tr>
<tr>
<td>Better product styles</td>
<td>22%</td>
</tr>
<tr>
<td>More authentic products</td>
<td>20%</td>
</tr>
<tr>
<td>Like British brands</td>
<td>19%</td>
</tr>
<tr>
<td>Better service</td>
<td>14%</td>
</tr>
<tr>
<td>Quicker to receive</td>
<td>11%</td>
</tr>
</tbody>
</table>

1. Question: “Why did you decide to buy from a retailer based in the UK rather than a local retailer? Select all that apply” (n=2,290)

Source: OC&C Consumer Survey (powered by Toluna), OC&C analysis
Key drivers differ across countries

1. Know your pull factors

Top 3 Pull Factors by Country for Consumers to Buy From UK Retailer vs Local Retailer

1. Question: “Why did you decide to buy from a retailer based in the UK rather than a local retailer? Select all that apply”; US n=724; Germany n=974; China n=592  Source: OC&C Consumer Survey (powered by Toluna), OC&C analysis

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UK retailers who have achieved international ecommerce success do so through clear strengths in their offer

2. Focus to climb fast

Important Factors when Choosing to Buy from UK Retailer

<table>
<thead>
<tr>
<th>Factor</th>
<th>% Respondents Answering “Very Important”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safe &amp; preferred payment method</td>
<td>46%</td>
</tr>
<tr>
<td>Unique product offering</td>
<td>34%</td>
</tr>
<tr>
<td>Affordable shipping</td>
<td>33%</td>
</tr>
<tr>
<td>Website &amp; support in local language</td>
<td>32%</td>
</tr>
<tr>
<td>Free &amp; easy returns</td>
<td>31%</td>
</tr>
<tr>
<td>Trust in product authenticity</td>
<td>31%</td>
</tr>
<tr>
<td>Delivery speed</td>
<td>28%</td>
</tr>
<tr>
<td>Pricing &amp; promotions</td>
<td>27%</td>
</tr>
<tr>
<td>Delivery tracking</td>
<td>26%</td>
</tr>
<tr>
<td>Mobile-friendly</td>
<td>14%</td>
</tr>
</tbody>
</table>

Source: OC&C Consumer Survey (powered by Toluna), OC&C analysis

Top 3 Factors where Fast Climbers are Outperforming


1. Question: “When making the decision to purchase from <UK retailer A>, how important was it to you that they offered the following?”
2. Outperforming average of the 36 UK retailers included in the consumer survey: ASOS n=86; Graze n=48; MyProtein n=43; Boden n=31

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Fast-climbers in the international field have been focused

2. Focus to climb fast

Top 10 Fastest Risers 2012-15
Added Search Volume

<table>
<thead>
<tr>
<th>USA</th>
<th>Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. ASOS</td>
<td>1. ASOS</td>
</tr>
<tr>
<td>2. Topshop</td>
<td>2. My Protein</td>
</tr>
<tr>
<td>3. Wiggle</td>
<td>3. Superdry</td>
</tr>
<tr>
<td>5. Lush</td>
<td>5. The Body Shop</td>
</tr>
<tr>
<td>7. Clarks</td>
<td>7. Boohoo</td>
</tr>
<tr>
<td>8. Dabs</td>
<td>8. Next</td>
</tr>
</tbody>
</table>

- **ASOS**: Introduced zonal pricing to compensate for currency movements, including in US and Germany. Partner with local couriers abroad, allowing hassle-free returns. Accessible everywhere: mobile site, apps, Facebook shop, Pinterest in multiple languages.

- **Topshop**: Understand the consumer – e.g. 40% of snacks unique to the US market to suit consumer tastes, and new products like the ‘8 snack box’ introduced.

- **Wiggle**: Localised logistics – ‘The Brain’ adapts delivery according to quickest route.

- **Graze**: Make friends and share knowledge understand solutions from similar companies and share insights.

- **Lush**: Understood the consumer – e.g. 40% of snacks unique to the US market to suit consumer tastes, and new products like the ‘8 snack box’ introduced.

