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GLOBAL DTC ECOMMERCE: A BUYER'S GUIDE

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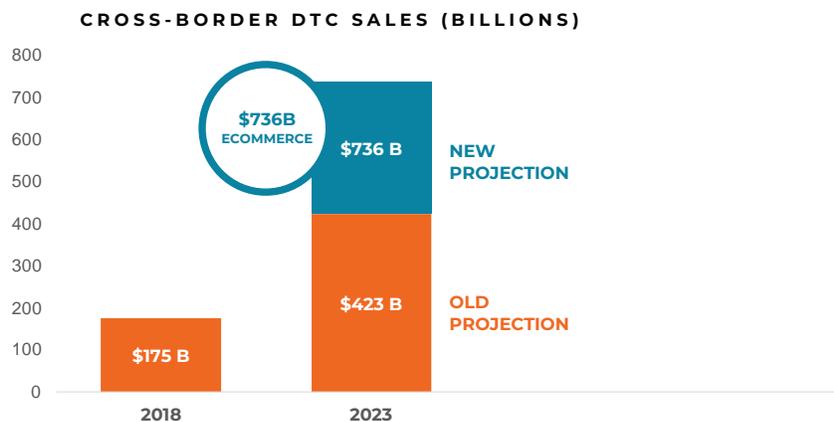
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INCREASED ONLINE DEMAND

By now, it's well-established that the COVID-fueled surge in demand for online shopping is here to stay. Shoppers have now been exposed to brands from all over the world via channels like Google, marketplaces, and social media. This activity has also driven the number of international purchases far higher: borders have become irrelevant for brands with excellent localized experiences for shoppers in markets outside their home countries.

Best-in-class brands are seizing this opportunity by ensuring they own their relationships with shoppers, as well as their data, by expanding their direct-to-consumer (DTC) channel.

GLOBAL DTC GROWTH HAS ACCELERATED BEYOND ALL EXPECTATIONS



Source: McKinsey



PROVIDING A DOMESTIC-EQUIVALENT SHOPPER EXPERIENCE

Many consumers today buy from brands outside their home countries without even realizing it, because the experience is seamless from end to end—and that is what shoppers have come to expect.

Delivering this experience means navigating complexity. Retailers and brands must be equipped to price locally and adjust for duties and taxes; offer payment options that are not just familiar to shoppers, but tailored to optimize conversion; have strong relationships with appropriate carriers for shipping and to facilitate potentially costly returns; and consider whether they can process returns locally in major markets to expedite refunds. Below, we show how retailers and brands can create domestic-equivalent experiences at various stages in the shopper journey.

THE GLOBAL SHOPPER JOURNEY



GLOBAL EXPANSION: KEEP IT IN-HOUSE OR GO WITH A VENDOR?

When looking to expand internationally, brands and retailers can manage ecommerce in-house or via a third-party service provider.

In-house operations involve greater upfront investments and more time to market, and they require multiple partnerships with various vendor firms in areas ranging from payments and IT infrastructure to compliance and logistics.

Working with third-party service providers typically involves lower upfront costs and a greater emphasis on variable costs versus an in-house operation—potentially making this a more appealing prospect for companies looking to tap international demand. In addition, outsourcing to a provider can allow retailers and brands to roll out to new markets faster than building operations in-house.

	IN-HOUSE	SERVICE PROVIDER
 SETUP TIME	Months-years	Weeks-Months
 SETUP COSTS	Very high	Minimal
 STAFFING	Heavy	No additional staff needed
 VENDOR MANAGEMENT	Labor intensive	Service provider manages all vendors
 GLOBAL COMPLEXITY	Labor intensive	Complexity managed on your behalf
 ONGOING COSTS	Very high	Shared revenue model
 RISK	High risk	Vendor bears most risk

+ A FORRESTER STUDY OF THE TOTAL ECONOMIC IMPACT OF PARTNERING WITH ESW VS. IMPLEMENTING A SIMILAR PROGRAM IN-HOUSE FOUND THAT AN AVERAGE ENTERPRISE RETAILER WILL SAVE OVER **\$10 MILLION** IN IMPLEMENTATION AND OPERATIONAL COSTS OVER A THREE-YEAR PERIOD. THEY WOULD ALSO BE ABLE TO LAUNCH IN **65 MORE MARKETS** OVER THAT SAME PERIOD OVER IN-HOUSE EFFORTS.

