

Modern Spice Routes

The Cultural Impact and Economic Opportunity
of Cross-Border Shopping



PayPal[™]



A new world, between worlds

“Consumers in diverse markets, linked by digital platforms, have adopted global buying behaviours on a scale previously unimaginable”

Sometimes the most remarkable changes take place without us noticing. Whether you live in San Francisco or Shanghai, the Internet has become such a familiar part of everyday life that it is easy to miss just how *different* the simple act of buying and paying for something has become.

Think about it. We now discover brands through our social connections - not just through traditional marketing; the store shelves we choose from are virtually infinite in size - not just limited to physical scale; and we pay for things not just in cash or credit but with the very mobile devices that define our new digital lifestyles. But that's just the beginning. More than the 'how', it is when the 'where' of commerce changes that you really need to pay attention.

After all, it happened once before. During the Age of Discovery, explorers pushed forward the boundaries of the known world and opened up whole new markets for trade. Called the spice routes, the connections between East and West were much more than just the exchange of exotic goods. In a way, they were also the first viral network through which ideas about everything from culture to economics spread.

In this report, you will glimpse the beginnings of modern spice routes. Consumers in diverse markets, linked by digital platforms, have adopted global buying behaviours on a scale previously unimaginable. Some are driven by price, seeking well known products from their lowest cost markets. But that's only part of the tale. Informed and inspired by stories of local provenance, connected consumers are forming into tribes and joining a global hunt for unique products and brand authenticity.

The emergence of the modern spice routes is no accident. It's been fuelled by a fusion of better and faster technology, growing numbers of low cost smartphones in the emerging world, more robust global retail platforms and simpler, more secure payment options. But, most importantly by the possibility of engendering trust in a transaction with a complete stranger on the other side of the world, thereby creating dialogue between different cultures that might never have existed before.

MIKE WALSH
FUTURIST



Introduction

As Mike Walsh mentioned in the foreword, cross-border trade is nothing new. Our local stores are filled with goods from around the world. What is new, however, is how easy it has now become for people to shop online directly from merchants around the world.

PayPal has always been about removing the friction of commerce. We started almost 15 years ago solving that problem domestically in the US but it's been well over a decade since we have been making it easier for consumers to shop safely and securely, directly from merchants around the world. We now ease cross-border trade in more than 190 markets around the world. Around a quarter of PayPal's payment volume every year is from people buying overseas.

The research we commissioned shows that over 90 million cross-border shoppers across six key markets – the United States, the United Kingdom, Germany, Australia, mainland China and Brazil – will be spending over USD100 billion on overseas websites this year alone.

The ability to shop online overseas is transforming and enriching the lives of people around the world. Trading, after all, can be as much about sharing cultures and experiences as it can about the simple buying and selling of goods. But with oceans often between them, how are businesses establishing trust and lasting relationships with their far-flung customers?

What is certain is that the internet has changed the face and form of retail beyond recognition, giving merchants the chance to reach new markets without setting foot on foreign soil. For small businesses in particular, online cross-border trading creates a golden, growing opportunity to sell to the world, especially if their local economy remains sluggish. As something of a wake-up call for millions of businesses everywhere, this report shows both the extent of this cross-border, e-commerce opportunity – and how profitably merchants can seize it.

DAVID MARCUS
PRESIDENT, PAYPAL

“It is fascinating to see how the ability to shop online overseas is transforming and enriching the lives of people around the world”

Executive summary

PayPal commissioned The Nielsen Company to conduct a survey of cross-border online shoppers across six key markets: the USA, the UK, Germany, Brazil, China and Australia. In these markets, researchers sampled the views of more than 6,000 online consumers aged 18 and above, who had all made online purchases from overseas websites in the previous year. They also spoke to merchants in these markets, to find out the secrets of their cross-border trading success.

WHAT DID THE RESEARCH DISCOVER?

The research identified 94 million cross-border shoppers in total across the six surveyed markets. Together **they will spend a total of \$105 billion this year**, representing 16% of all online shopping. By 2018, there will be 130 million of them, spending nearly three times as much, up to \$307 billion, five years from now.

