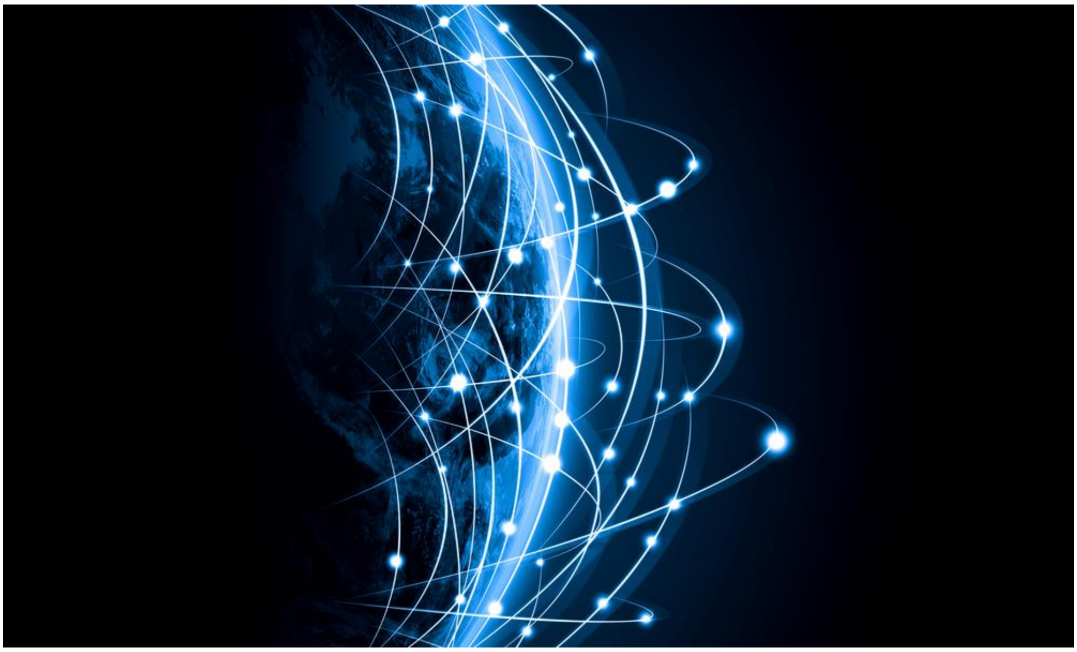
CROSS-BORDER SALES: THE NEW FRONTIER IN E-COMMERCE

An international logistics service provider can help online merchants expand into new markets and speed the flow of products to customers around the world.

Because the Internet has no boundaries, people believe that e-commerce should have no boundaries either. A consumer in Malaysia, for instance, expects to purchase a dress from retailers in Europe as easily as she can from online merchants in her own country. The same holds true for businesses that buy electronics and other high-tech products online. Buyers expect each step in the process, from the initial catalogue search to their order's arrival, to be a simple, smooth transaction.

But that's not easy to achieve when delivering across borders. International e-commerce transactions are more complex than their domestic counterparts and are fraught with potential roadblocks that can cause delays, undermining one of e-commerce's key selling points: fast fulfillment of individual orders anywhere, anytime.

Still, international e-commerce is growing quickly. According to the consulting firm A.T. Kearney's 2015 Global Retail E-Commerce Index, online sales over the previous year increased by more than 20 percent worldwide, to almost US $840 billion. Among the reasons



for that growth, the consulting firm says, are the continued expansion of online retailers into new geographies, and physical retailers' entrance into new markets through e-commerce[1].

The pressure is on, then, to find solutions that will allow cross-border e-commerce to function as efficiently and seamlessly as its domestic counterpart. For a growing number of companies, working with an international logistics service provider is proving to be an effective way to cut through trade barriers and speed the flow of products to their customers.

Overcoming cross-border challenges

In an international environment, it can be difficult for sellers to fulfill their promise to customers of on-time delivery at a predictable cost. In large part, that's because customs regulations and processes worldwide were designed for large-scale, repetitive industrial shipments, not for the small, unique orders that form the bulk of e-commerce transactions.

