



Global E-Commerce Leaders Forum

2018

TRANSFORMING INTERNATIONAL
RETAIL DISTRIBUTION:
GLOBAL ECOMMERCE'S LATEST
WAVE OF DISRUPTION



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WHY THIS STUDY? WHY NOW?



The Global Economic Leaders Forum and the National Retail Federation partnered on this inaugural study, “Transforming International Retail Distribution: Global Ecommerce’s Latest Wave of Disruption,” to understand the evolving nature of global ecommerce and the challenges it poses for retailers and brands today.

The topic of this study emerged as we researched the state of Chinese ecommerce during the summer and fall of 2017. We looked beyond the hype surrounding the growth of ecommerce opportunities in China. The resulting report, “Catching the China Ecommerce Wave,” explored lessons learned by retail leaders in China, analyzed 2.0 and 3.0 China ecommerce strategies and looked to the future in China.

China’s ecommerce marketplace platforms were central themes in interviews with global ecommerce leaders. These executives also discussed marketplaces strategies in countries other than China. Branded manufacturers, a fast-growing segment of the GELF community, were especially intrigued by international ecommerce marketplace opportunities.

In February 2018, GELF’s conference in Los Angeles explored the increasingly strategic roles that all international marketplaces now play in global ecommerce expansion strategies. Multiple presenters spoke about Amazon’s emergence as a global ecommerce distribution platform and how they were working closely with Amazon internationally. Their relationships with Amazon compelled them to take a longer look at whether their incumbent international wholesale distribution partners were taking advantage of ecommerce opportunities.

They asked how other leaders were approaching this topic, which led to a deeper analysis of the role digital plays in global retail sales and distribution, especially as “the lines” between branded manufacturers and retailers continue to blur. The blurring of these lines is due to multiple dynamics that include brands selling directly to consumers once served primarily via retail partners, retailers’ private label brands being a greater share of their merchandising mix and the rise of digital native brands selling their own branded products as well as other brands. To help answer these questions (and more), we began this research during late spring of 2018 in collaboration with NRF.

What brands want to know: Given brands' growing strategic global partnerships with Amazon, they want to better understand whether (and how) to "raise the digital bar" for global distribution partners. Questions included:

- How does the growing global reach of digital titans like Amazon, Alibaba and Walmart change a brand's or retailer's traditional global distribution and wholesale practices and relationships?
- Should international distribution partners provide new value-add services; if so, what kinds?
- Who should take the leadership role as digital commerce transforms international strategies?

What retailers want to know: Retailers want to understand how Amazon's growing international distribution footprint will impact their market positioning and global growth opportunities, especially with their upstream brand partners. As they evolve into global brands themselves, what is the strategic importance of digital to their own international expansion? Questions included:

- As wholesale partners to brands, what channel friction should retailers prepare for as brands invest more in direct-to-consumer selling?
- What international ecommerce models and technology investments are required as their traditional "store-first" expansion mentality changes?
- How does the growth of international marketplaces and the emergence of competing global-first digital native brands threaten incumbent relationships with established brand partners?

With support from NRF, GELF set out to understand the right questions and begin the process of formulating answers. This report is only the beginning of an important dialogue that will continue into 2019.



The interview sample was approximately 60 percent branded manufacturers and 40 percent traditional

The conversations were quite candid, in part due to the confidential nature of the research. Many of these voices are included in this paper, but the names of the research participants are not listed.

We could not have conducted this research study without the support of the report's co-sponsors, Salsify and FedEx Cross Border. We thank both organizations for their support. Please explore how their solutions can help your organization overcome challenges related to expanding globally.

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EXECUTIVE SUMMARY

Online retailers and branded manufacturers selling directly to consumers internationally have embraced three primary business models over the past decade to cost-effectively grow global retail sales: cross-border ecommerce, international marketplaces and localized, in-country ecommerce sites¹.

Cross-border ecommerce, wherein an online retailer or brand selling online (“brand”) primarily fulfills international demand via its domestic ecommerce infrastructure, remains the most popular model for U.S. brands. Localized, in-country ecommerce sites, however, often provide better shopping experiences, in part by providing multiple regional fulfillment options that speed up international delivery (e.g., drop-shipping, local fulfillment, etc.).

International marketplaces are attracting more attention today from retail and ecommerce executives. This is largely due to the growing global reach of Amazon — and the operational excellence of Amazon’s global distribution platform and services. Alibaba and Walmart are also driving the transformation of global retail as their global marketplace distribution strategies raise the bar for traditional international wholesale distribution partners.