From country to country, the survey also revealed both similarities and striking disparities in their cross-border online shopping behaviour.

Clothing, shoes and accessories represent the largest cross-border online shopping category in five out of the six markets, Brazilian shoppers buck the trend by buying more computer hardware than anything else. And, unlike consumers in any of the other countries researched, Australians value free shipping over quality and variety when it comes to their cross-border purchases.

There are **five distinct types of cross-border shopper**, which transcend geographic and cultural barriers: the Fearless Adventurer, the Efficient Explorer, the Value Voyager, the Safety Seeker, and the Deal Hunter. Contrary to popular belief, Deal Hunters, who shop overseas for lower prices, only account for 10% of overseas online shopping spend, even though they are nearly a quarter of all cross-border shoppers. Meanwhile, Fearless Adventurers, those who shop for unique items and look for new places to shop online, are worth more than their weight in gold – while only 13% of the cross-border shopping population, they are responsible for 30% of all shopping spend on overseas websites.

OPPORTUNITIES AND CHALLENGES

Whatever trends were identified in particular countries, the “modern spice routes” - contemporary corridors of international trade - are both making the world seem smaller and influencing local behaviour, encouraging a very modern kind of cultural exchange. A new fashion piece from Australia can now arrive in the UK within days. Just weeks after its invention, a gadget from the USA could be causing a stir in China. There are few limits to what can be bought and sold: everything is up for grabs in the new global marketplace.

Cross-border e-commerce is undoubtedly helping businesses of all sizes export to the global marketplace with unprecedented ease – and tap into a market worth \$105 billion in the six researched countries this year alone. To make the most of this potential, however, merchants must first address the key concerns of cross-border shoppers. Seven out of 10 consumers in all six markets cited fear of identity theft and fraud as **the top reason for not making a cross-border transaction**, with Australia the most fearful and Germany the least.

Nine out of ten consumers on average also place great importance on having buyer protection for their overseas purchases. Interestingly, shoppers in the emerging markets of China and Brazil proved particularly keen to be protected should something go wrong with a purchase, showing that a perceived lack of security can be a far bigger barrier to a purchase than any country border.

Happily, the reverse is also true. With trust and confidence in making payments to overseas merchants, consumers are more than willing to enrich their lives with fresh discoveries. And for an increasing number of businesses around the world, that translates into a global opportunity that is well worth taking.

