



Cross-Border Merchant Research 2016

USA Report

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Background & Objectives

Advancement of technology is increasing commerce opportunities for online merchants, allowing them to sell across borders, anywhere, anytime.

PayPal commissioned Ipsos to conduct a six market survey with a total of 1,200 merchants to provide insights into CBT strategies.

In combination with previous consumer insights work, this research showcases gaps in merchant strategy vs. consumer demand for cross-border transactions

This survey is designed to gain insight into 4 main areas:

- How merchants are currently selling online (domestically and across borders)
- Merchants' cross-border markets, payment options, and pricing strategies
- The drivers and barriers of cross-border transactions
- Merchants' usage / management of foreign currencies

Research Methodology

This study was conducted across 6 markets and 1,214 'online merchants' in total.

Fieldwork

 All fieldwork took place in Nov- Dec 2015



Online survey

Questionnaire length of 15-20 minutes



This research was carried out to the international quality standard for market research, ISO 20252:2012

Sample

6 markets

Target sample of 200 per market.

Respondents recruited from online panels

Targeted mail-out to financial decision makers

Screened for:

- Decision maker for payment systems
- Currently offer customers an option to pay online

Businesses defined as follows:

Small business = 0-50 employees

Medium = 51-250 employees

Large = 251 + employees

The achieved sample sizes have been limited by the accessibility of key decision makers for participation in market research. This also means that no sample quotas were applied. Care should be taken in the interpretation of data based on sub-samples of the total survey sample as bases may be small.

Questionnaire

Screening & Classification



Online Sales and Payment Channels



Cross-Border Transactions



Drivers & Barriers to Cross-Border Selling



Foreign Exchange (FX) & Currency Management



Publication Note

The following information should be included in any news releases or materials for publication by PayPal. Additional guidelines on news releases are in Appendix B.

Please note: All PR releases/materials for publication should be sent to the Ipsos team for approval prior to publication

- › Research was carried out on behalf of PayPal by Ipsos MORI
- › Audience surveyed: Key decision makers/influencers in implementing payment systems at the company they work for, and whose business offers customers the option to make purchases online either through their own website or a third party such as Amazon. Referenced throughout this report as 'online merchants'
- › Sample size: 202.
- › Method of data collection: Online survey recruited from Business-to-Business (B2B) research panels
- › Sampling method: Targeted mail-out to financial decision makers.
- › No sample quotas were applied and data was analysed unweighted

NB: If results are being published, please include contact details of the PayPal team

Example of technical note

On Behalf of PayPal, Ipsos interviewed a sample of 202 adults who are decision makers/influencers in implementing payment systems at the company they work for, and whose business offers customers the option to make purchases online. Interviews were conducted online between Nov – Dec 2015.

No quotas were applied to the sample, and no weighting has been applied to the data.



USA FINDINGS

Key Conclusions:



Over a third of US on-line merchants are selling across borders (36%) and the majority have a dedicated business website (69%).

Just over half of cross-border sellers (53%) and 40% of domestic-only sellers use online marketplaces – with eBay & Amazon being the most commonly used.

Over half of merchants' websites have a mobile specific version (54%) and merchants are placing more importance on having solutions for smartphone than they are on tablet solutions.

1 in 3 merchants track which device shoppers are using, and from this it is clear that 'traditional' desktop/laptop purchases still have the largest share of sales, followed by smartphones

Canada and the UK are US merchants' strongest cross-border corridors, with Canada alone providing 41% of CBT revenue.

Europe is the most accessed region outside North America and represents 25% of CBT revenue

10 countries together provide 77% of the CBT revenue

1 in 3 merchants who currently only sell domestically intend to start selling cross-border in the next year

Key Conclusions: Continued



Merchants surveyed indicated that PayPal was a leading payments provider and is responsible for processing around 40% of revenue, for both domestic and cross-border transactions

A desire for business growth is the primary driver for selling in other countries

18% of merchants who currently sell cross-border expect to have a higher proportion of CBT sales in the next year, Canada and the UK being the markets expected to offer most growth in 2016

Social media & search engine optimisation are the most popular methods for driving cross-border traffic

For domestic-only sellers, the risk of fraud from foreign shoppers is the no.1 concern about CBT, and for all merchants the issue of shipping is a key concern

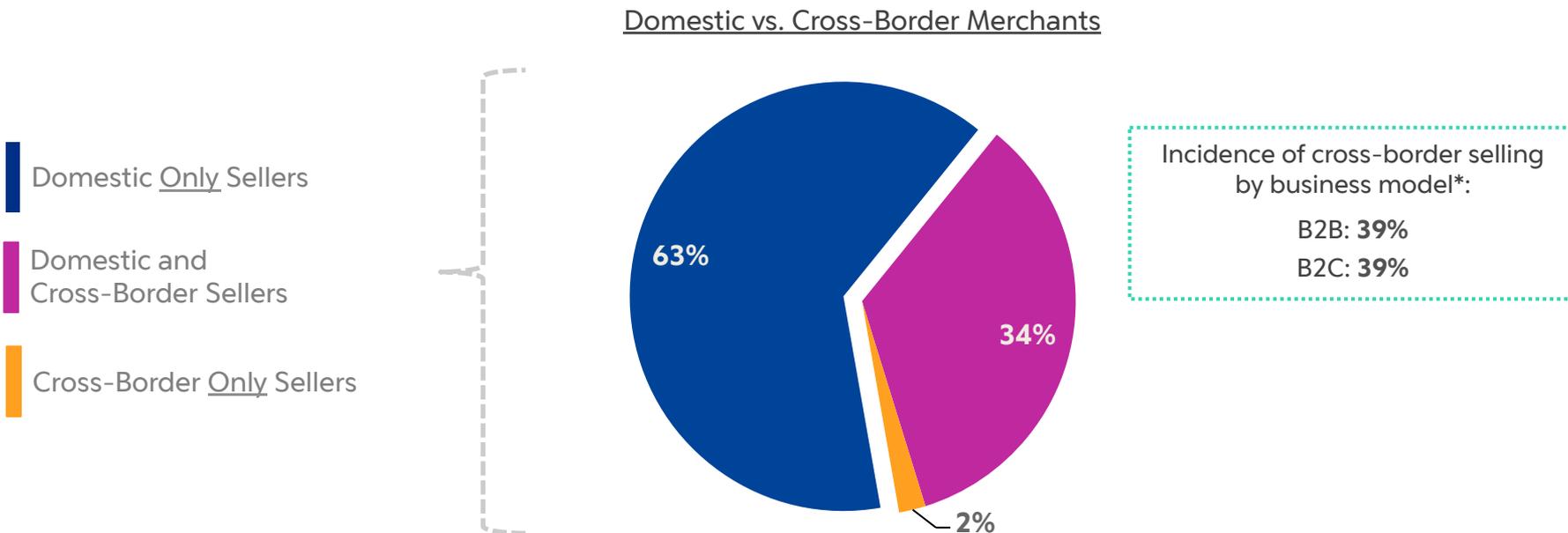
Cross-border sellers believe shipping costs are the no.1 reason for foreign shoppers to abandon a potential online purchase

The majority of cross-border sellers currently offer one price, in one currency for all markets (58%), but only 1 in 5 say this would be their preferred strategy (22%). The whole area of currency and exchange appears to be one that merchants find difficult

1. **ONLINE PAYMENTS**
2. CROSS-BORDER TRANSACTIONS
3. CROSS-BORDER DRIVERS AND BARRIERS
4. CURRENCY MANAGEMENT
5. APPENDICES

Domestic and Cross-Border Online Selling

Almost two-thirds (63%) of online businesses sell to their domestic market only (i.e. sell only to customers in the USA)