CHOOSING A THIRD-PARTY PROVIDER

Retailers and brands face a choice of global DTC ecommerce service providers. These companies may serve clients of different sizes and have varying scaling capabilities, provide differing levels of advisory services (or none at all), have varying degrees of on-the-ground presence and local expertise, and may localize websites in different ways, or to varying extents, across a number of metrics.

Retailers and brands looking for a global DTC ecommerce provider can refer to the following checklist of key questions to consider, including the basics of the service provider itself, whether it is profitable, the technology it uses, and the service levels it offers.



CHOOSING A THIRD-PARTY PROVIDER

WHAT YOU NEED TO KNOW

Undertake due diligence on potential service partners, especially regarding scale, growth and profitability.

Consider the size of previous clients to assess whether the service provider can manage your scale and to see where you will fit in, as one of the largest or smallest.

Review the service provider's account-management offering (looking at the ratio of account managers to clients) to be sure the company is adequately resourced to support clients.

Consider more granular metrics— such as staff turnover and employment practices—to gauge the smooth running of operations and the ability to cope with peak demand.



COMPANY

QUESTIONS TO ASK SERVICE PROVIDER

How much is the company investing in research and development each year? Is the company profitable?

To get an idea of scale, what is the company's total annual gross merchandise volume (GMV)?

What is the company's account rep-to-customer ratio?

What are the employment practices and turnover rates in your hubs?

How do you ensure the hubs can cope with peak demand?



SOLUTION PRICING AND COSTS

Weigh service provider pricing models. Many work on a revenue share model, taking a percentage of each sale, while others charge a flat fee per sale.

Consider the cost of integration.

What are the maximum transactions that can be processed per hour?

Do you charge a flat fee or take a percentage for each transaction?

What ability do we have to customize your solution to fit our needs?

What is the cost of integration/implementation?



TECHNOLOGY, SCALABILITY, AND SECURITY

Service providers' technical capabilities can vary significantly. Retailers and brands should consider "up-time" in the preceding 12 months, as well as maximum transactions per hour—especially important for peak periods.

Many service providers sell "out of the box" platforms with little ability for customization and little strategic consultation or support.

What are the maximum transactions that can be processed per hour?

What ability do we have to customize your solution to fit our needs?

WHAT YOU NEED TO KNOW

At the outset, retailers and brands must identify which markets would be best suited for a cross-border operation.

Selling successfully in international markets requires local knowledge and expertise in areas such as marketing, communications, payments and delivery.

For each new market entry, you'll need an understanding of local laws and regulations, customs, duties and taxes as well as local demands and nuances in areas such as marketing, communications, payments, and delivery.

Consider the breadth of a service provider's consulting or advisory offerings in areas such as global strategy, logistics and operations.



LOCAL KNOWLEDGE & EXPERTISE

QUESTIONS TO ASK SERVICE PROVIDER

Can you help identify which new markets would be most valuable?

What is your local experience, history in the local market and what are examples of how the market differs? How can you support successful localization?

What are the challenges selling into the market? Assess whether the responses reflect a solid understanding of the local market conditions.

Do you offer consulting and advisory services based on in-depth knowledge and an on-the-ground presence?



COMPLIANCE & PRIVACY

One reason retailers and brands turn to ecommerce service providers is to help them navigate the complexity of local regulations and laws. Retailers and brands must ensure service providers can navigate often complex national privacy laws and, if selling in the EU, that they are GDPR-compliant.