By 2018, there will be 130 million cross-border shoppers spending over \$300 bn

Nine out of ten consumers place great importance on having buyer protection



A global marketplace

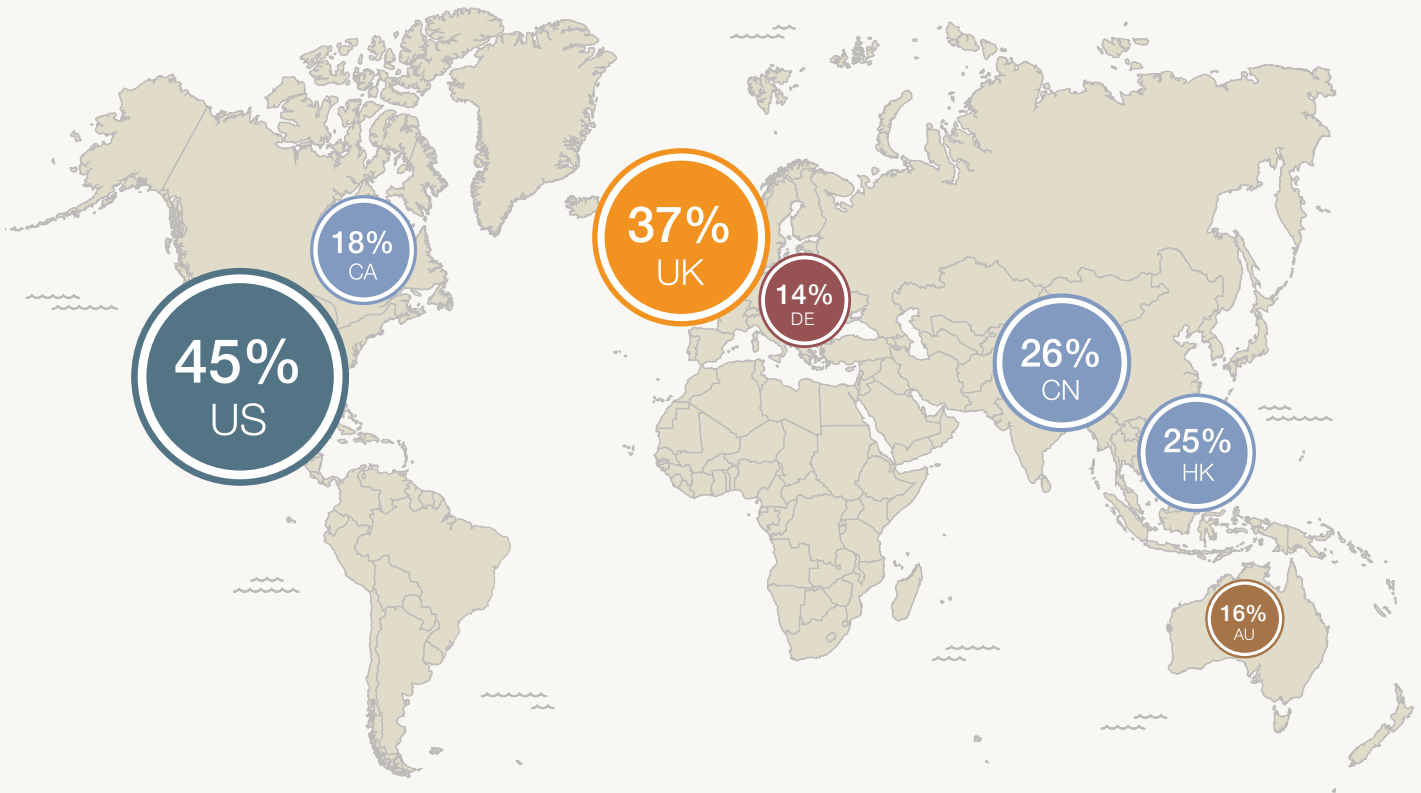
The USA, the UK, Germany, Australia, China and Brazil are six key markets in the world for online cross-border shopping. So, who is buying what and from where?

WHO AND WHERE

Across the six surveyed markets, the top online shopping destinations for our respondents emerged as: the USA (45%), the UK (37%), mainland China (26%), Hong Kong (25%), Canada (18%), Australia (16%) and Germany (14%). But despite the global marketplace, geographic proximity still plays a part in purchasing decisions. German online shoppers, for instance, buy heavily from their neighbours in Austria and the Netherlands, while mainland China shoppers buy from Hong Kong and Japan.

On average, six out of ten cross-border online shoppers are male and married, and seven out of ten are mid-to-high income earners. The majority are aged between 35 to 54 years old, although the average age is younger in Brazil and China (25-44). But within these demographics, cross-border shoppers may be divided into **five distinct types**, which transcend geographic and cultural barriers: the Safety Seeker; the Value Voyager; the Efficient Explorer; the Deal Hunter; and the Fearless Adventurer. (See page 11)

Most popular overseas online shopping destinations



% of cross-border shoppers across 6 surveyed markets purchased from these markets in the past 12 months

The top reason for buying online from overseas is to “save money” (80% of respondents), followed by “more variety that cannot be found locally” (79%)

Safety is the top reason for using preferred payment method

WHAT THEY BUY

The top cross-border online shopping categories are: clothing, shoes and accessories, (\$12.5 billion); health and beauty (\$7.6 billion); personal electronics (\$6 billion); computer hardware (\$6 billion); jewellery, gems and watches (\$5.8 billion); and home electronics (\$5.4 billion).

Health and beauty products are a popular purchase for shoppers in the USA, China and Germany, where the global online market clearly better meets their needs than local stores. UK shoppers appear more satisfied with the choice and price of health and beauty items

available at home, and prefer to buy airline tickets and electronic goods abroad, where they feel better served in terms of travel variety and leading technologies.