Q2. Which of the following countries or regions does your business currently accept online purchases from? Base: All online merchants (n=202)

*Base: Online merchants with a Business to Business (B2B) model (n=110) / Online merchants with a Business to Consumer (B2C) model (n=155)

Merchants' Online Shops

Over two-thirds of online merchants in the USA have their own online shop (69%)

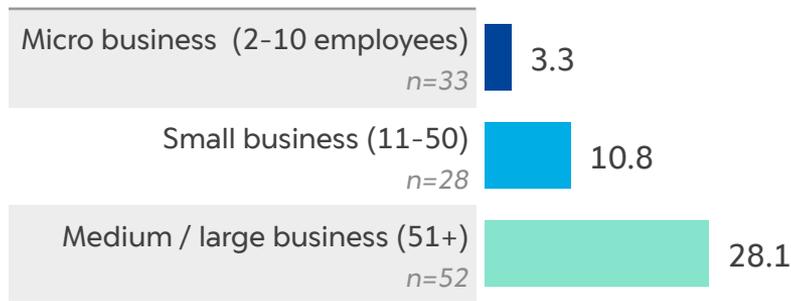
After English, Spanish is the most commonly available language for these sites (15%)

69%

of merchants accept payments through a dedicated business website



Average number of full time staff primarily employed to run processes around business' website, by business size*:



Languages merchants' online shop is available in (%)



English:
99%



Spanish:
15%



French:
9%



German:
4%



Italian:
4%



Polish:
1%



Russian:
1%

Q1a. Through which of the following channels does your business accept online payments? Base: All online merchants (n=202)

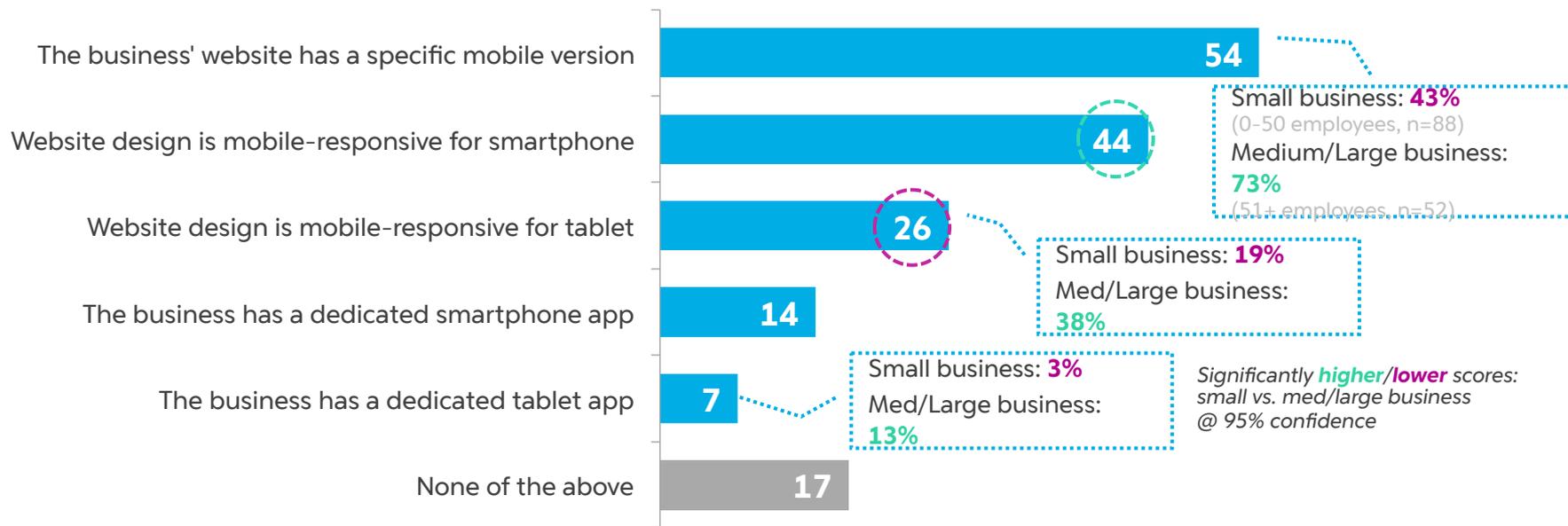
Q1c. How many full time employees does your business have primarily to run processes around your online shop? *Not showing 'sole trader' businesses

Q2b. Which languages is your online shop available in? Base: Merchants who sell through a business website (n=140)

Mobile Website Optimisation

Over half of merchants' websites have a mobile specific version (54%) and mobile-responsive solutions for smartphone are more common than for tablet. Larger businesses are more likely to have a specific mobile website, and to have implemented solutions for tablet

Business Websites' Mobile Optimisation (%)



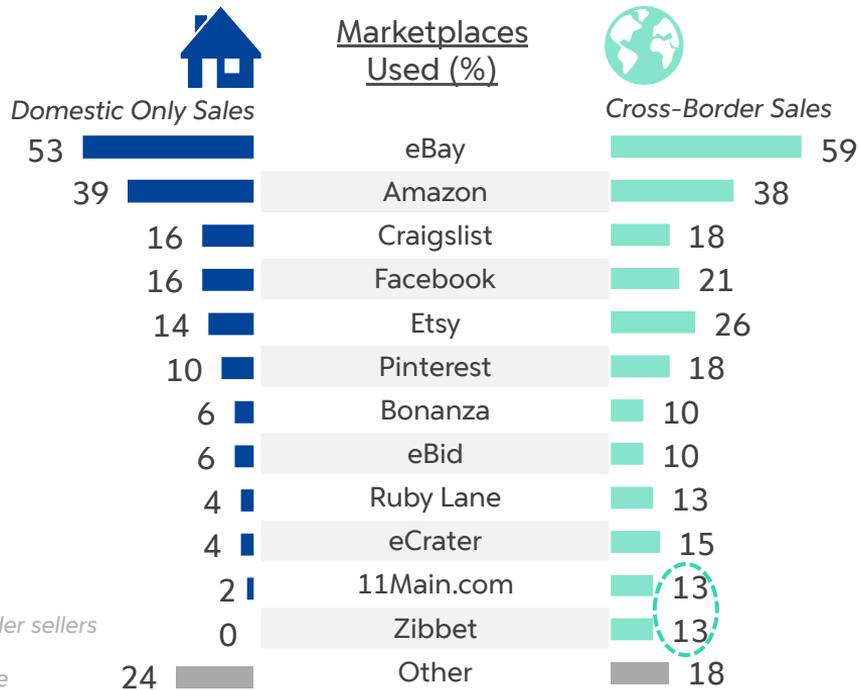
Q1b. Is your business website optimised for Internet browsers / apps on mobile devices? Base: Merchants who sell through a business website (n=140)

Online Marketplaces

Just over half of USA merchants selling cross-border (53%) & 40% of domestic only sellers use online marketplaces, and eBay is the most commonly used among both groups

40%

of merchants who **only sell domestically** use online marketplaces / third party sites



53%

of merchants who sell **cross-border** use online marketplaces / third party sites



Q1a. Through which of the following channels does your business accept online payments? Base: All online merchants (Domestic only sellers n=128 / Cross-Border sellers n=74)

Q2c/Q2d. Which of the below [third party sites / online marketplaces] do you use [to accept online payments]? Base: Merchants who sell through online marketplaces (Domestic only sellers n=51 / Cross-border sellers n=39) Not showing 'don't know'

Online Sales: Domestic and Cross-Border

Last 12 months Online Revenue

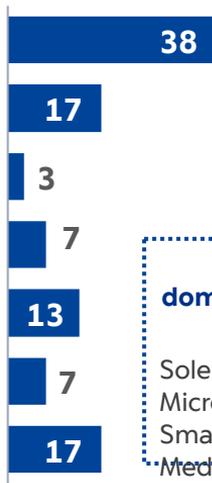
(%)