Are international marketplace platforms operated by the likes of Amazon, Alibaba and Walmart disrupting how brands distribute their goods globally? The easy answer is yes. Whether or not this disruption is ultimately a good thing for brands and their international distribution partners is more difficult to answer.

Our study starts a conversation that provides valuable perspectives, if not the decisive answer or answers. What’s clear from the research is the forces of digital commerce innovation — whether harnessed by international marketplace platforms, well-known global brands and/or digital native retail startups — are changing global sales and distribution models for consumer goods.

Traditional wholesale distribution partners must embrace digital marketing and ecommerce practices or risk losing relevance in the global retail ecosystem. Competition will intensify as brands invest more in direct-to-consumer selling online and as retailers evolve into global brands themselves. International partners like Amazon will provide value but will extract value as well.

Balancing this give-and-take requires leadership flexibility, digital champions and a willingness to test digital-first ways of growing retail sales globally. The domestic or regional digital teams will lead, but a team effort including sales, marketing, supply chain and retail distribution partners will be required.

Brands need to educate and collaborate with global reselling partners about digital commerce opportunities, and potentially break ties with incumbent distributor relationships where digital skills are absent. Brands need to work closely with international partners to effectively control and share their brand story with global audiences. We agree with leaders who believe distribution partners must evolve into digital-savvy “market accelerators.”

Brands should expect to pick up the innovation tab, or risk losing control to partners. Investment priorities include technologies that optimize cross-border ecommerce operations, streamline marketplace selling and generate international demand. Data management and data science must be the foundation upon which future retail growth strategies are built and executed.

“Brands have a fundamental problem when they want to enter an overseas market efficiently, but can’t justify the cost of a subsidiary: “How to compete with the ease of cross-border ecommerce competition?”

-Vice president, U.S. ecommerce and international wholesale

¹ We will use “brands” in this paper to refer collectively to manufacturers selling direct to consumer, online retailers and other merchants of record selling through digital channels

OVERVIEW OF GELF'S FINDINGS:

Research insights from global ecommerce executives were organized to address the four topics highlighted in Figure 1.

- **Growth Strategies** provide insights on international market priorities and explore which global ecommerce expansion models work best where and for whom. We update the GELF International Ecommerce Framework and profile how brands are addressing international marketplace strategies.
- **Execution** profiles how brand and retail organizations execute global growth strategies by managing channel friction and providing digital leadership. We discuss how Global Operating Models, Global Playbooks and Centers of Excellence help brands control the brand and empower local distribution partners with ecommerce know-how and localized best practices.
- **Local Distributors** in international markets are a central focus of the study. The state of digital commerce among local distribution partners is mixed. We explore the “healthy friction” growing in global sales channels as digital distribution platforms evolve — and what leaders should expect from international distribution partners. We highlight how brands can provide leadership to local partners and help them evolve as digital commerce grows.
- **Future Foundations** profile the technologies, innovations and practices driving global retail growth today and in the future. In summary, leaders tell us optimizing international ecommerce operations is the top priority, closely followed by the need to invest wisely in international demand generation. To build a foundation for sustainable future growth, we find all parties in the global sales, distribution and marketing ecosystem must do a better job harvesting, sharing and acting on operational data and international customer insights.



1. Growth Strategies: Priority Markets and International Ecommerce Expansion Models

PRIORITY MARKETS KEY FINDINGS:

- English language markets with the most cross-border volume remain the top tier of market priorities.
- Brands are revisiting strategies that focused on emerging markets, specifically China, and are re-prioritizing ecommerce expansion investments within their top tier markets.
- China remains “a priority among priorities” for many, ranking second only to the U.K. outside North America.

GELF Insights on Markets: Germany, France, the Netherlands and the Nordic countries often comprise the rest of the top tier markets following Canada, the United Kingdom and Australia. Many retail organizations prioritize Germany over France when doubling down on their top three to five markets.

Some global ecommerce leaders told us they’ve “taken a timeout” in China, in large part because of the cost required to build their brand there. More established global brands know they cannot ignore China, nor opportunities in Japan and South Korea. Those investing heavily in China understand China lies at the “headwaters of retail innovation” and stress that companies simply must be there.

Southeast Asia is growing in importance and attracting ecommerce investment, but product distribution barriers remain. Area experts tell us border regulations are one reason that distribution partners there aren’t investing to keep pace. “In Southeast Asia, you can’t easily move product between countries without having to pay tariffs — this encourages separate, country-specific distribution centers. This decentralization keeps the distributors in business.” These barriers slow cross-border sales growth.