- **Burberry**: Localised logistics – ‘The Brain’ adapts delivery according to quickest route.

- **Clarks**: Make friends and share knowledge understand solutions from similar companies and share insights.

- **Dabs**: Understood the consumer – e.g. 40% of snacks unique to the US market to suit consumer tastes, and new products like the ‘8 snack box’ introduced.

- **Next**: Localised logistics – ‘The Brain’ adapts delivery according to quickest route.

- **The Body Shop**: Make friends and share knowledge understand solutions from similar companies and share insights.

- **Boden**: Understood the consumer – e.g. 40% of snacks unique to the US market to suit consumer tastes, and new products like the ‘8 snack box’ introduced.

- **Naked Wines**: Localised logistics – ‘The Brain’ adapts delivery according to quickest route.

- **My Protein**: Tailor product offering to tastes in each market – not a ‘one size fits all’.

- **Superspicy**: Given lack of on-the-ground presence, Build trust in quality via digital advertising, social media and influencers.

- **Sports Direct**: Emphasise unique proposition by focusing on their British heritage internationally...

...and then tackle key barriers to purchase:

- Shipping cost & speed first (Including adding a US warehouse)
- Tailoring payment methods to each country, and
- Localising languages

Source: Google and OC&C analysis

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China has a unique internet ecosystem, which requires a markedly different approach to succeed

3. Adapt for online ecosystems

E-Commerce Leading Players by Type
Relative Size (Traffic, Penetration)

Marketplaces & Generalists
- walmart.com
- ebay.com
- amazon.com
- bestbuys.com

Social Media
- LinkedIn
- Instagram
- Facebook
- Twitter
- Snapchat
- Google+
- Pinterest
- Tumblr
- WeChat
- Sina-Weibo
- JD
- Taobao
- Qzone
- Tudou
- Youku
- Kaixin
- Renren

Multiple functionalities in one app:
- Messaging and video chat
- Ecommerce: WeChat brand stores and direct access to online marketplaces
- Customer Support & Marketing
- Other services: mobile banking, taxi bookings, restaurant reviews

1. Traffic: Marketplaces & Generalists, Penetration: Social Networks
Source: iResearch, Similarweb rankings, OC&C analysis

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Marketplaces are the dominant online retail platform in China and supplant search engines as the starting point.

3. Adapt for online ecosystems

China ecommerce Market Composition

- Non marketplace 10%
- B2C marketplace 30%
- C2C marketplace 60%

TaoBao = c.90%
Tmall = c.60%
JD = c.20%

Ways International Consumers Reach UK Retailers Online

- Link from online marketplace
  - China: 32%
  - US: 19%
  - Germany: 21%
- Search engine
  - China: 34%
  - US: 27%
  - Germany: 27%
- Type in website directly into browser
  - China: 33%
  - US: 27%
  - Germany: 27%
- Search in shopping navigation sites
  - China: 19%
  - US: 19%
  - Germany: 19%
- Link on social media site
  - China: 12%
  - US: 10%
  - Germany: 9%
- Other
  - China: 3%
  - US: 5%
  - Germany: 3%

Source: iResearch, OC&C Consumer Survey (powered by Toluna), OC&C analysis

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Existing cross-border shoppers identify different key barriers to non-cross-border shoppers

4. Break Barriers Beyond the Basics

“To what extent do the following discourage you from purchasing more from overseas retailers?”

Top 5 Barriers Indicated as “Very Strongly Discouraging”

Current Cross-Border Shoppers¹

1. Concern about the security of my personal or financial details
2. Lack of trust in the retailer and/or product authenticity
3. Returns difficult and/or costly
4. Payment in foreign currency and/or higher overall cost to buy internationally
5. Concern about customs duties/fees and/or taxes

Non Cross-Border Shoppers²

1. Website and/or customer support not available in own language
2. Payment in foreign currency and/or higher overall cost to buy internationally
3. Returns difficult and/or costly
4. Concern about the security of my personal or financial details
5. Concern about customs duties/fees and/or taxes