Under \$50,000
\$50,000 - \$249,999
\$250,000 - \$499,999
\$500,000 - \$999,999
\$1 million - \$1.999 million
\$2 million - \$4.999 million
\$5 million or more

Average L12M Online Revenue (total):

Domestic Online Sales

Base: Domestic Sellers (n=197)

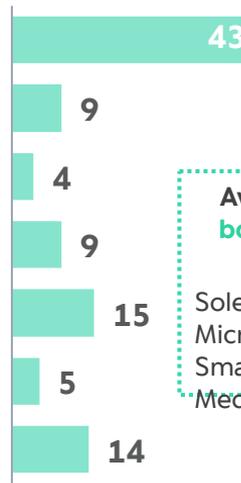


Average L12M online domestic revenue by business size:
 Sole trader: **\$0.27** million
 Micro (2-10): **\$3.62** million
 Small (11-50): **\$6.20** million
 Med/Large (51+): **\$34.55** million

\$12.75 million

Cross-Border Online Sales

Base: Cross-Border Sellers (n=74)



Average L12M online cross-border revenue by business size*:
 Sole trader: **\$6,900**
 Micro (2-10): **\$1.70** million
 Small (11-50): **\$7.33** million
 Med/Large (51+): **\$58.73** million

\$20.21 million

Q3a. What is the total value of your online sales in the last 12 months? Please indicate value for both domestic purchases (from within your own country) and purchases from other countries where applicable. Bases for Average L12M revenue call outs as follows:

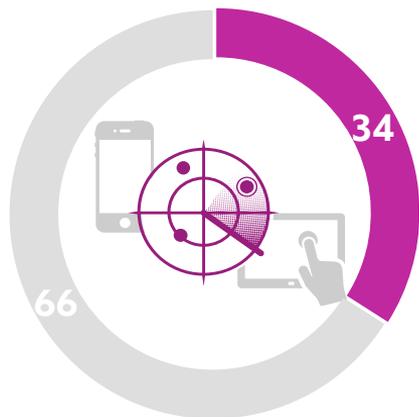
Domestic Sellers: Sole trader (n=55), Micro businesses (n=44), Small (n=37), Med/Large (n=61)

*Cross Border Sellers: Sole trader (n=19), Micro businesses (n=16), Small (n=16), Med/Large (n=23)

Online Sales: Device Share

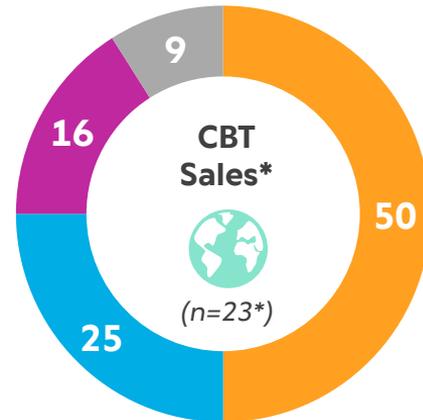
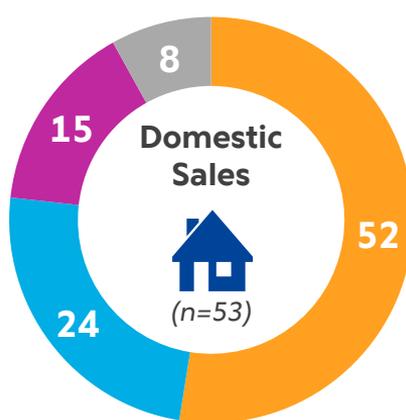
2 in 3 merchants do not track which device shoppers are using, but among those who do, device share of domestic and cross-border sales is almost identical. Whilst half of sales come from the 'traditional' desktop / laptop, around a quarter are through smartphones

Track Online Shoppers' Devices?
(%)



● Yes ● No

Device Share of Online Sales (%)



■ Desktop / laptop ■ Smartphone ■ Tablet ■ Other

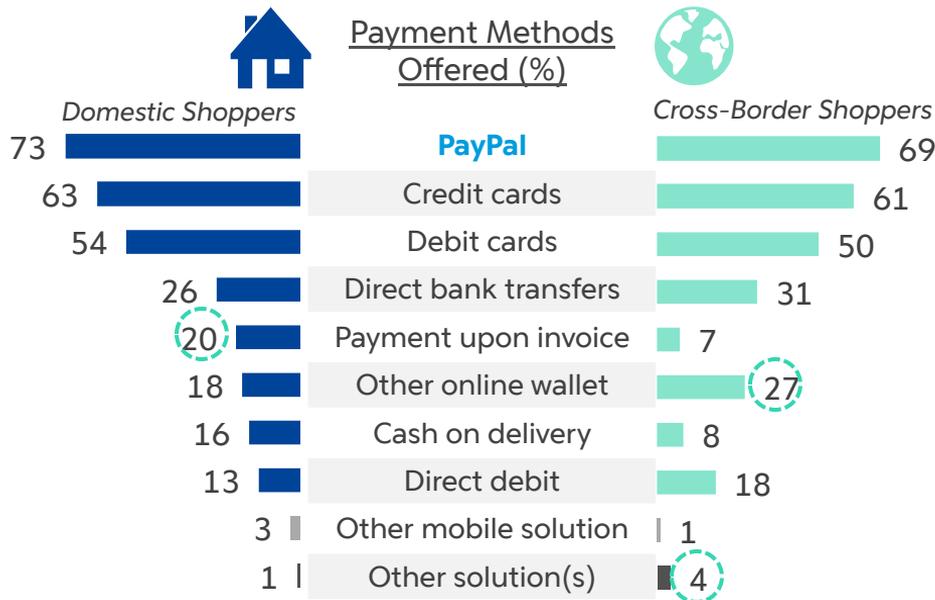
Q5c. Do you track what device shoppers are using when they purchase from your site? Base: All online merchants, excluding 'don't know' (n=187)

Q5d. What percentage of your domestic and foreign online sales comes from consumers using each of the following devices?

Base: Online merchants who track shoppers' devices, excluding 'don't know'

Online Sales: Payment Methods Offered

Payment methods offered are similar for domestic & cross border shoppers, with PayPal no.1 in both categories. Other online wallets are more commonly provided for cross-border transactions and invoicing is more likely to be offered for domestic sales



35%

of merchants who **sell cross-border** offer shoppers different payment methods in different markets



Q4b. Please indicate which of the following online payment options your business offers to its shoppers, whether they are domestic or from a foreign country (thinking generally if you sell to multiple foreign markets) Base: All online merchants Domestic Sellers n=197 / Cross-Border Sellers n=74

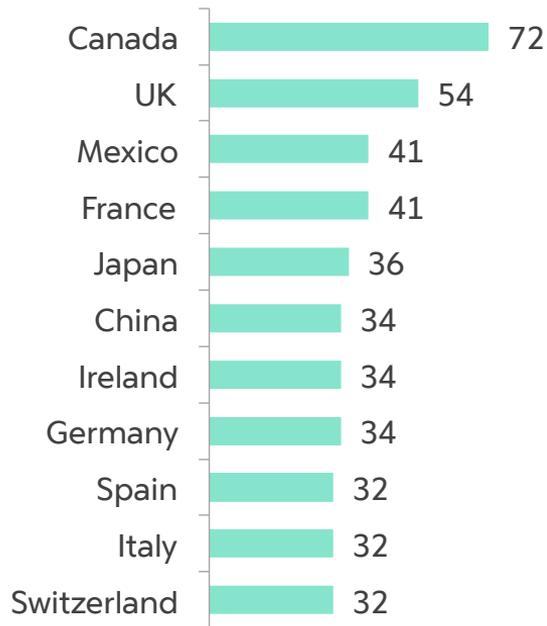
Q4a. Do you offer different payment methods depending upon the market of your foreign online shoppers? Base: Online merchants who sell cross-border (n=74)