Business-to-consumer (B2C) shipments tend to be highly variable and very small, with many falling below the minimum threshold for taxes and duties. Even some business-to-business (B2B) e-commerce shipments, such as electronics parts and accessories, can have small order quantities and a low merchandise value, notes Dr. Arne Jeroschewski, Vice President, Business Development for DHL eCommerce Asia-Pacific.

Key to reducing barriers for cross-border e-commerce shipments is to offer them as "duties pre-paid" shipments—that is, the seller pays the duties in advance and incorporates that cost in the sale price. If the shipments are processed as "duties unpaid," the consignee will be required to pay duty at the destination in order to collect the goods—a time-consuming process, especially in developing markets, Jeroschewski points out. Another way to accelerate e-commerce shipment processing is by establishing a pre-clearance process with customs authorities. Instead of declaring each shipment individually at the time of arrival, the logistics service provider submits to customs a manifest covering multiple shipments before they arrive in the destination country. By consistently providing all relevant information to customs in advance, the merchant allows the authorities to either give the go-ahead for the entire batch prior to arrival, or identify specific shipments that require further review.

The most effective approach, in Jeroschewski's experience, is for customs authorities to create a specific channel for e-commerce shipments. Instead of handling small e-commerce shipments within the same process framework as large industrial imports, customs authorities apply a simplified clearance process to e-commerce shipments that allows for immediate processing upon the shipments' arrival. Ideally, they should be processed with predictable duty and tax payments as a standard part of the e-commerce customs clearance process, Jeroschewski says.

New market entry

Both domestic and cross-border e-commerce is booming in developing markets such as China, India, and Indonesia. This encompasses not just direct-to-consumer retail, but also shipments of electronics, pharmaceuticals, and consumer packaged goods, says Dean Eichorn, Vice President, Retail and e-Commerce, for DHL Supply Chain Asia Pacific.

[1] A.T. Kearney, 2015 Global Retail E-Commerce Index (http://www.atkearney.com/consumer-products-retail/e-commerce-index)

Two distribution models are commonly used for international e-commerce, Eichorn says. One is a global e-fulfillment hub, where orders are received and shipped to customers everywhere in the world. The other is a regional or in-country e-fulfillment hub, where the merchant warehouses products and ships orders to customers within that country or region, typically with the help of a logistics service provider or a local distributor. A few companies, such as Amazon, do both, with a global e-fulfillment hub as well as in-country hubs in key markets such as China and India. The choice depends on the merchant's fulfillment and service strategy, Eichorn says. "It comes down to the customer's strategy around global, regional, or local investments in country markets, and whether the scale of the business justifies having a domestic e-fulfillment hub," he explains, adding that other factors, such as country-specific import and customs duties, may also play a part in the decision.

Because customs clearance in emerging markets can be unpredictable in terms of duty payments as well as processing time, some companies choose to stage product locally in order to ensure reliable and fast order-to-delivery times. For example, merchants that employ a regional e-fulfillment hub model to serve customers in Asia will often locate the hub in Singapore and/or Hong Kong, Eichorn notes. Both are reasonably centrally located for reaching most markets in Asia, are fully and frequently served by all modes of delivery, and offer a comparatively free-port market environment—all of which support ease of inbound shipment and outbound delivery, he observes.

DHL can provide both regional and in-market e-fulfillment hub services to support its customers' e-commerce sales-channel strategy in Asia, Eichorn says. In either case, a logistics service provider with expertise in areas that are critical to e-commerce—international and domestic delivery, e-fulfillment in both regional and local market environments, and a deep understanding of the required customs processes—is the right partner for e-commerce merchants conducting business across borders. This is especially important in emerging markets such as China, India, Indonesia, and Thailand, where a logistics service provider can provide a reliable distribution and delivery network backed by technology and operational know-how, Eichorn says. One example is DHL's Blue Dart Express in India, which has its own aircraft and a broad delivery network to ensure fast and reliable e-commerce deliveries all across India.

Reliability customers can count on

Whether an e-commerce business is large or small, and regardless of whether it focuses on B2C or B2B, the logistics service provider's role is to take the complexity out of the order-to-delivery process. "With integrated fulfillment and delivery systems, we can reliably move shipments through customs and provide our customers with a high degree of certainty regarding full cost and transit times—as soon as the shopper completes an online purchase," says Jeroschewski. "With DHL, the customer doesn't have to worry about serving online shoppers from abroad."