For taxes and duties, retailers and brands will be looking to service providers to ensure the product catalog is tagged with accurate Harmonized Commodity Description and Coding System numbers (HS code), a standardized system to classify products and which customs authorities use set taxes and import duties. HS code accuracy is not just about compliance, but about reducing unexpected additional cost to shoppers if products are not properly categorized.

Are you GDPR compliant? Are you compliant with the 300+ privacy policies worldwide?

What do you do to ensure HS codes are accurate? What is your rate of additional cost due to incorrect HS coding?



LOCAL MARKETING & SHOPPER ACQUISITION

WHAT YOU NEED TO KNOW

Cultivate demand and sustain brand equity in international markets just as you would at home. Online, this can include branded content on the retailer's own site, integration with social channels in the local market and search engine advertising.

QUESTIONS TO ASK SERVICE PROVIDER

How can you help generate local demand?

What are your social media and search engine marketing capabilities?



PROVIDE LOCALIZED SHOPPING EXPERIENCE

Localizing the website means not only translating text, currency, marketing and communication to the local language, but also ensuring it is culturally relevant. Localizing the checkout experience may also mean more than just local payment options.

Countries have different address formats: Offer a local address form in each country.

Does the checkout feel as integrated and intuitive to international shoppers as it does to domestic shoppers?

Are you able to localize every element of checkout—including language, address formatting, address auto-complete and lookup—and remove unnecessary clutter?



LOCALIZING PRICING, TAXES, AND DUTIES

Localized pricing means presenting the price to the shopper in local currency and including all additional costs, such as import duties and taxes, so the shopper is not surprised at checkout.

There are two primary ways to build a localized price:

1) In-country prices are set specifically for each country at price points tailored to the market, with duties or taxes included. This allows retailers and brands with physical stores to match local in-store pricing. Local sales or other taxes can be either embedded into the cost or added at checkout.

2) The retailer or brand can apply a specific exchange rate to the domestic merchandise price and use that to calculate import duties and taxes. Some service providers convert prices at exchange rates favorable to them—meaning higher prices for shoppers. Some also provide options that allow shoppers to opt out of paying duties in advance, so they pay on delivery.

Does the company provide consultation on pricing strategy?

Does the retailer or brand have flexibility in how they present prices in each market?

WHAT YOU NEED TO KNOW

Payment preferences vary meaningfully between countries. Retailers must not only offer a range of payment types, but they must also tailor them to maximize conversion.

Refunds are an important part of the customer experience, and the payment methods you choose need to be able to support your refund policy.

Cross-border service providers typically serve as the merchant of record, taking on the risk of fraudulent transactions. But the risk to retailers is not only in the potential fraud, but also in the actions taken to try to minimize fraud in international markets. In some markets, a large number of cross-border orders can be unnecessarily declined due to perceived fraud risk, meaning retailers and brands can be throwing away sales and destroying customer loyalty. According to industry sources, up to half of legitimate cross-border transactions can be declined in some markets.

Consider factors such as what algorithms service providers use to detect fraud, and whether those could lead to legitimate transactions being declined. Ask if the local provider uses local acquirers (payment providers) to minimize unnecessary rejections.

Seventy-one percent of shoppers in ESW's recent survey said that, post-pandemic, they would continue to purchase via a mix of digital and physical channels. This highlights the importance of delivering omnichannel experiences in retailers' international commerce strategies.

QUESTIONS TO ASK SERVICE PROVIDER

How do you select payment options to maximize conversion rates?

How do the payment methods you offer support a good refund experience for the shopper?

What is your strategy to minimize incorrectly declined transactions?

Are you deploying advanced tools, such as machine learning, to minimize declined transactions?

Do you enable click and collect, ship from store, and return to store globally?



PAYMENT METHODS AND FRAUD DETECTION



OMNICHANNEL CAPABILITIES



SUSTAINABILITY

WHAT YOU NEED TO KNOW

Shoppers today are more concerned than ever with the sustainability practices of retailers and brands they buy from. ESW is the only end-to-end global DTC provider that offsets 100% of carbon emissions related to international transportation: first, middle and last mile.