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2. **CROSS-BORDER TRANSACTIONS**
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4. CURRENCY MANAGEMENT
5. APPENDICES

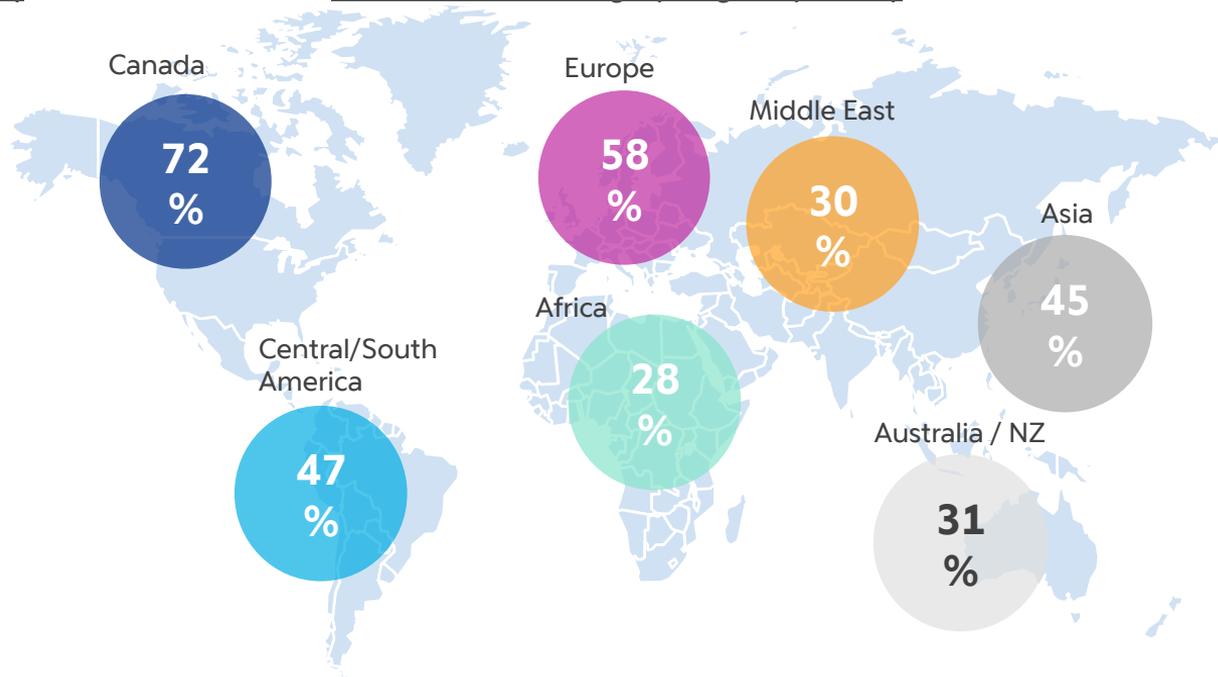
Cross-Border Corridors Offered

The majority of USA cross-border merchants sell to Canada (72%) and to the UK (54%). Europe is the most accessed CBT region outside North America

Top Countries for Cross-Border Selling (%)



Cross-Border Selling by Region (NET %)

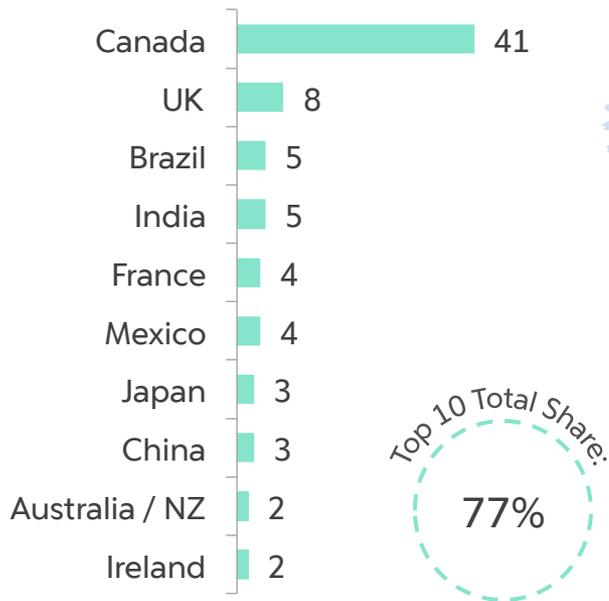


Q2. Which of the following countries or regions does your business currently accept online purchases from? Base: Online merchants who sell cross-border (n=74)

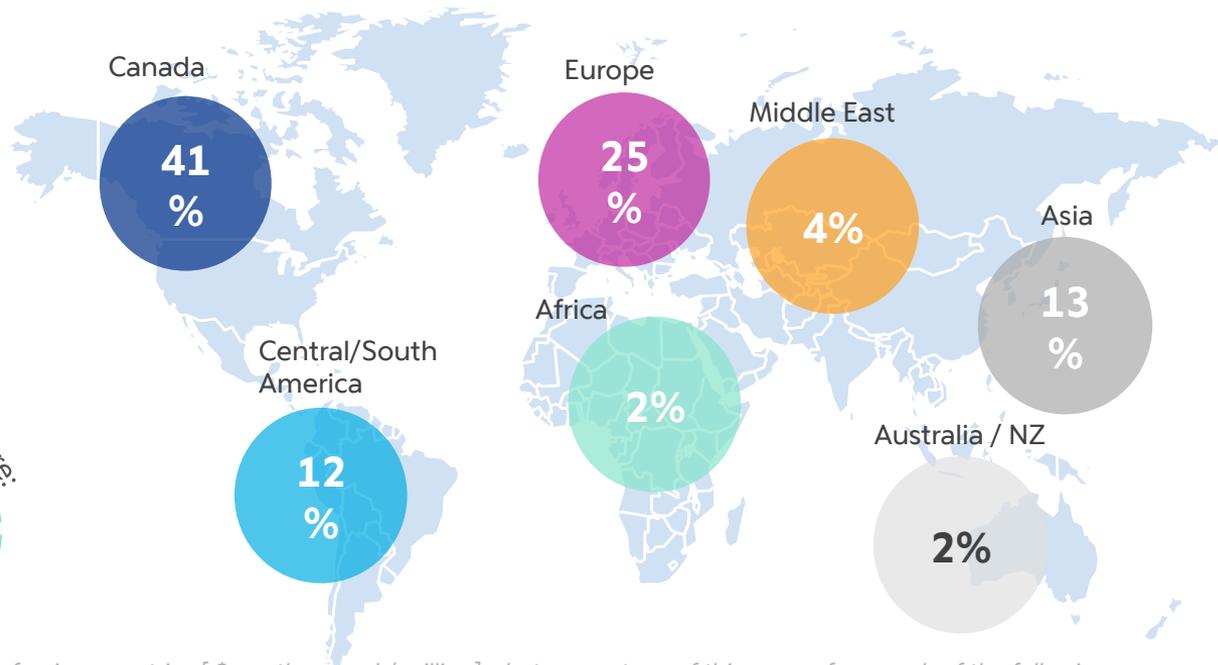
Cross-Border Corridors: Revenue Share

Canada provides by far the largest share of cross-border sales revenue (41%) to US merchants, and sales in Europe account for a quarter of CBT revenue.

