



RetailWeek
CONNECT
WHITE PAPER

In association with


channeladvisor®

Understanding online marketplaces in the US

How to establish a presence
in the world's largest economy

INTRODUCTION

We export tea to China, bikes to Holland, boomerangs to Australia, wine to Italy and... Nigel Farage to America.” These comments, made by foreign secretary Boris Johnson during February’s British Chambers of Commerce Annual Conference, may have raised a laugh, but trade with the US is serious business for UK retailers. We are after all talking about a market of more than 300 million people (five times the size of the UK), the world’s second largest retail market and the world’s biggest economy.

US consumers are notoriously eager to embrace British culture and have an affiliation with British heritage – perhaps even more so now as the pound plummets following the Brexit vote and new legislation relaxes import taxes.

“Looking at this picture, no one would be surprised that for many UK companies looking to sell overseas, trade with the US seems a natural choice,” says Louis Taylor, chief executive of UK

Export Finance (UKEF), the UK’s export credit agency. But it doesn’t make it the easy choice.

Ray Kelvin is chief executive and founder of Ted Baker, which has numerous standalone stores, five outlets, concessions in Bloomingdale’s and other department stores, as well as a wholesale business in the US. “People think that because we speak the same language, we are similar, but it couldn’t be further from how it is,” he said recently. “I would say the US is the most different market that we have encountered.”

Others would agree. Tesco’s travails in America have been well reported and the failures of a few may well be putting off the many. A Global-e survey among 250 British retailers in October 2016 found that 59% consider the US to be the most important ecommerce market and yet only 44% currently sell to shoppers there. Meanwhile, only 13% have plans to do so in the future.

So, what do US consumers want, where do they buy from and how do they shop? This white paper, produced by *Retail Week* in association with ChannelAdvisor, explores the US online shopper and why marketplaces – from the behemoths like Amazon and Walmart to newer kids on the block such as Tophatter and Bluefly – can be a logical first step for retailers looking to make a splash across the Pond.



UNDERSTANDING CHINA'S ONLINE MARKETPLACES

In 2016, China surpassed the United States to become the world’s largest retail market with total sales of \$4.886trn, compared with \$4.823trn in the US.

In the first of a new series in partnership with ChannelAdvisor, *Retail Week* revealed the challenges of setting up an online marketplace in China. Find out more here: retail-week.com/ChannelAdvisorChina.




DID YOU KNOW?
The de minimis customs value has recently increased from \$200 to \$800. Is this just the start of moves to support international trade and growth, especially for UK businesses that want to trade in the US?




CHAPTER 1: THE US SHOPPER


THE US MARKET



Population: **319m**



Total retail sales, 2016
\$3.36tn (£2.77tn)



3.9% rise in retail sales 2016 v 2015

Source: US Department of Commerce

Oscar Wilde once suggested “the Americans and the British are identical in all respects except, of course, their language”. But retailers heading into the US retail market hoping to attract consumers with the same tactics they’ve used on these shores might be in for a nasty surprise. Sure, there are similarities in some of the trends – growing mobile commerce, increasing use of social media in retail journeys, faster fulfilment and a focus on price and personalisation – but the differences can catch retailers out if they are not prepared.

There is a false assumption that US shoppers are like their UK counterparts in their attitude to shopping, says Kristin Graham, senior consultant at consumer strategy consultancy Pragma, and this has led to a failure to invest in understanding the nuances and subtle differences that can ultimately

make or break their business. “I’ve seen so many UK brands failing to understand the importance of communicating their proposition in line with US cultural differences,” she explains.

British consumers tend to be more sensitive, for instance, while Americans expect more direct – even aggressive – brand messaging. Even the higher and mid-range brands push out some pretty extreme promotional messages both online and offline.

Annette Healey, a New York retail specialist and executive vice-president at the property group CBRE, has suggested British brands need to “come in with full force”. “It takes time but if you look at Uniqlo, H&M or Zara, they entered, worked out the kinks, then came in all guns blazing. Many of the UK brands are still just dipping a toe in the water and haven’t made a splash yet.”