Australians tend to hunt online for cultural and travel experiences, buying more books and airline tickets overseas than health and beauty products. And demonstrating their drive to explore the world’s technology options, gadget-friendly Brazilians choose personal electronics, followed by clothing, over health and beauty items.

Top five cross-border purchase categories over past 12 months



HOW THEY PAY

The most popular payment method for cross-border online transactions is PayPal, with around eight out of ten cross-border online shoppers having used it for overseas purchases. Half of the shoppers surveyed use PayPal most often for cross-border purchases - more than twice as much as the next payment method.

The top reason for using preferred methods of payment is safety. On average, eight out of ten survey respondents were more willing to complete a cross-border transaction because of PayPal’s buyer protection policy.

WHAT CONCERNS THEM

Fear of identity theft and fraud is the top reason given for not making a cross-border online transaction, by seven out of ten shoppers on average. Australians (73%) are the most afraid of this possibility, and Germans the least (63%).

With goods often travelling thousands of miles from seller to buyer, neither likely ever to have met, **nine out of ten cross-border shoppers understandably want protection for their overseas purchases.** More surprising, perhaps, is the fact that shoppers in the emerging markets of China and Brazil value protection more than their counterparts in the West.

The modern spice routes

Centuries ago, barges laden with spices brought flavours and cultures from faraway lands. Today’s modern spice routes continue this tradition of cross-border trade – less visibly, perhaps, but on an even wider scale and at a much faster pace.

COUNTRY FACTS

US

- 1 34.1 million online cross-border shoppers, spending \$40.6 billion in 2013 – and 41.8 million online cross-border shoppers spending \$80.2 billion by 2018.
- 2 Their top five cross-border purchase categories over the past 12 months are: clothes, shoes and accessories (\$4.9 billion); health and beauty products (\$2.6 billion); jewellery, gems and watches (\$2.5 billion); personal electronics (\$2 billion); and home electronics (\$2 billion).
- 3 Where they shop: UK (49%), China (39%), Canada (34%), Hong Kong (20%), Australia (18%).

BRAZIL

- 1 5.3 million online cross-border shoppers, spending R\$2.6 billion in 2013 – with up to 9.4 million online cross-border shoppers expected to spend R\$16.8 billion a year by 2018.
- 2 Top five cross-border purchase categories over the past 12 months are: computer hardware (R\$1.6 billion); personal electronics (R\$1.4 billion); clothes, shoes and accessories (R\$1.3 billion); health and beauty products (R\$1.3 billion); and home electronics (R\$936 million).
- 3 Where they shop: US (79%), China (48%), Hong Kong (17%), UK (17%), Canada (14%).

UK

- 1 15. 9 million online cross-border shoppers, spending £8.5 billion in 2013 – with up to 18.5 million online cross-border shoppers expected to spend up to £18.0 billion a year by 2018.
- 2 Top five cross-border purchase categories over the past 12 months are: clothes, shoes and accessories (£958 thousand); airline tickets (£545 thousand); home electronics (£504 thousand); computer hardware (£487 thousand), and health and beauty products (£432 thousand).
- 3 Where they shop: US (70%), China (23%), Hong Kong (21%), Germany (19%), Ireland (15%).