Top Countries: Share of CBT Sales (%)



Share of CBT Sales by Region (NET %)



Q3b. Thinking specifically about your online sales from foreign countries [\$ xxx thousand / million] what percentage of this comes from each of the following markets? Base: Online merchants who sell cross-border (n=74)

CBT Expectations

1 in 3 domestic-only merchants say they will begin selling cross-border within 2016. Among current CBT merchants, the majority expect no change to their proportion of cross-border sales (77%), but almost 1 in 5 anticipate growth (18%)

33%

of merchants who currently **only sell domestically** intend to start selling cross-border in the next year



18%

of current **cross border sellers** expect they will have a higher proportion of CBT sales in the next year



77%

of current **cross border sellers** expect there will be no change to their CBT sales in the next year



5%

of current **cross border sellers** expect a lower proportion of CBT sales in the next year



Q6b. Do you intend to start accepting payments from cross-border shoppers within the next 12 months? Base: Online domestic-only sellers, excluding don't know (n=110) Q6a. How do you think the proportion of online cross-border shoppers will change for your business in the next 12 months vs. the past 12 months? Base: Online merchants who sell cross-border, excluding 'don't know' (n=60).

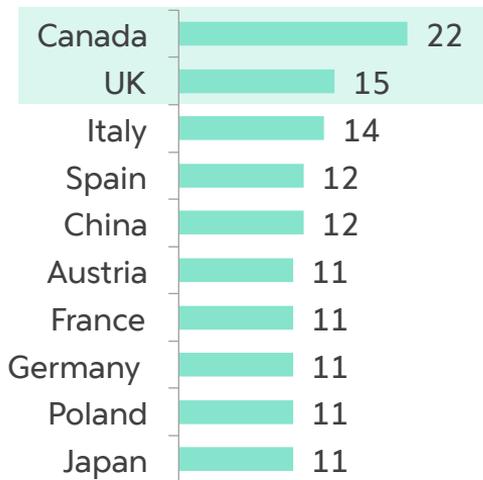
New, Growth, and Exit Markets

Canada and the UK are the markets expected to offer most growth in 2016 – both in terms of new merchants entering the market & increased sales amongst those already present.

N12M Top Cross Border Markets

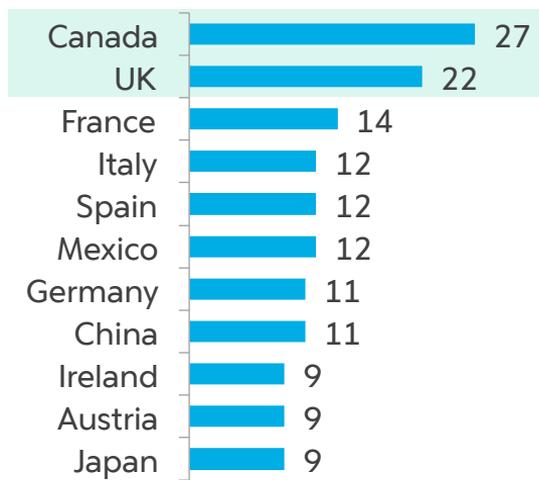
START SELLING (%):

Base: Current / N12M CBT sellers (n=110)



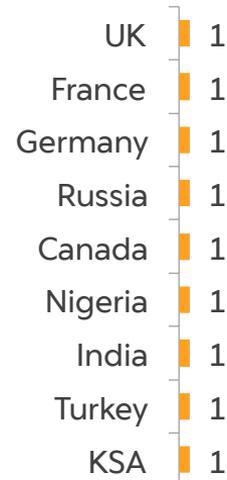
GROW SALES (%):

Base: Current CBT sellers (n=74)



STOP SELLING (%):

Base: Current CBT sellers (n=74)



85% say 'None' or 'Don't know'

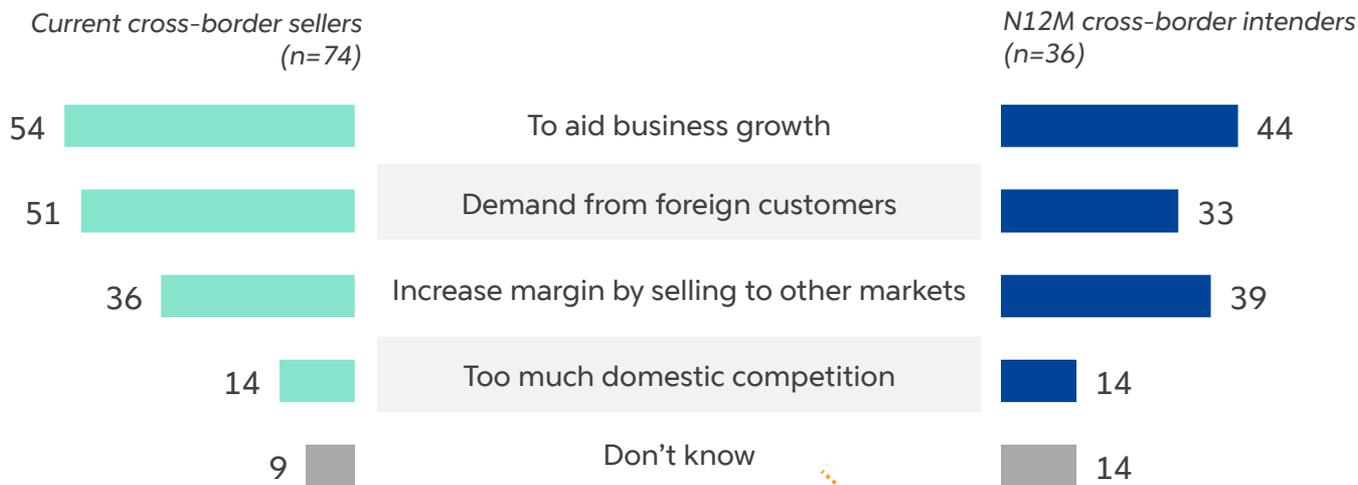
Q6c. In the next 12 months, do you plan to start selling in any new markets, expand your sales in any of your existing markets, or stop selling in any markets where you currently sell? Base: Online merchants who currently sell, cross-border or intend to in the next 12 month. N.B. Not showing domestic country (USA) in charts

1. ONLINE PAYMENTS
2. CROSS-BORDER TRANSACTIONS
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Cross-Border Drivers

A desire for business growth is the primary driver for selling in other countries among both current cross border sellers (54%) & merchants intending to sell cross-border in the next 12 months (44%)

Why sell cross-border? (%)