PERSONALISATION IN FOCUS

- 21% of US shoppers are more likely to purchase multiple times from a brand that delivers personalisation with their website experience than one that doesn't
- Yet more than a third (35%) feel that brands do a poor job of customising their experiences, according to an Episerver poll of 1,112 US shoppers
- "Having competitive prices is the first step, but adding both targeted and personalised offerings and also nurturing the engagement through a more refined, redesigned retail experience will truly matter, particularly on notable ecommerce days," advises Jill Standish, senior managing director of retail at Accenture.



DID YOU KNOW?

Global research just published by Accenture (March 2017) shows that social media is set to become a major direct shopping channel for Gen Z, with 72% of them interested in purchasing via social media directly. In addition, 50% cite social media as a popular source for product inspiration, and more than one third (35%) have increased their use of social media for purchase decision-making in the past year.

ECOMMERCE GROWTH

Online sales reached \$395bn (£325bn) last year, according to the US Department of Commerce. That represented a 15.6% increase on 2015 (\$342bn, £281bn), and the biggest positive bump since 2013 (16.5%). By comparison, total retail sales in 2016 increased 3.9% to \$3.36trn (£2.77trn) – ecommerce sales therefore represented 11.7% of total retail in 2016, and were over one percentage point up on 2015 (10.5%). In fact, last year the web represented almost 42% of the growth in the US retail market – most of it driven by Amazon (see Chapter 2).

There is little reason to believe this trend will reverse. FTI forecasts that online retail sales in the country will reach \$440bn (£362bn) this year and \$562bn (£462bn) by 2020. "Active shopping still

goes on, but it's something we can squeeze into our lives almost any time we want," FTI notes in its 2016 outlook report.

US consumers' shopping patterns have also evolved – two thirds of consumers shop online at least once a month, with the same number expecting to make more online purchases this year than they did last. "Most shoppers are completely comfortable purchasing goods online every day from any of several personal devices," says Christa Hart, senior managing director at FTI.

SMART, SOCIAL SHOPPERS

Mobile has become an increasingly important channel in the US retail space: smartphone penetration reached 80% in July last year; five years ago it was 42%. To date, phones have played

a supportive role, acting as a pre-purchase tool (73% of shoppers use their mobile while shopping in store). Slowly but surely, there's a shift under way, as discussed in more detail in Chapter 3.

RichRelevance research shows that 67% of Americans now use their mobiles to shop, with that figure even higher for the millennial demographic (79%). "Today's generation was raised on mobility and social marketing," says Kevin Connor, director of product strategy at Retail Pro International. "They educate their tastes with the latest trends that permeate their social networks, and in the same swipe use their phones to make a purchase."

For the US millennial, a brand's website and social media, together with blogger and celebrity relationships, will factor into purchasing decisions.

THE US SHOPPER

Sources: Criteo, Episerver, FTI, Harris Poll/Catchpoint, Statista, Urban Airship, US Census Bureau, US Department of Commerce, Ve Interactive

94% shop online frequently

90% have made a purchase online in past three months

54% of those on mobile



59% expect personalised experience



71% say reviews are important



55% use desktop for purchases



40% of ecommerce transactions involve multiple devices along the path to purchase



Mobile wallet adoption
63% vs **45%**



42% use a mobile more often than desktop to buy online



60% Smartphones lead in mobile purchases



81% mobile phone penetration in 2016



CHAPTER 2: THE ROLE OF MARKETPLACES

Almost two in three shoppers (62%) now head to a marketplace to find a product online, according to Pitney Bowes' 2016 online shopping survey of 13,000 adults in 13 countries. Less than half (43%) used search engines, while fewer still will hunt on retailer sites (39%). Today, around 30% of transactions in the US take place via marketplaces (similar to the UK).

"They give people a single destination from which they have access to myriad brands and products – the concept is as old as time, of course, but instead of Westfield and Target,

we're talking about Amazon and eBay," explains Andrew Metcalfe, chief technology officer at Ve Interactive.

AMAZON DRIVES GROWTH

In the US, Amazon is far and away the commanding force: a whopping 43% of all online retail sales in 2016 went through the retailer, according to Slice Intelligence. Using data from 4 million online purchases, the analysts also concluded that Amazon accounted for 53% of the growth in US ecommerce sales last year.