GERMANY

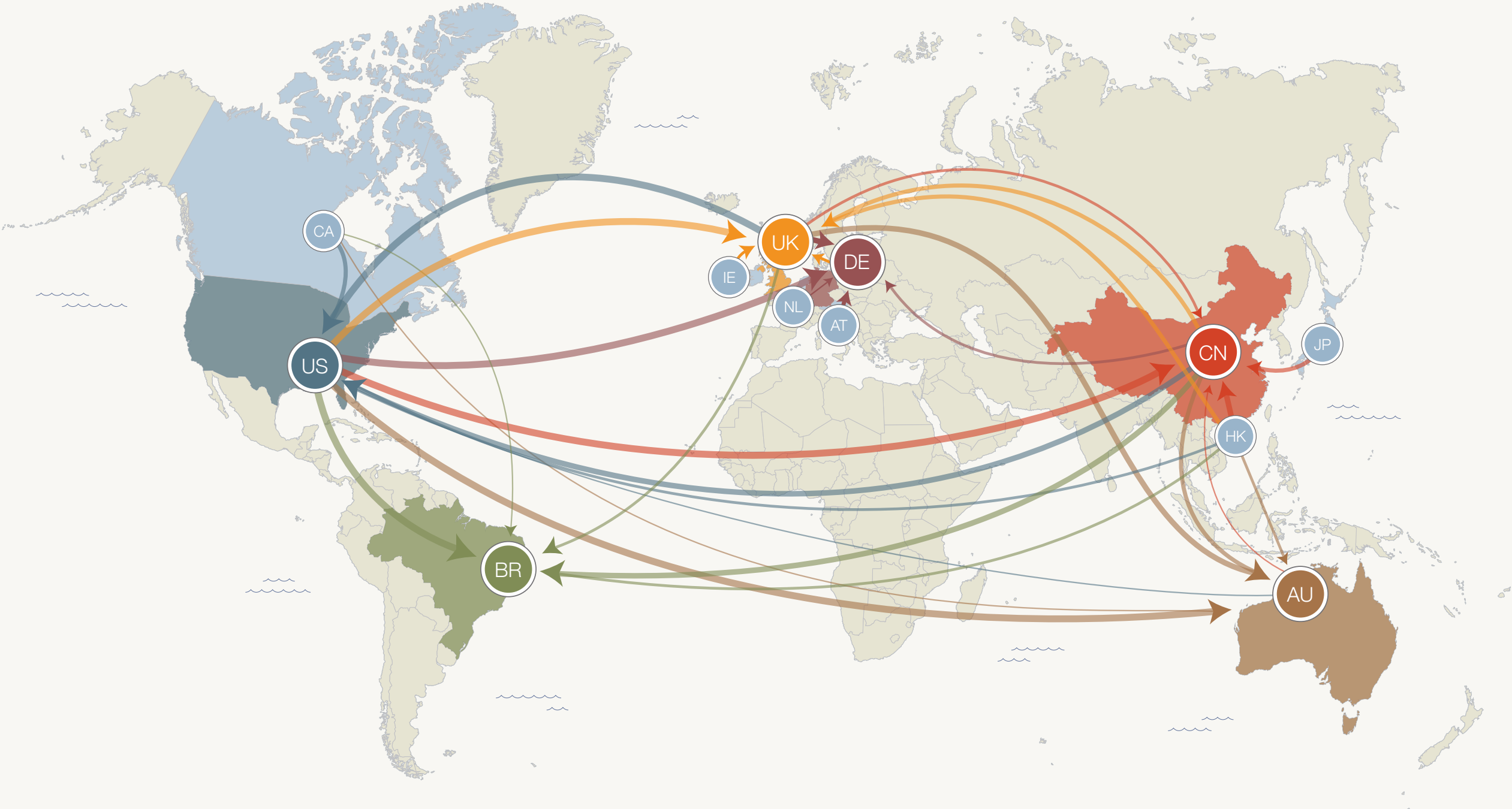
- 1 14.1 million online cross-border shoppers, spending EUR7.6 billion in 2013 – with up to 15.8 million online cross-border shoppers expected to spend up to EUR11.0 billion a year by 2018.
- 2 Top five cross-border purchase categories over the past 12 months are: clothes, shoes and accessories (EUR991 thousand); home electronics (EUR497 thousand); health and beauty products (EUR472 thousand); personal electronics (EUR403 thousand); and airline tickets (EUR398 thousand).
- 3 Where they shop: US (48%), UK (46%), Austria (33%), China (17%), Netherlands (16%).

CHINA

- 1 18 million online cross-border shoppers, spending RMB216 billion 2013 – with up to 35.9 million online cross-border shoppers expected to spend up to RMB1.0 trillion a year by 2018.
- 2 Top five cross-border purchase categories over the past 12 months are: clothes, shoes and accessories (RMB22.0 billion); health and beauty products (RMB17.6 billion); computer hardware (RMB13.5 billion); jewellery, gems and watches (RMB13.1 billion); personal electronics (RMB12.9 billion).
- 3 Where they shop: US (84%), Hong Kong (58%), Japan (52%), UK (43%), Australia (39%).