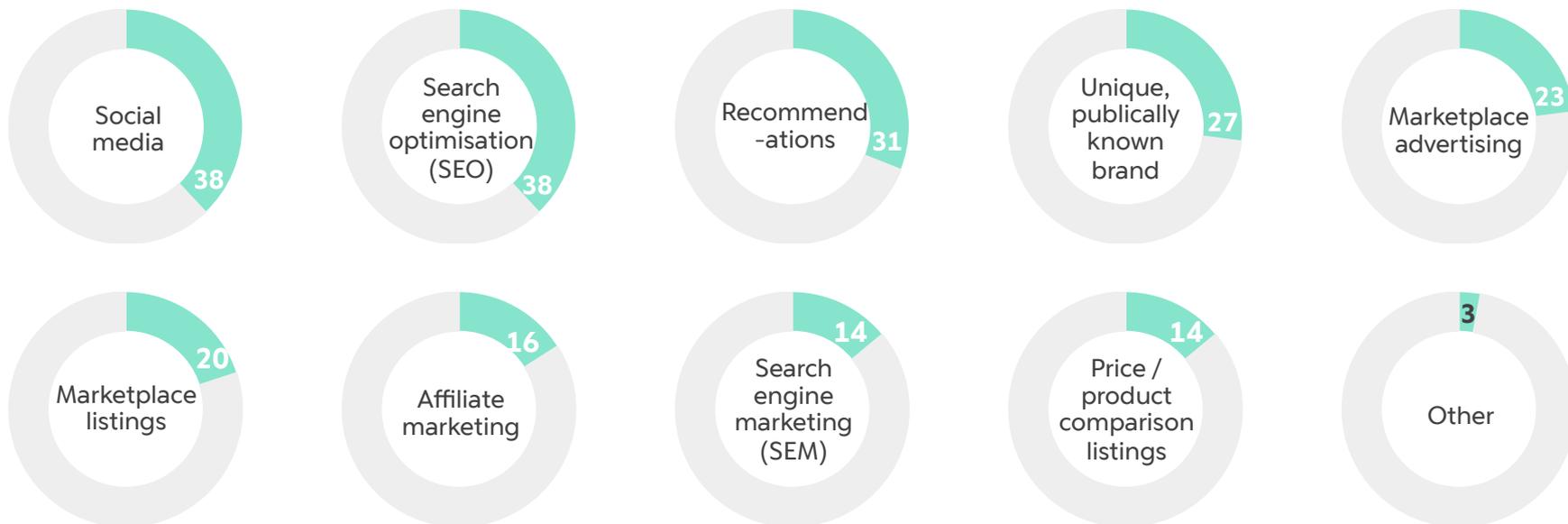
Note: None of the differences between current cross-border sellers & N12M intenders are statistically significant

Q8a. Why [do you choose to / are you now intending to] sell online to shoppers in other countries?
Base: Online merchants who sell cross-border or intend to in the next 12 months

Driving Cross-Border Site Traffic

Social media & search engine optimisation are the most popular methods for driving cross-border traffic to business websites, with over 1 in 3 cross-border sellers using these (38%)

How merchants drive CBT traffic (%)



Q8b. How do you drive traffic from foreign online shoppers to your website? Base: Online merchants who sell cross-border (n=74)

Cross-Border Barriers

For domestic-only sellers, the risk of fraud from foreign shoppers is the no.1 concern (ranked 5th for current CBT merchants), and for both groups **shipping** is a key concern

Top Barriers to Cross-Border Selling (%)

Base: Online cross-border sellers (n=74)



Base: Online domestic only sellers (n=128)



Q9. What are the main problems and barriers preventing you selling to foreign online shoppers, whether in general or in relation to specific markets?

Cross-Border Purchase Abandonment

Cross-border sellers believe shipping costs are the no.1 reason for foreign shoppers to abandon a potential online purchase. Just under a quarter (24%) also cite unclear prices (tax/duties) and delivery time (23%)

Top Perceived Reasons for CBT purchase abandonment

(%)



Q10. What do you think are the main reasons that online cross-border shoppers abandon merchants' websites without completing a purchase?
Base: Online merchants currently selling cross-border (n=74)



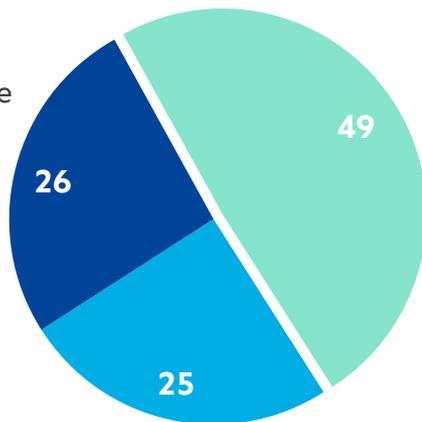
Significantly higher /lower scores @ 95% confidence

Cross-Border Taxes

Just over half of merchants selling cross-border do not include taxes in their checkout price (51%), and of this group, over half have no intention to do so in the future (54%)

Include CBT taxes in checkout price? (%)

- Yes
- No - leave for consumers to handle
- No - not a relevant issue for me



% Yes by Business Size:

Small business: 33%

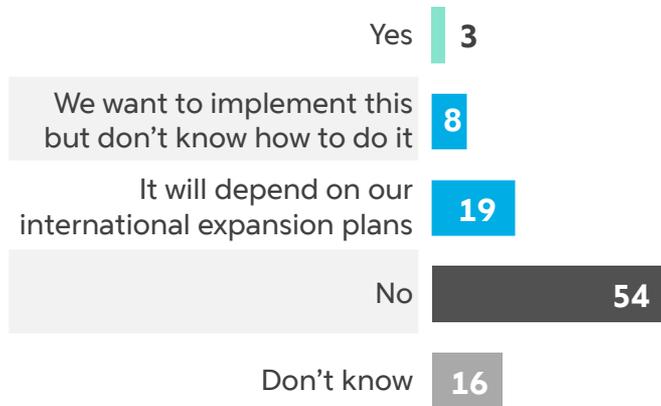
(0-50 employees, n=51)

Med/Large business: 78%

(51+ employees, n=23)

Intend to include in future? (%)

Base: Online merchants don't currently include tax at checkout (n=37)



Q5e. For items that your business sells online to shoppers in foreign countries, do you include the import duties and taxes (customs collection costs) for your consumers? Base: Online merchants who sell cross-border, excluding 'don't know' (n=72)

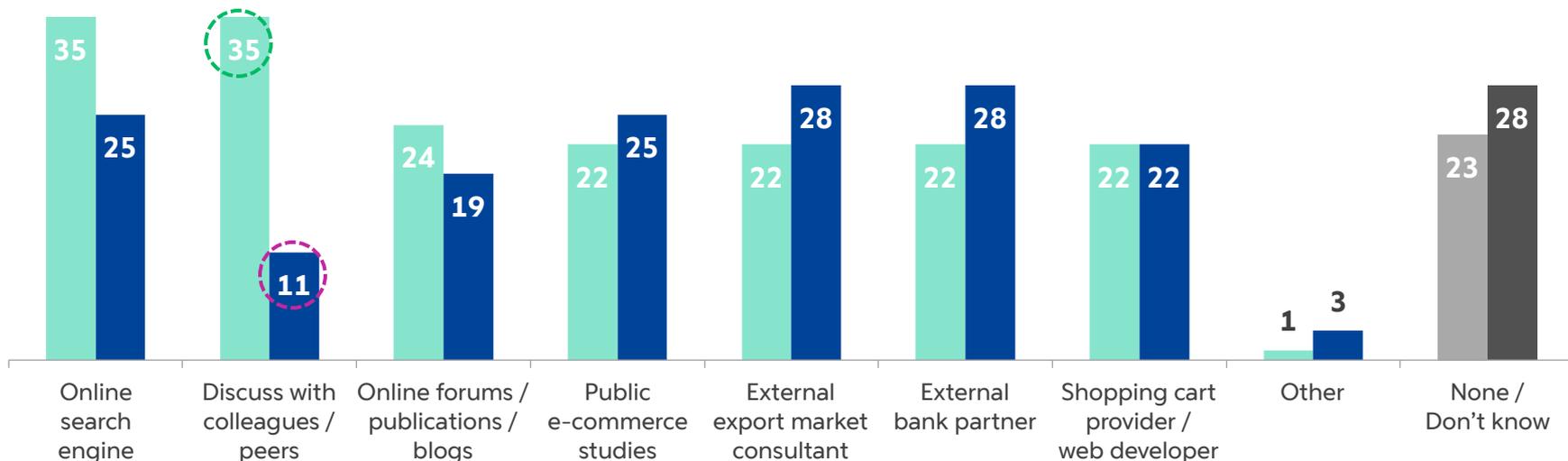
Q5f. Do you intend to include import duties/taxes costs for your customers at checkout in the future?