An Internet Retailer survey of 500 US consumers

in December found that more than half (52%) go directly to the online retailing giant when shopping online. "Simply put, Amazon's already dominant share of the US ecommerce market is only increasing," noted *Business Insider* recently.

US customer expectations are therefore "driven by Amazon", notes Håkan Thyr, ChannelAdvisor director for strategic partnerships EMEA. "Shoppers are geared towards instant gratification," he adds.

Indeed, a study last September by Consumer Intelligence Research Partners found that 20% of all US consumers are Amazon Prime members, for example. The combination of high customer loyalty and brand awareness has fuelled the company's growth.

"Shoppers still predominantly shop in online marketplaces, less out of an urge to discover new brands and more for the security of shopping with a familiar, trusted entity," says Connor. "We feel more confident buying from names we recognise."

NEW KIDS ON THE BLOCK

Currently, there appear to be few chinks in Amazon's armour – it's even got its own shopping day (see box, left).

Walmart recently splashed \$3.3bn (£2.5bn) on ecommerce startup Jet.com. The deal will help keep prices low (on Jet.com prices fall as customers add more items to their basket) as well as strengthen Walmart's ecommerce infrastructure. It's the latest in a five-year acquisition spree, but Thyr predicts there is more business to be done as Walmart looks to "keep up" with the market leader.

So, is there any need for UK retailers to look beyond the three in marketplace retailing? As always, it depends. Niche marketplaces are emerging and, in some cases, growing very quickly. Those in rude health all have one thing in common, Thyr says: "They aren't trying to be Amazon."

Bluefly, for example, won't appeal to every consumer, but for those after medium to high-end fashion it's extremely popular – especially since the transition to a marketplace model. This has essentially expanded Bluefly's inventory. "Our goal has been to leverage Bluefly's traffic and experience while introducing more brands to our customers and more of our customers to our brands," said former chief executive Neel Grover in November. "We have upgraded every aspect of purchasing, delivery, fulfilment and customer service."



DISCOUNT DAYS A FORCE OF HABIT

The US gave us Black Friday, but there are other events associated with sales spikes that a UK retailer could completely miss. Independence Day, Labor Day and Cinco de Mayo all represent a significant opportunity for foreign retailers depending on their niche. Halloween, St Patrick's Day and Valentine's Day are also huge in the US. And then there's Amazon Prime Day, of course (2016's event saw sales increase 50% on 2015).

These discount days are here to stay. However, as *Retail Week* and ChannelAdvisor revealed in the white paper *Making sense of the online shopping day phenomenon*, the way in which people shop them is rapidly evolving. Download the white paper here: retail-week.com/OnlineShoppingDays.

With so many consumers turning to the comfort of their sofa during the chaotic holiday periods, ecommerce retailers have a significant opportunity to capture sales and also increase awareness – but these won't just land in their laps.

Even loyal customers will expect major discounts. McKinsey's latest US consumer sentiment survey shows that many American consumers have remained loyal to their preferred brands but are watching their budgets more closely – buying only with discount coupons or when those brands are on sale, shopping around to find retailers that sell them at lower prices, or purchasing them in smaller quantities.

Convenience is also key. Thanks largely to Amazon, one-hour delivery slots, same-day delivery and the choice of either pick-up in store or home delivery are all becoming the rule rather than the exception in fulfilment. Shoppers also expect a seamless, data-driven personalised experience, which can enhance loyalty.

Indeed, Dunhumby retail director Dave Clements says shopping days can be used to create a habit. "If a consumer returns three times, they are most likely to become hooked," he says. "Incentivising the first three shops helps to create a habit and proves to be a profitable marketing investment, so it is worth providing a personalised and smooth experience on these days."

MARKETPLACE	LAUNCH YEAR	NO OF SELLERS	GROSS MERCHANDISE VALUE	MAIN BENEFITS
Amazon	1999	2 million (worldwide)	\$223.6bn	The biggest marketplace in the US.
eBay	1995	25 million	\$78.1bn	New APIs, product structure and reporting/insights. Very strong in motors category.
Walmart	2009	300	\$14.7bn	Large, international network and infrastructure.
Newegg	2011	10,000	\$2.9bn	Strong for tech hardware. Loyalty programme.
Etsy	2005	1.6 million	\$2.4bn	Reported 24% growth in 2015.
Sears	2010	5,000	\$1.5bn	Loyalty programme with tens of millions of members.
Rakuten	1997	6,000	\$700m	The only marketplace to accept bitcoins as payment. Offers ecommerce consultants to help sellers maximise sales.
Bluefly	2013	2,500	\$500m	Reported 40% growth in 2015.
Farfetch	2008	400	\$500m	Very popular in the US but also active in the EU.
Jet	2015	1,600	\$50m	Now part of Walmart. Access to large, international network and infrastructure.