AUSTRALIA

- 1 6.3 million online cross-border shoppers, spending AUD 6.5 billion in 2013 – with up to 8.4 million online cross-border shoppers expected to spend up to AUD16.6 billion a year by 2018.
- 2 Top five cross-border purchase categories over the past 12 months are: clothes, shoes and accessories (AUD890 thousand); books (AUD527 thousand); airline tickets (AUD467 thousand); health and beauty products (AUD368 thousand); and personal electronics (AUD302 thousand).
- 3 Where they shop: US (69%), UK (47%), China (31%), Hong Kong (29%), Canada (9%).



Meet the modern spice route shoppers

What makes today’s cross-border consumers tick?



“I shop on websites in the US and New Zealand for sports kit that I can’t buy in the UK. My most treasured recent purchase was special edition headphones that have never been sold over here in the UK. I enjoy buying exclusive items like these and building a rapport with overseas sellers, which gives me peace of mind that the items will arrive – and I can get better prices!”

Hussam Lone, tutor, UK

“I shop a lot on US websites, including ebay.com, and others for everything from healthcare products to clothes. It’s a great way to buy things that my family and I need, and I appreciate the prices and good online security these sites offer. I’m a keen stamp collector, and recently tracked down some special stamps on eBay.”

Xu Lin, network engineer, China



“Fashion, travelling and culture are my passions, and shopping online overseas means I can explore new trends and buy things I can’t find in Brazil. I recently bought a limited edition ornament from the Metropolitan Museum of Art in New York, inspired by one of its fashion exhibitions, and I also shop on US websites like eBay.”

Patricia Troncoso, fashion editor, Brazil

“Shopping on overseas websites allows me to buy products not available in Germany and get some items for less. I recently bought a wonderful print by the artist Shepard Fairey. Most of his posters are quite expensive but I was lucky and able to purchase one for a reasonable price from his official American website.”

Sarah Braig, artist, Germany



“I use the internet a lot for my business. A huge part of running a fashion label is sourcing great suppliers for everything from fabrics to buttons and belts. I get almost all of these raw supplies from overseas, and buy them online. I’d say I’m an extremely adventurous shopper. But I also do my research, which makes online shopping as safe as, if not safer than, shopping in-store. And I will only buy from sites that provide a full return or exchange policy.”

Jen McCloy, fashion label owner, Australia

“I love to be different and discover new things, and the selection you get on overseas websites is great. I can buy anything I’m looking for and items I never even knew existed. I make all my overseas purchases on eBay, where I recently found the perfect prom dress for my daughter, after she’d tried on hundreds in stores. It arrived in under two weeks, from Hong Kong, and she absolutely loved it!”

Susan Skelton Fleming, opera singer, US



THE FIVE SPECIES OF CROSS-BORDER ONLINE SHOPPER

Research reveals that the cross-border shopping population around the world can be divided into five distinct types.



Fearless Adventurers

Like to be different and are always on the hunt for new overseas websites. Love shopping on their mobile devices and are happy to pay more for unique items not available locally.



Efficient Explorers

Busy people, so convenience is very important. Mostly buy from overseas sellers whom they know and trust, and will spend a lot for an online purchase, like entertainment or air tickets.



Value Voyagers

Love shopping and keeping track of the latest trends. Check and compare overseas purchases using their favourite online tools to ensure they find the best quality and good value products.



Safety Seekers

Shop online more for leisure, but like the variety and brands found on overseas websites. Careful about what they buy and only shop from trusted online sellers or those with a return policy.



Deal Hunters

Don’t shop online very often and when they do they mostly buy from their own country’s websites. But if they spot a bargain or lower price on overseas websites, they will snap it up.

PERCENTAGE OF OVERSEAS ONLINE SPEND



PERCENTAGE OF CROSS-BORDER SHOPPERS



Cross-border trading success stories

What does the cross-border e-commerce boom mean for today's small businesses worldwide? Merchants from around the world share their experiences and describe the impact of the modern spice routes on their sales potential.