Cross-Border Information Sources

Current cross-border sellers most commonly search online or discuss with peers to get information about selling to new international markets. Merchants intending to sell cross-border for the first time are most likely to refer to external consultants and partners

Sources of Information for international market selling (%)

Current cross-border sellers (n=74)
N12M cross-border intenders (n=36)



Q7. When thinking about international market(s) to sell to online in the future, which (if any) of the following sources of information do you use?
Base: Online merchants who sell cross-border or intend to in the next 12 months

1. ONLINE PAYMENTS
2. CROSS-BORDER TRANSACTIONS
3. CROSS-BORDER DRIVERS AND BARRIERS
- 4. CURRENCY MANAGEMENT**
5. APPENDICES

Shoppers' Foreign Currency Options

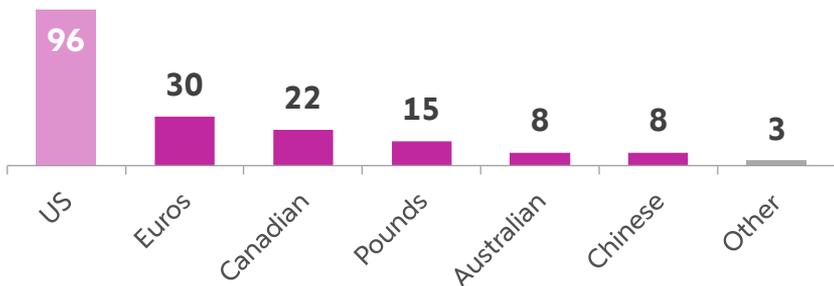
Only 4 in 10 cross-border sellers currently list in foreign currency (42%), with Euros being most widely offered. However, a quarter of CBT merchants (26%) aim to offer more choice in future

42%

of cross border sellers list their products / services in a foreign currency



Shoppers' available currencies (%)



26%

of cross border sellers say they will offer more currency choices for online shoppers in the future



Currencies intending to offer* (%)



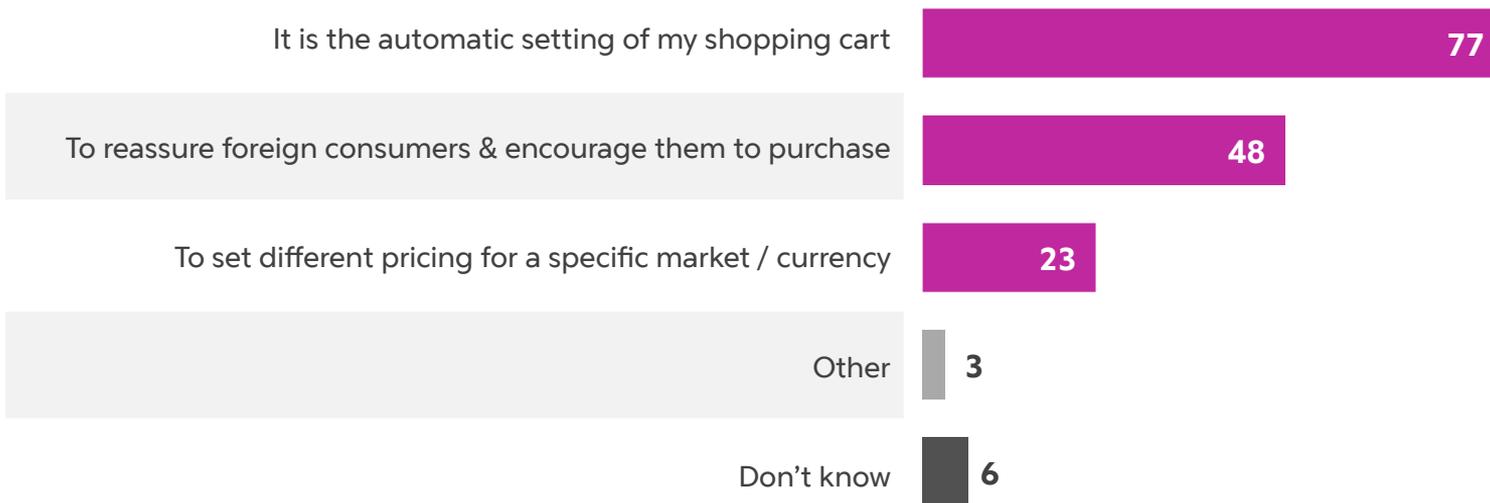
Q11a. In which currencies do you list your products/services online? / Q12b. Do you intend to offer more currency choices for online foreign shoppers in the future?
Base: Online cross-border sellers (n=74)

Q12c. Which currencies do you intend to offer in the future? Base: Online cross-border sellers who intend to offer more currency choices for shoppers (n=19*)

Reasons For Listing In Foreign Currency

The majority of cross-border sellers who list in foreign currency do so because it is an automatic feature of their shopping cart (77%)

Reasons for listing in foreign currency (%)

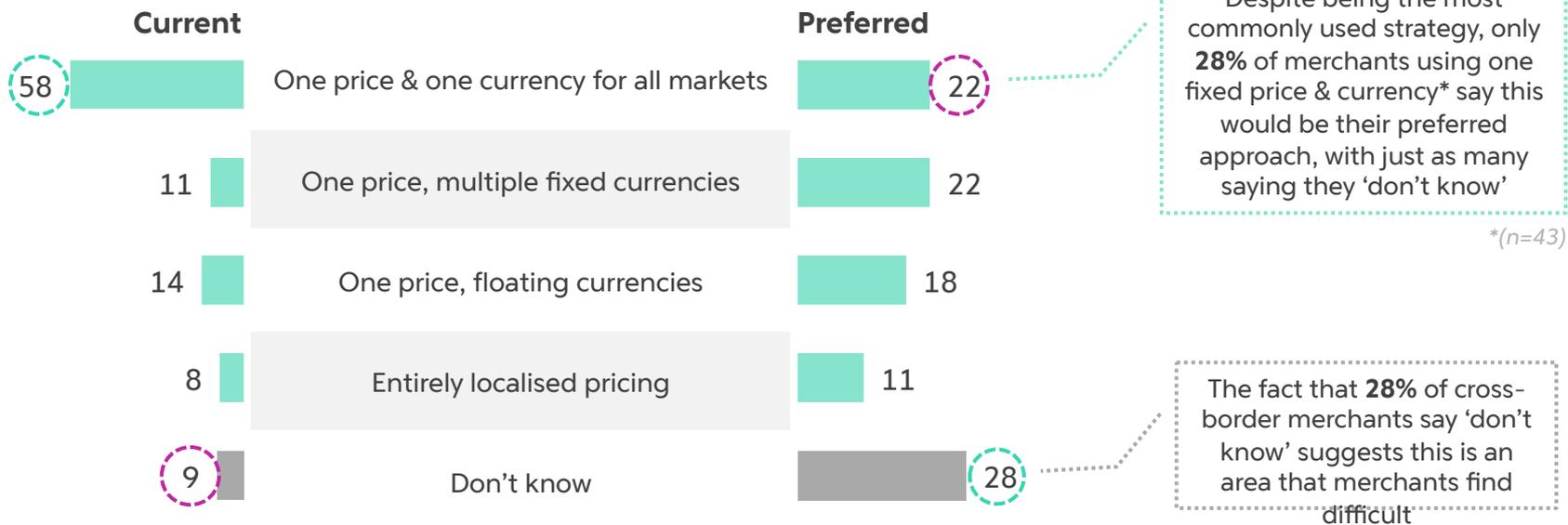


Q11b. Why do you choose to display your prices in foreign currencies?
Base: Online cross border sellers who list their products/services in a foreign currency (n=31)

Current vs. Preferred Currency Strategy

The majority of cross-border sellers **currently** offer one price/currency for all markets (58%), but only 1 in 5 say this would be their preferred strategy (22%).