CHAPTER 3: TAKING THE PLUNGE

Almost one in two US shoppers (45%) that buy online domestically have also made a purchase from another country in the past year, according to Pitney Bowes research. That's fewer than the global average (66%) and way behind the likes of Singapore (89%), Australia (85%) and Hong Kong (85%), which suggests this is a country that is

“still growing in cross-border confidence”. This is where marketplaces can come into their own.

Brands can borrow the credibility they get from selling through familiar retailers like Amazon, in turn easing consumers' minds.

“For retailers in the midst of growth, marketplaces do have an appetising appeal,”

explains Metcalfe. “The online marketplace has the reach to attract new prospects and the logistical heft to handle transactions.”

Distribution, however, is another matter.

FULFILLING EXPECTATIONS

Amazon used to do multichannel fulfilment, but retailers now need to find another solution, says Thyr. The change has “caused a bit of upheaval”, he explains. Indeed, most marketplaces require sellers to have a viable distribution system on the ground, which has led many sellers to third-party logistics partners – preferably fast, reliable ones.

Kurt Salmon's assessment of fulfilment performance on Cyber Monday 2015 showed the 10 fastest companies delivered in an average of 2.8 days, while the average order-to-delivery time

 **DID YOU KNOW?**
A survey of exporting European SMEs by Fedex found that 39% are willing to pay a premium for a delivery service that “gets goods to the customer through the quickest and cheapest means possible”.

ECOMMERCE

Source: US Department of Commerce

Ecommerce sales



11.7%
Ecommerce share
of total retail



14.3% increase
in ecommerce from
Q4 2015 to Q4 2016

across all retailers was 6.9 days – 20% slower than the year before. This was a “symptom of networks on the brink of collapse, carrier delays and slower shipping methods”. Though speed suffered, success improved.

Still, the window from purchase to receipt is only set to shrink further, warns Jim Prewitt, vice-president for retail industry strategy in North America at JDA. And, as well as faster, the trend is also towards freer – 90% of the retailers studied by Kurt Salmon offered a way for customers to get free shipping, up from just 15% in 2014.

MOBILE OPPORTUNITY

Last year, US retailers raked in \$116bn (£95bn) in mobile sales, accounting for 29% of all retail ecommerce sales. More advertisers are tackling barriers to purchase by optimising their sites to support smaller screen sizes, reducing load time



DID YOU KNOW?
Tracking apps are increasingly popular in the UK. One in three (33%) US shoppers use their phone to complete a purchase, yet usage increases significantly (47%) when tracking an item post-purchase.



Tracking apps are used by 47% of US consumers post-purchase

and improving the overall mobile user experience. As a result, *Business Insider* has forecast that m-commerce will represent 45% of total US ecommerce sales by 2020.

Mobile devices can also be used to influence sales – both online and offline – and that’s the “big

prize”, notes US market research company Forrester. “To use mobile channels to influence customers, companies must be fundamentally digital, with digital inventory, store maps, coupons, loyalty cards, and more. Digitising a retail business costs tens, if not hundreds, of millions of dollars.”



CONCLUSION

A single currency and a shared language make the US a logical step for UK brands looking to go international, but they need to do their homework before leaping in.

American consumers are not carbon copies of their English cousins. They may have high expectations in relation to personalisation, fulfilment and omnichannel shopping, but they also want more aggressive discounts and marketing – even from their favourite brands. “You need to be



DID YOU KNOW?
Categories US shopper is most likely to shop for online: electronics, apparel, cosmetics, household appliances.
Categories US shopper is least likely to shop for online: furniture, food.
Source: FTI 2016 outlook report, survey of 1,500 adults

very aggressive on price... and you need to consider loss leaders to build sales,” says Thyr.

