

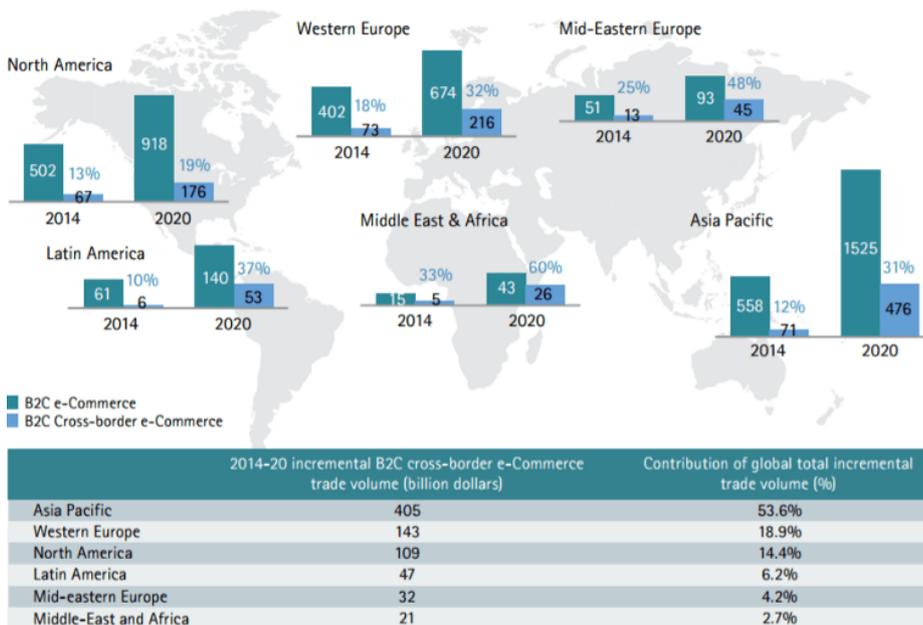
Cross-border e-commerce logistics

Domestic online sales in markets such as the US and Europe are expected to continue growing over the coming years, however, these growth rates are expected to flatten as these markets become more mature. Many e-retailers and multi-channel retailers expect online sales to reach their ceiling at 40% of total sales, and some of the more advanced companies have already achieved this milestone.

The greatest area of growth is expected to be in the cross-border segment of the market, which is growing much faster than domestic volumes, albeit from a smaller starting point. Forrester forecasts cross-border e-commerce growth of 17% between 2017 and 2022, compared with 12% for overall e-commerce (cross-border and domestic). Cross-border purchases have been forecast at 20% of worldwide e-commerce by 2022, comprising some US\$627bn.

Of all markets, the Asia Pacific region is believed to be leading the way, in large part due to China, which is set to become the largest e-commerce cross-border market for both imports and exports. Rising incomes, an expanding middle class, and dissatisfaction with domestic products are driving China's e-commerce growth.

Fig 1. Global cross-border B2C e-commerce transaction value (US\$ billion)



Source: Accenture

The increased importance of cross-border e-commerce is further reinforced by the findings of Ti's recent survey (contained in the report e-Commerce Logistics 2018).

Will your share of cross-border e-commerce sales increase over the next five years? (Shippers)

| | Proportion |
|--------------------------|---------------|
| Share will increase | 69% |
| Share will decrease | 0% |
| Share will stay the same | 31% |
| Total | 100.0% |

Will your share of cross-border e-commerce sales increase over the next five years? (LSPs)

| | Proportion |
|--------------------------|---------------|
| Share will increase | 68% |
| Share will decrease | 18% |
| Share will stay the same | 15% |
| Total | 100.0% |

As can be seen from the results, the over-whelming opinion is that cross-border sales are set to increase. Over two-thirds of shippers expected the proportion to increase and a similar level of logistics service providers.

Where are the opportunities for cross-border e-commerce?
China

In China, physical e-retail sales increased 28% to 5.48 trillion yuan (US\$877bn) in 2017, accounting for 15% of all retail sales of goods (Ministry of Commerce). This is compared with online sales representing 12.6% of retail sales in the previous year.

Cross-border e-commerce in China is growing particularly fast, increasing more than 70% year-on-year. Cross-border consumer e-commerce amounted to an estimated 259bn renminbi (US\$40bn) in 2015, comprising over 6% of the country's total consumer e-commerce spending. This segment of the Chinese e-commerce sector is growing at more than 50% per annum. China's major e-commerce site, Alibaba's Tmall has moved into the cross-border market with its Tmall Global site, which has attracted major foreign retailers, such as US-based Costco and South Korea's Lotte Mart. Amazon not only recently opened its offshore shopping sites to Chinese consumers but also offers users of its Chinese site (Amazon.cn) a list of selected foreign products with Chinese-language descriptions.