GameKlip, US

Selling to the World

In 2012, Washington student Ryan French invented an easy way to connect a smartphone to a games console controller and hold both devices at once. A year later, he's selling the GameKlip online to customers in more than 80 countries.

Ryan says: "I can't imagine something like the GameKlip being successful without online sales and payments, I never considered launching only in the domestic market. Around half of GameKlips are purchased from outside the US, with Canada, the UK, Australia and Germany proving the biggest markets so far."



Gofavor, China

Switching from traditional to online exports

A move from business-to-business wholesaling to cross-border e-commerce helped Wu Hongbo and his colleagues sidestep the global downturn and halt their own sales decline. Wu's online jewellery store Gofavor has established a lucrative customer base across Europe and North America in just two years.

"Online overseas trading and payments have brought more opportunities than we ever imagined," enthuses Wu. "As most of our customers are in Europe and North America, our marketing team has made a special effort to research consumption habits in the West, and launched a series of tailored promotional campaigns to suit Western trends and holiday shopping periods."



iBooking, Brazil

Breaking down barriers for travellers

As well as providing access to high-quality accommodation in Brazil, iBooking wants to guarantee the country's many overseas guests a superior booking experience. To tear through the potential red tape of cross-border reservations and connect directly with international customers, the company provides an automated booking and payment system that local hotels can use, customise and link to their own websites.

One of the founders of iBooking, Marcos Macedo, says: "Enabling foreign visitors to make direct bookings with the convenience, efficiency and security of the new booking and payment system, is helping local hotels substantially increase their profits."



Black Milk Clothing, Australia

Selling "out there" clothes around the world

When fledgling fashion designer James Lillis began stitching unique figure-hugging outfits in 2009, he struggled to get Brisbane shops to stock them. But blogging about his experiences gained him an instant online audience, so he bypassed bricks and mortar and built the Black Milk Clothing website instead. Four years later and James – helped by 130 staff – sells and gets paid, exclusively online to customers globally.

"Half our sales come from cross-border online trading," says James. "Black Milk inspires anticipation and conversation, and we invite our global community of customers to submit design ideas. We're yet to spend a dollar on advertising, which is testimony to the power of great products and customer relationships overseas."



Hutshopping, Germany

Raising hats to a different level

Former business management students Andre Beelmann and Thomas Klatt took their first steps into the real world of commerce by selling self-embroidered hats from their parents' houses in Wesphalia, Germany. But as sales took off, they dropped the stitches and set up their own online hat shop. "Our range was soon so large it needed a 100m² warehouse in Münster", says Andre.

Under the company name Anthec, Andre and Thomas now have targeted websites for customers in Germany (Hutshopping.de), the Netherlands (Hoedshop.nl), Italy (Capellishop.it) and the UK (Hatshopping.com). Thomas adds: "We've started running mobile-optimised pages and payments for our international shops, and make 40% of our sales abroad."





FutureShop

As we have seen, cross-border shopping is already significant, representing 16% of all online sales across the six surveyed markets, and is expected to grow by 200% in the next five years, with the greatest growth coming from China.

A market worth in excess of US\$300bn by 2018 is a sizable prize for businesses with the vision and ability to trade globally. So what must they do to be ready for this future of connected commerce?

THE FUTURE IS MOBILE

In the fast-moving world of cross-border shopping, mobile transactions via smartphones and tablet devices are rapidly gaining ground.

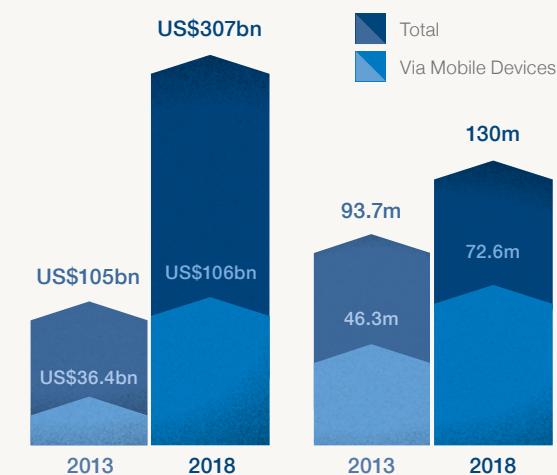
In 2013, the combined cross-border mobile shopping markets of the USA, the UK, Germany, Australia, China and Brazil are already worth \$36.4 billion – accounting for **more than a third of all cross-border online shopping** in these markets. By 2018, their total value will have increased nearly threefold to \$106.4 billion. Across the surveyed markets, almost eight out of 10 (76%) cross-border shoppers said they wanted to make more mobile purchases, transactions and payments in the future.