Outside of Asia, Brazil and India are once again stirring up interest and investment (e.g., Walmart won the Flipkart deal), but also hype (especially about opportunities in India). Russia remains an enigma.

Figure 1: How GELF organized the study’s insights and findings



THINK ABOUT THIS:

Some international ecommerce executives say lifestyle and location outweigh geography in their global market segmentation models: “Shoppers in major urban centers look very similar to us.” Not everyone prioritizes market-by-market, especially “borderless” digital native brands that offer specialty and long tail goods attractive to niche segments.

Also think about how expectations differ between international shoppers in rural versus urban settings, especially regarding speed of delivery.

INTERNATIONAL ECOMMERCE EXPANSION MODELS KEY FINDINGS:

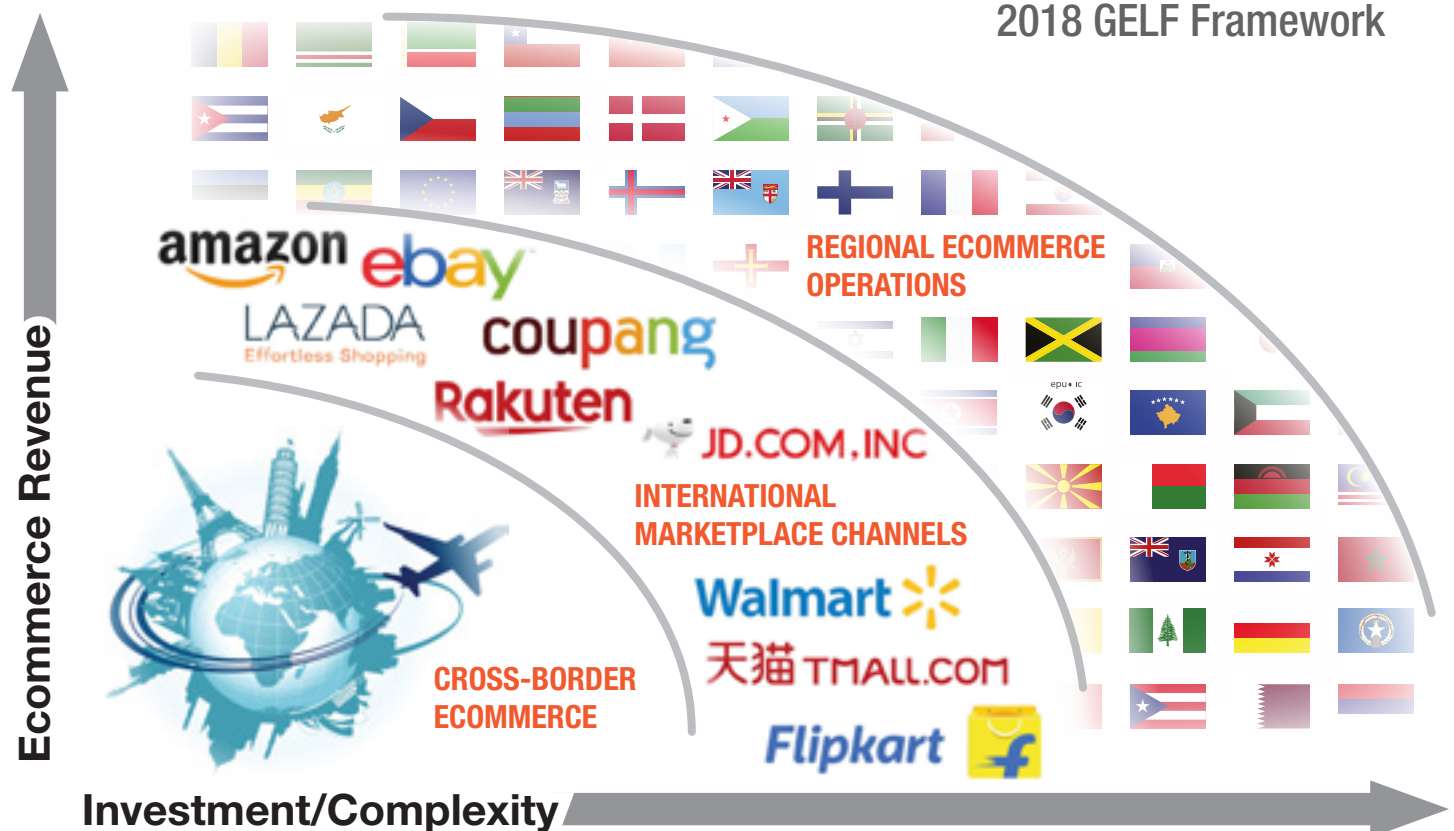
- Digital sales channels are capturing more and more of global retail's growth; as a result, ecommerce leaders face growing expectations for strong future growth.
- Brands are drawn to the cost advantages and speed of international ecommerce models when compared with traditional market-entry and growth models such as subsidiaries and franchisees.
- International marketplaces offer retail leaders an entry option for both lower and higher cost-of-entry markets, but present challenges as well. The ability to use marketplaces to test and learn is valued highly.
- Digital native brands are using cross-border ecommerce effectively in marketplace-centric countries like China. These brands are often marketplace-first, not traditional distributor-first.