A number of factors are fuelling this high demand for cross-border products. Chinese middle and upper-middle class consumers, of which there are some 300m, are demanding foreign goods, looking to purchase overseas clothing and gadgets not yet available domestically in the country. However,

overseas imports purchased through these retailers are often expensive and can cost up to twice as much as the same product in the US or Europe. Chinese consumers using more reputable cross-border e-commerce sites also feel a degree of protection from fake or counterfeit goods, in some way protecting their purchases.

In an effort to stem illegal 'grey-market' imports, the Chinese government has created a favourable postal duty of 10 to 50% on a large list of personal-use items and duties and taxes of less than 50 renminbi are typically waived. Eight Chinese cities have established trade zones qualifying for this tax regime, with more likely to do so, and e-commerce players have moved to speed up the clearance of goods through customs. Established logistics operators are building new distribution channels to handle the expanding trade. Fengqu.com, a new e-commerce spin-off from SF Express, is one example.

South East Asia

Some analysts report that the e-commerce market in South East Asia will reach US\$200bn by 2025, growing at a CAGR of 32%. The region is home to some 600m consumers, 260m of which are already online. This makes the South East Asia region the largest market of internet users globally. It is for this reason that both Amazon and Alibaba have increased their interest in this wider region.

However, a number of South East Asian countries, including Singapore, Thailand and Malaysia, are now considering the implementation of an e-commerce tax to 'level the playing field' as these online purchases are not always subject to the GSTs incurred by national retailers. Whilst the proposals in Malaysia currently relate to Digital Services, other countries are investigating the impact that such changes will have on all retail sales. For example, in Thailand the revenues department is proposing repealing the VAT exemption on imported goods worth less than 1,500 baht (US\$47).

Australia

Due to the high cost of goods in Australia, consumers have been buying products from overseas e-commerce sites for many years. However, as economic conditions have worsened (due to the crash of the mining sector) locally sold goods are becoming more attractively priced. This, along with a number of other factors, was the decision for Amazon to finally enter the market in December last year.

Like many other markets, the Australia government introduced plans for a new GST on small B2C transactions from 1 July 2017. Australia has also scrapped the AUS\$1,000 GST-free threshold for sales by non-residents to Australia via the overseas e-commerce sites – including eBay, Amazon and Alibaba. Australian consumers will have to pay a 10% goods and services tax on all online goods bought from overseas platforms from 1 July next year. Imports of goods worth less than AU\$1,000, which are currently GST-free, will no longer be exempt from the tax.

In addition to the small package threshold withdrawal, foreign Sellers of digital services to Australian consumers will also be required to charge 10% GST. Due to these moves, some platforms have threatened to block sales to Australian consumers. It is estimated that over 3,000 foreign e-commerce companies will have to register for GST on goods.

Mexico

The Mexican e-commerce market is estimated to be valued at US\$17.6bn by 2020, growing at an annual rate of 17%. Online purchases currently only represent 2% of the country US\$203bn in annual retail sales, representing a huge opportunity as Mexicans have only recently been introduced to the benefits

and online shopping. There are currently 37.9m online shoppers in the country, expected to rise to 55.3m by 2020.

However, the growth of this sector is being hampered by security concerns over payments. To combat this, Amazon has partnered with a local retailer allowing its customers to pay for their purchases with cash. The market has low competition and with the rate of growth, Mexico could become the most important market in Latin America. There is a high demand for foreign goods, with the US accounting for 48% of all Mexico's imports. China, Japan, South Korea and Germany are also important targets for Mexican consumers.

India

The Indian e-commerce market is predicted to grow by 1,200% to US\$200bn (Rs13,30,550 crore) by 2026, up from \$15bn in 2016, according to Morgan Stanley. At this time, it has been estimated that the online retail market will account for 12% of the country's overall retail sales. Morgan Stanley believes that this growth is being driven by increasing internet penetration, a drop in data access costs, a shift to smartphones, and a flow of credit to consumers.

In 2017, only around 14% of India's internet users shopped online, compared with almost 64% in China, however, this is likely to change as consumers become more relaxed regarding purchasing goods online.

After years of waiting for legislation allowing overseas e-commerce companies to trade in India, Amazon now has a presence, whilst Alibaba has bought significant stakes in digital wallet Paytm and e-commerce portal Snapdeal. Alibaba's largest shareholder, Softbank, has also recently purchased a stake in Flipkart.

Cross-border issues and risks

Whilst gaining access to millions, if not billions, of new customers is an attractive proposition for e-commerce companies, targeting purchasers in foreign markets is not necessarily the easiest of strategies.