¹ Consumers who have bought something online knowing that it was shipped from outside of their country (n=2,241)
² Consumers who have never knowingly bought something online that was shipped from outside of their country (n=759)

Source: Google, eConsultancy, OC&C Consumer Survey (powered by Toluna), OC&C analysis

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To ‘go deep’ you need to tackle barriers beyond the basics

4. Break Barriers Beyond the Basics

Cumulative Impact of Addressing Barriers
% of Total Online Shoppers Accessible

- A third of people don’t identify any major barriers to shopping cross-border
- ‘Skimming’ has been done fairly well to date – only another 10% to be gained from improving on these barriers
- Tailoring the proposition further by tackling these further barriers could allow you to access the final 60% of potential customers
- ‘Going Deeper’ + a further 60%

Source: OC&C Consumer Survey (powered by Toluna), n=3,000, OC&C analysis

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Currency is clearly an influencing factor for some cross-border shoppers, particularly with the Asian customer.

5. Price Smart for Currency Movements

**UK Share of eCommerce vs Exchange Rate**
2013-15YTD

**Australia**
- High correlation: $R^2 = 76\%$

**China**
- High correlation: $R^2 = 58\%$

Source: PayPal, Oanda, OC&C analysis
Determining the right pricing model is a key challenge to counter these effects

5. Price Smart for Currency Movements

**Pricing Options, Example Retailers & Products**

**One Price, One Currency**

- **£1,250 + £15 delivery**
- e.g. Selfridges - Alexander McQueen Jacket

**One Price, Multiple Fixed Currencies**

- **$949**
- **£599**
- **€699**
- e.g. babyclothing.com - Stroller

**One Price, Floating Currencies**

- e.g. iHerb.com - Avalon Organics Thickening Shampoo 414ml

**Totally Local**

- **$68**
- **$109/£69**
- **$105/€77**
- e.g. Abercrombie & Fitch - Jeggings

**Source:** Retailer Interviews, Internet research, OC&C analysis

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## UK shoppers are more mobile

### Fashion case study: Mobile & Tablet Share of Google Searches & Paypal Transactions

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>UK</strong></td>
<td>43%</td>
<td>60%</td>
</tr>
<tr>
<td><strong>US</strong></td>
<td>44%</td>
<td>59%</td>
</tr>
<tr>
<td><strong>Germany</strong></td>
<td>29%</td>
<td>45%</td>
</tr>
<tr>
<td><strong>China</strong></td>
<td>26%</td>
<td>48%</td>
</tr>
</tbody>
</table>

*With high growth in mobile in all markets, US and Germany will soon follow the same path as UK.*

Mobile has an even bigger share in China. Our consumer survey showed 75% of Chinese consumers said they shopped on mobile vs 25% in US and Germany.

1. Share of mobile & tablet vs all devices for fashion only, March 2013 and March 2015

Source: Google, Paypal and OC&C analysis

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As the US and Germany get more comfortable with mobile, UK retailers are well positioned to succeed

6. Lead the Growth of Mobile

DE Fashion Search and Transactions by Time of Day\(^1,2\)
Indexed 100=Max

UK Fashion Search and Transactions by Time of Day\(^1,2\)
Indexed 100=Max

1. Search: Google searches only, Transactions: Paypal transactions only  
2. Mobile includes both Smartphone and Tablet activity

Source: Google, Paypal and OC&C analysis

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The CEO’s Playbook for Success in the World’s Largest ecommerce Markets

**USA**
- Emphasise proposition – particularly high quality, British
- Master visual social media
- Find a way to buy and price locally
- Focus on mobile conversion
- Adapt your last mile for speed

**Germany**
- Sharpen your value credentials
- Search trumps social
- Lernen Sie Deutsch zu sprechen
- Adapt your payment mix
- Proactively manage the returns experience

**China**
- Build trust and focus on authenticity
- Social is king, especially WeChat
- Work out the role of marketplaces in your strategy
- Price smart for currency
- Cultivate a network of trusted local partners, e.g. for last mile
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