Online marketplaces can therefore be an efficient way to test the water. These offer all-in-one convenience for sellers and peace of mind for shoppers buying UK brands they know little or nothing about. Amazon dominates, but Walmart is hoping an aggressive acquisition strategy will help it keep up, if not catch up. There are also more niche marketplaces showing decent growth, each offering plentiful opportunities for the right brands.

Even with the “borrowed credibility” from a behemoth like Amazon, UK firms looking to export to the US will need to invest in marketing. It has to be relevant; a lack of international awareness and flexibility about adapting brands to the local markets can put up a real barrier when connecting with a new audience.

Indeed, this isn’t just one big market that retailers can take aim at and fire. There are seven

“The most successful companies will be those that develop a nuanced and detailed understanding of the various sub-segments’ specific needs”

Max Magni, senior partner, McKinsey

states with a population in excess of 10 million and the combined population of the top two – California and Texas – is greater than the UK. “The most successful companies will be those that develop a nuanced and detailed understanding of the various sub-segments’ specific needs and preferences,” explains Max Magni, a senior partner in McKinsey’s New Jersey office.

Which brings us back to Oscar Wilde, who once said: “America is not a country, it is a world.” For UK retailers it’s potentially a world of opportunity.



KEY CONSIDERATIONS FOR EXPANDING INTO THE US

Language: Americans are not as used to purchasing from British companies as Brits are from US ones. Even minor language differences annoy some consumers.

Currency: 54% of Americans regularly shop outside of the US and 99% prefer to pay in US dollars when they do so. Many are put off when this is not an option on UK websites.

Logistics: The US is a big place. Consider how and where you will provide fulfilment. New York or Los Angeles can be great places for setting up shops or marketing offices, but they can present increased costs for shipping to the opposite coasts.

Sales tax: Sales tax liability is defined by a retailer's nexus. It's worth considering moving to a state with favourable ecommerce taxation rules.

Retail technology: Consider whether you have the right systems in place to scale your business and make this a success.

PARTNER COMMENT

As one of the most established ecommerce markets in the world, the US is a popular destination for retailers looking to expand internationally. For retailers looking to scale their business to the US, marketplaces are a logical starting point. With 62% of online shoppers looking to a marketplace when searching for a product online, retailers can capture a large amount of traffic by listing through these channels.

What's more, expanding to new marketplaces is considered one of the safest and quickest ways to scale your ecommerce business. The built-in customer base and established infrastructure of each marketplace allow you to focus on other priorities, such as sourcing, pricing, promotion and fulfilment (all important considerations for the US market). Selling on multiple marketplaces also diversifies your online channels, so if something goes wrong on one, you always have other sources of revenue.

Amazon and eBay are two of the top names that come to mind for retailers looking to sell to the US, which makes sense as these two behemoths take up the largest share of the market. However, there are multiple options for retailers



looking to sell to the US. Walmart, Jet, Newegg, Sears, Rakuten, Tanga and Wish are just some of the others to consider.

Take the time to understand the audience and requirements of each marketplace before diving in. Investing time in identifying the right marketplace for your business, getting your listings right and ensuring you are compliant with requirements will set you up for success when starting out.

Håkan Thyr, director for strategic partnerships EMEA, ChannelAdvisor

CHANNELADVISOR'S KEY POINTS FOR CHOOSING A MARKETPLACE



- **Know the audience:** From niche, product-specific marketplaces to larger sites with tens of millions of loyal shoppers each month, the variety of marketplaces means there's something for everyone. Take the time to research the top categories and audience to make sure you're choosing a marketplace aligned with your strategy.
- **Check the requirements:** The requirements for UK sellers can vary by marketplace. Some channels require retailers to have a US entity like a tax ID and mailing address. Others might require that you ship from a US warehouse or provide a US returns address.
- **Get your data right:** Make sense of the listing requirements of each marketplace to ensure your products are visible.
- **Consider your inventory and fulfilment times:** As orders increase, you must maintain good operational performance to build your reputation. Have a plan in place to deliver on time and offer a seamless returns process.
- **Offer sales and promotions:** Get to know the promotional sales tools on each marketplace and work with your marketplace account managers to build visibility at the start.

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