Apart from the obvious language and currency barriers, there are a raft of additional factors that can impact a retailer's ability to successfully operate on a cross-border basis. A recent UPS study of European cross-border purchases found that the top considerations when purchasing from retailers in another country included:

- Payment security (75% of respondents)
- Clearly stating the total cost of the order including duties and fees (72%)
- A clear returns policy (63%)
- Stating all prices in the shopper's native currency (63%); and
- The speed of delivery (62%)

However, within Europe – an economic grouping comprising a large number of landlocked countries, largely governed by a set of compatible customs, taxation and trading regulations, with the vast majority of markets adopting a single currency – cross-border e-commerce is a far simpler proposition.

Trading conditions become far more complicated in regions such as Asia, where developed markets trade with emerging economies, all countries have independent regulatory environments, different

languages and currencies and most are separated by large bodies of water. This results in a completely different, or at least exacerbated, set of issues the e-commerce companies must navigate.

Payments

Fraud is a major challenge faced by e-retailers operating on a cross-border basis. E-commerce sites need to use a reputable and robust payment system that is cognisant of local customer behaviour to reduce possible fraudulent purchases.

Many emerging economies will comprise cash societies, e.g. not being heavy users of bank credit or debit cards. Consumers in these markets often rely heavily on 'cash on delivery' (COD) payments which comes with its own set of unique issues. COD purchases, where the goods are paid for on receipt of delivery – handing cash over to the delivery driver – incurs a very high return rate, especially on cross-border transactions where the transit time is far longer. Often, during the time that it takes to deliver the goods, the consumer has found a similar product locally. As there is no penalty, or need to request a refund, the purchaser simply refuses to accept the delivery. This places additional cost onto the e-commerce seller, especially as the return element often also comprises an international shipment.

For those purchases that are completed, the last-mile operator will need to collect the cash payment and then transport this to a secure facility. To reduce the risk, some companies use the services of local retail outlets that offer cash collection services. The funds are then sent electronically back to the merchant.

Also, cross-border payments should be fully transparent to ensure that all transport costs, local taxes, duties and fees are included so that customers are not surprised by additional government levies when their online purchases arrive at their final destination. Understanding local taxation and ensuring that the customer pays accordingly is crucial; otherwise the purchase may be returned, incurring additional, expensive, costs.

Returns

The returns element is also just as important as the last-mile delivery and can negatively impact the perception of a business by local customers. However, unlike domestic e-commerce, cross-border returns are far more expensive, and some retailers have adopted different strategies to try to reduce this expense. When ASOS, for example, started to service US customers it did so from its UK stockholding. To reduce returns cost, which can be as high as 50% to 60% in the fashion sector, ASOS directed all US returns to a US distribution centre, the intention being not just to reduce costs but to also build up some inventory in the country.

Regulations

Regulations surrounding local and overseas e-commerce sales will differ country by country and cross-border e-commerce sellers must be aware of these in order to adapt their approach in each target market.

As mentioned earlier, a number of countries in South East Asia, and also Australia, are implementing additional taxes on online goods purchased from non-domestic sellers, and these costs will have to be either passed on to the consumer or borne by the retailer. Also, changes in tax free import tariffs can impact growth opportunities, turning what was previously a profitable cross-border market into an unattractive proposition for overseas sellers within a very short time-frame. This may well be the case when the AU\$1,000 tax threshold for imported online purchases is scrapped in July this year.

Trust

Trust is one of the biggest issues facing companies wanting to sell their products online internationally. As e-commerce sites need robust payments systems to reduce fraudulent purchases customers must be convinced that the websites they buy from are reputable and honest – a task that is far harder to check and police internationally.

Conclusion

It is already evident that logistics providers are benefiting substantially from the rapid growth in cross-border volumes. The air cargo sector has experienced double digit growth for the first time since 2010 partly due to this reason (as well of course due to the global economic upturn). International express providers have also seen volumes increase and are looking at ways to expand lower cost products.

There is also political impetus. In Europe, the European Commission is keen that cross-border e-commerce should be encouraged in order to further integrate the economies of its members. It has been looking at ways in which costs and administration can be reduced with the goal of making a cross-border purchase as easy as a domestic equivalent. The World Customs Organization (WCO) and other trade bodies are promoting the 'single window' concept, simplifying and expediting information flows between traders and government agencies.

In order to help smaller retailers sell overseas, E-Bay, Amazon and Alibaba, to name just a few, are providing tools and platforms which take some of the pain out of international trade. It certainly seems that a combination of government liberalisation, logistics product innovation and global platforms will only accelerate the growth of this important sector.

About Ti Insight

For further information about this article please contact John Manners-Bell at jmannersbell@ti-insight.com or visit the Ti website at www.ti-insight.com.

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Ti has acted as advisors to the World Economic Forum, World Bank, UN and European Commission as well as providing expert analysis to the world's leading manufacturers, retailers, banks, consultancies, shipping lines and logistics providers.

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