More Insights on Models: Leaders we interviewed forecast that in five years global digital commerce sales will triple. Some leaders tell us we may see ecommerce sales increasing five times versus today. International ecommerce will soon represent a mid-teen percentage of overall digital commerce sales for U.S. brands.

Although offline retail sales still outweigh online sales globally, digital commerce is clearly the future. The three primary international ecommerce models illustrated in the GELF Framework (see Figure 2) offer brands viable alternatives to traditional store-centric retail market expansion models.

Figure 2: GELF International Ecommerce Framework

**Global Expansion Models:
2018 GELF Framework**



DETAILED FINDINGS

There are similarities and differences between these ecommerce and store-centric expansion models. Like traditional retail expansion models, international ecommerce models tend to align with the relative size and cost of entry of a market. Higher cost-of-entry markets like China, Brazil, India and Russia often require companies to acquire or invest in wholly owned subsidiaries and regional distribution operations. Similarly, GELF's *Regional Ecommerce Operations Model* works well for higher cost-of-entry markets where brands build and operate localized brand and/or ecommerce sites, often with partners².

On the other end of the spectrum are lower cost-of-entry markets such as the U.K. and Australia/New Zealand, where historically customers were serviced first via export from the U.S. or via licensing. The equivalent ecommerce model is the *Cross-Border Ecommerce Model*, which is the most popular DTC model, in part because it cost-effectively leverages an online retailer's centralized ecommerce assets and inventory.

International marketplace channels sit nicely in the middle of the cost-of-entry spectrum and provide a unique "flex option" for digital commerce market entry into both higher- and lower-cost markets. International marketplaces represent a digital version of traditional expansion models relying on strategic alliances, joint ventures and franchising.

Leaders tell us they like the middle ground option that international marketplaces provide. Marketplaces can help brands enter higher-cost markets like China (e.g., such as branded storefronts on Alibaba's Tmall) as well as lower cost-of-entry markets (e.g., the U.K. via Amazon or Australia via eBay).

International marketplaces also offer cost-effective reach that allows brands to "fish where the fish are" as well as opportunities to test and optimize product assortments. This ability to quickly test and learn is especially attractive to brands exploring overseas markets that can be difficult to serve via the cross-border model (e.g., Brazil's high-cost tariffs, China's complexities, etc.) or by building localized sites.

Marketplace platforms like Amazon and Alibaba are raising the bar for traditional wholesale and distribution partners, a dynamic discussed in more depth in the pages ahead. However, international marketplaces present branded manufacturers and retailers with plenty of challenges, some of which have perplexed sellers for years. As detailed in the sidebar, barriers such as a lack of control over product presentation and limited access to customer data continue to make international marketplaces a no-fly zone for segments of retail, especially prestige luxury brands.

Insights from Digital Native Brands

Although international marketplace strategies were a central focus of the interviews, cross-border ecommerce models and localized in-country sites with regional fulfillment operations are also attracting plenty of investment. Executives from Shoptop and Paul Evans spoke at GELF NYC '18 about how digital-native brands can exclusively use the cross-border ecommerce model to thrive in many markets, especially marketplace-centric markets like China.

When we asked how digital-native brands differed from incumbent brands, we heard that these nimble DTC retail players are often marketplace-first (typically prioritizing Amazon), not traditional distributor-first.

Their preference for working with Amazon underscores the importance they place on data-driven operations. Many simply don't see the value of working with distribution partners that aren't similarly obsessed with optimizing operational and customer data to grow sales.

Global-first digital native brands tell us their DTC models can also be multi-partner. They sell globally through their own cross-border ecommerce as well as via in-country bricks-and-mortar partners and pure play ecommerce partners. Due to the inherent competitive friction of these relationships, communication and trust are crucial to their success. Pricing and margin issues are the major factors complicating these multi-partner strategies.