QUESTIONS TO ASK SERVICE PROVIDER

What are you doing to support sustainability initiatives?



CUSTOMER DATA/LIFETIME VALUE

Retailers and brands may fear that a third party ends up in control of potentially valuable data and owns the relationship with the customer, which limits the ability to re-market, build loyalty and maximize customer lifetime value.

Some service providers may even use customer data in their own marketing efforts, so the retailer should be pointed in asking how data will be handled.

Who owns the customer data?

Consider how cross-border operations can integrate with the core domestic business in areas such as shopper transaction history and loyalty programs. Some service providers will provide fuller integration than others.

What integration do you offer with core business operations—for example, loyalty programs or customer transaction history?



CUSTOMER SERVICE

Consider how to provide local customer service, online and on the phone.

Some DTC ecommerce providers provide full customer support on behalf of their retailer and brand clients, with local language responses to questions about products or services, but some provide local language support for order status and payment only and forward other customer inquiries to the brand to resolve.

Do you provide full customer support—i.e., at the product level, and not just on shipping or returns?

Do you offer local language customer support?



SHIPPING AND LOGISTICS

WHAT YOU NEED TO KNOW

Service providers can provide hub or hubless logistics models.

With a hub model orders are fulfilled from the service provider's hub.

With a hubless model, orders are collected from the client's distribution centers for immediate dispatch, reducing the time in transit.

Ideally, the service provider will offer a choice of local carriers at checkout that will provide the shortest delivery time, lowest cost and best service. However, some service providers have preferred shipping firms—and in some cases are owned by these firms and channel orders through them.

Some service providers select the most appropriate shipper for each country, with no influence from commercial ties.

QUESTIONS TO ASK SERVICE PROVIDER

Do you offer a hubless model so you can collect orders from the retailer or brand's warehouse?

Do you have any ties or affiliations with specific shippers?



RETURNS AND REFUNDS

Look for online portals and shipping options that build the brand while also managing cost. Consumers expect estimated delivery dates, shipping notifications and tracking portals.

Local hubs can mean faster return processing, which gives shoppers refunds faster.

Retailers also need to ensure they are able to claim back duties and taxes from local authorities, as they will have to refund these amounts to the customer. Many service providers can provide this service.

How can you help us make returns easy for shoppers?

Do you use local hubs to expedite returns and offer faster refunds to shoppers?

Can you manage the process of claiming back taxes and duties for returns?

ACCELERATE DTC GROWTH WITHIN AND ACROSS BORDERS

The leading apparel, luxury and beauty brands drive over \$1.5BN GMV annually with ESW. If you're looking to scale your ecommerce channel, ESW has the solution to fit your DTC needs.



OR



OR



+



Fluency Express is a lightweight integration that helps brands go to market quickly.

- 4 WEEKS TO LAUNCH/ LIGHT INTEGRATION
- READY TO GO OPERATIONS & LOGISTICS
- SEAMLESS RETURNS/ EXCHANGES

Fluency Enterprise is a customized solution delivered by a dedicated team to help large brands execute on their global strategy.

- DEDICATED GO TO MARKET TEAM
- LOCALIZATION FROM PRICING TO CHECKOUT
- CUSTOM OPERATIONS & LOGISTICS
- ENHANCED RETURNS/ EXCHANGES

Symphony is a complete enterprise DTC solution, from the design and build of your brand's online store, to dedicated teams for the day-to-day management of the trading environment.

- DESIGN/BUILD COUNTRY SPECIFIC SITES
- NATIVE END-TO-END LOCALIZATION
- OPERATIONS & LOGISTICS
- SEAMLESS RETURNS/ EXCHANGES
- RUN: ECOMMERCE SITE MANAGEMENT

Velocity propels your business forward with shopper experience and performance marketing services to maximize your DTC opportunity.

- CUSTOMER ACQUISITION
- CUSTOMER RETENTION
- CUSTOMER EXPERIENCE



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Want to talk about global expansion for your brand?

CONTACT AN EXPERT AT

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