Current vs. Preferred Currency Strategy (%)



Q12a. Which of the following pricing options [do you currently use] and which of the following would you prefer to use [for foreign online shoppers] if you could integrate this into your shopping cart? Base: Online cross-border sellers (n=74)

Other Foreign Currency Usage

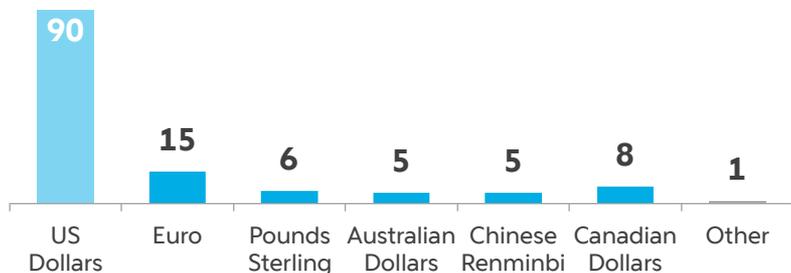
Only a minority of US merchants use foreign currency for other aspects of their business, and the most common use is to pay suppliers

23%

of merchants use foreign currency for aspects of their business other than online sales



Currencies used by merchants' businesses (%)



Reasons for using foreign currency (%)

Base: Merchants who use foreign currency for aspects of their business other than online sales (n=46)



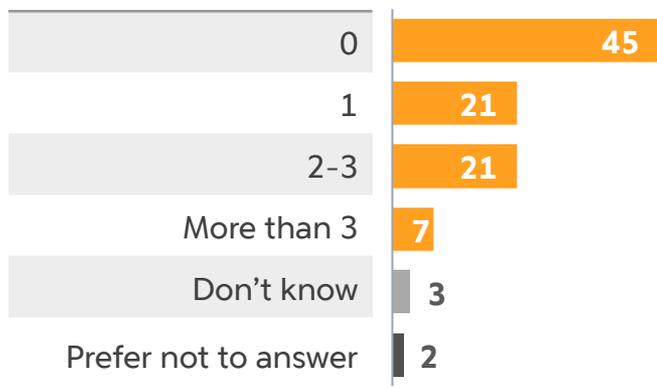
Q13a. In which currencies do you conduct aspects of your business other than your online product/service offering? Base: All online merchants (n=202)

Q13b. What do you use foreign currency for? N.B. Not showing 'don't know'

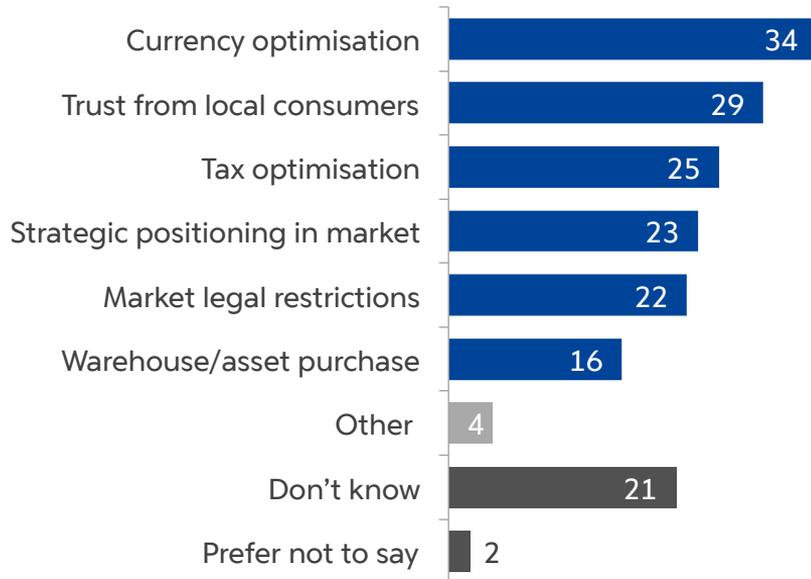
Foreign Currency Accounts

50% of online merchants have a foreign currency bank account, and among this group 'currency optimisation' is the most common reason (34%).

No. of foreign currency bank accounts (%)



Reasons for foreign currency bank account(s) (%)



50%

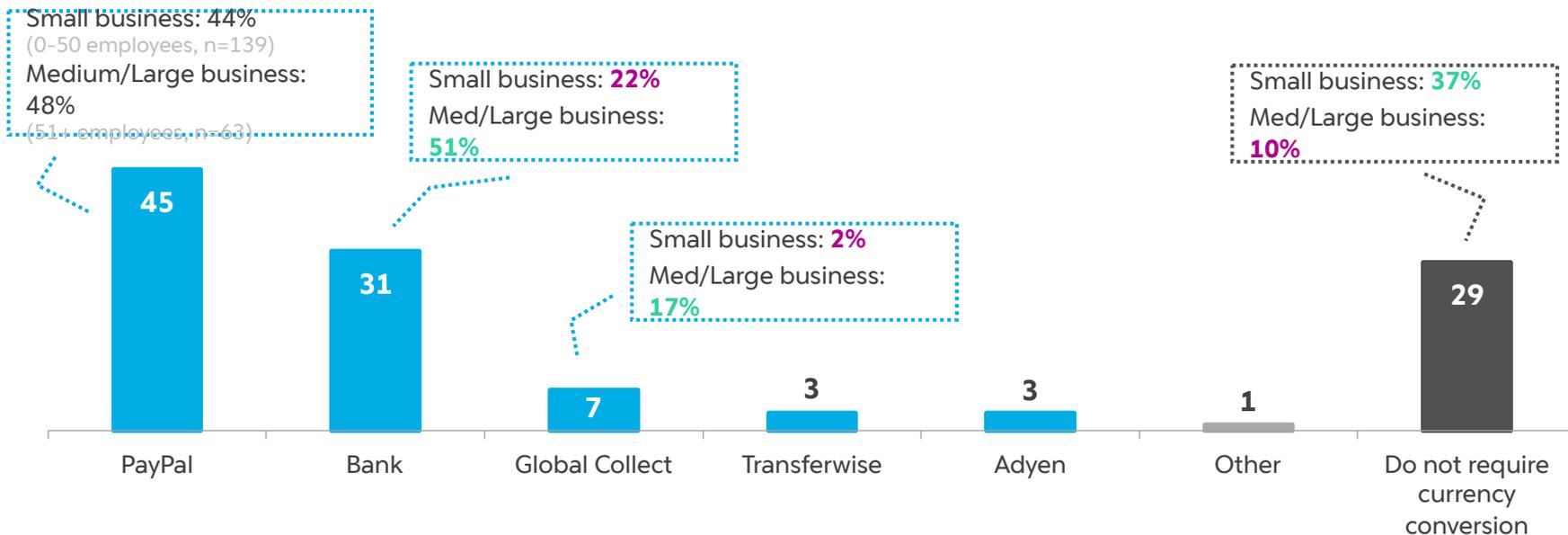
of merchants have at least 1 foreign currency bank account

Q14a. Please specify the number of bank accounts your business has in currencies other than your domestic currency, if any? Base: All online merchants (n=202)
Q14b. What are the reasons for setting up those foreign currency bank accounts? Base: Online merchants who have at least 1 foreign currency bank account (n=100)

FX Provider Usage

PayPal is a popular provider for currency conversion, with just under half of online merchants using the service (45%) vs. under 1 in 3 for the banks (31%) and fewer than 1 in 10 merchants using any of the named competitors

FX Provider Usage (%)



Q15a. Which provider(s) does your business use for currency conversion? Base: All online merchants (n=202) N.B. Not showing 'don't know'