Mobile shopping seems to have taken hold most dramatically in China, where 14 million cross-border mobile shoppers currently make up nearly 78% of the total online cross-border shopping population. Together, **Chinese mobile shoppers spent \$16.7 billion in 2013:** almost half the value of all cross-border online sales. But by 2018 there will be almost twice as many mobile cross-border shoppers in China, spending \$55.2 billion on overseas websites via their mobile devices. Clearly, any foreign business wanting to sell to Chinese consumers needs to have a mobile-friendly website.

In the other emerging market of Brazil, mobile shopping sales are currently more modest and clearly in their early days. But with an estimated annual growth rate of 53% over the next five years, higher than any of the other markets surveyed, the value of Brazil's mobile cross-border transactions is estimated to increase more than eightfold to nearly \$2.5 billion in 2018.

In the future, then, more consumers than ever will be shopping and paying for goods from overseas on their tablets and smartphones. That means more opportunities for businesses around the world, whose online presence automatically opens doors to a global customer base. It also underlines the importance of developing websites or apps that are optimised for mobile devices and offering a simple and secure payment option – entering a 16-digit credit card number on a smartphone can challenge even the nimblest of fingers. In fact, **eight out of 10 cross-border shoppers value a mobile-friendly website** for shopping and payments, with the highest response from China and Brazil.

Cross-border online and mobile shopping 5 year growth trends



THE FUTURE IS SECURE

Security remains a key concern for cross-border shoppers everywhere – and a major barrier to increased sales. Across the surveyed markets, fear of identity theft and fraud is the number one concern and cited by seven out of 10 shoppers as the main reason for not making a cross-border purchase, while **9 out of 10 want buyer protection** for overseas purchases.

The research shows PayPal to be the most popular payment method for cross-border purchases in all of the surveyed markets, with 79% of respondents having used PayPal for a cross-border transaction in the past 12 months. Little wonder when the top reason for using PayPal is because “PayPal is safer to use online due to less fraud” (41% of respondents). In addition, eight out of 10 cross-border shoppers are more willing to buy from an overseas merchant because they are covered by PayPal's buyer protection policy.

The implication is clear: By offering a payment option that is not only the most popular choice for overseas purchases but also keeps financial information private and offers buyer protection, businesses of all sizes can increase consumer trust and reduce drop-out at the online check-out process to increase sales dramatically.

THE FUTURE IS GLOBAL

So increasing ‘mobilization’ and the reassurance of a secure and simple payment option are two factors that will enable businesses the world over to tap into the growing phenomenon of cross-border shopping and trace the modern spice routes and open up their own new corridors of online trade.

The size of the opportunity should not be under-estimated. Even among the six surveyed markets, cross-border shopping will grow to \$307 billion and 130 million consumers by 2018. **The total cross-border shopping and e-commerce markets around the entire world are even larger.**

Beyond the research, PayPal's own data shows that online exports on its global payment platform continue to grow strongly, even as the traditional export sector for many economies slows down. Cross-border trade today is 25% of PayPal's total payment volume, with new online export corridors fast emerging. For example, PayPal's internal data show that Argentina, Russia and Israel were among the top five fastest-growing export markets for PayPal merchants in the US, UK, Germany, Australia, China and Brazil in 2012.

For the cross-border shopper, the world is now their marketplace. No longer are they restricted by physical, geographical or cultural borders, as they scour the internet not just to save money but to explore and enjoy the huge variety of products available online from other parts of the world, and buy things that say something personal about them.

Welcome to the modern spice routes.



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