² A brand's existing global reach and regional operations also can predispose an organization to build localized sites

Retail Brands Embrace International Marketplace Channels; Address Key Challenges

The international marketplace trade-off retail brands often face is wanting to control their brand story while also accelerating market entry and international sales.

“No one can tell our story better than us,” explained one head of global ecommerce struggling with the lack of control over how his brand and products are presented in international marketplaces.

Others point to tight margins hurting their bottom line when marketplaces take a share of revenue and add on other fees. Retailers tell us they feel the margin squeeze more intensely than brands. “The allure of marketplaces is this built-in customer base [for which] you pay a hefty chunk of your margin, and then there are marketing services markups too. You pay dearly for [international marketplace] sales and then you pay again for demand,” shared one global retail executive.

The top pain points for brands selling via marketplaces revolve around pricing compliance. Policing MAP (minimum advertised price) and MSRP (manufacturer’s suggested retail price) policies requires extensive — often expensive — monitoring for unauthorized and rogue marketplace sellers. Even authorized sellers create problems, especially when ecommerce and marketplace rights aren’t clear.

Marketplace pricing transparency also undercuts brands’ pricing-by-country strategies. “The more platforms you list on in Europe, the more likely you will have price compression as Amazon picks up prices in Germany and spreads the prices across the continent. It’s a massive beast we have to figure out,” admitted one senior director of international ecommerce.

Brands and retailers alike also face customer data challenges. International marketplace operators usually own the customer data. Therefore, retail brands must try different tactics (warranties, loyalty programs, promotional packaging, etc.) to capture this data. Marketplace dynamics tied to ownership/access to customer data are beginning to change, but most leaders aren’t banking on marketplaces sharing more; at least not without yet another fee being added.

THINK ABOUT THIS:

Foreign competition is on the rise for both established and startup brands. U.S. consumer fatigue with “cookie-cutter” domestic fashions, products and in-store experiences has opened the door for brands based outside the U.S. The concurrent rise of cross-border ecommerce models and cloud commerce technologies offer foreign brands cost-effective U.S. market-entry options that leverage the United States’ maturing digital commerce infrastructure.

However, inbound cross-border plays face significant headwinds in the U.S. Although infrastructure and digital commerce services are readily available, common strategic missteps can cause stumbles upon entry. What works in a brand’s home market is not always easily “ported” to the U.S. A dominant market share at home can mean very little in the U.S. Trying to enlist new dealers/ distributors in the U.S. can also be problematic, especially when trying to articulate product differentiation. Often foreign market leaders can get trapped by these dynamics instead of testing, learning and adapting.

U.S. brands entering new international markets would be wise to heed these universal lessons.

“Many entrants don’t have a serious U.S. entry strategy; they think listing product as a 3P seller on Amazon and leveraging their social followers in their home market will jumpstart their U.S. business.”

*-U.S. digital native brand co-founder
on inbound competition*

2. Enterprise Execution: Balancing Brand Control with Local Team Enablement

ENTERPRISE EXECUTION KEY FINDINGS:

- Seeking efficiencies, global ecommerce leaders move from U.S.-centric (or home country-centric) to global operating models executed via Global Playbooks and Centers of Excellence.
- Lack of clarity about digital selling rights creates hurdles, especially for brands hamstrung by international distribution agreements in which incumbent partners hold exclusive rights.
- Moving to digital-first selling requires flexibility, senior global champions and leaders open to investing in change and new opportunities. New team roles and responsibilities are emerging.

More Insights on Enterprise Execution: Strong or weak centralization? This organizational tug of war has always challenged brands expanding globally. The “brand police” and corporate marketing teams pull for stronger centralization as local teams dig in their heels seeking more local control. The brand thinks they tell the story the best, while the locals think they know what their people want to hear.

Where are we now? Seeking operational efficiencies and faster speed-to-market, global ecommerce leaders are embracing global operating models that re-balance the roles of global, regional and country-level digital retail leads. The global team leads; its priority focus is on strategic planning, establishing brand-driven global “strategic guardrails” and ensuring technical scalability. Global also drives development of country-specific Global Playbooks (see sidebar) and Centers of Excellence.

COEs vary in scope, size and structure. But most are designed to accelerate the rollout of ecommerce models in global markets and enable faster and more profitable growth while maintaining brand standards. Objectives also vary, however the COE team helps establish and drive best practices and stimulate timely collaboration and decision-making among corporate and in-country stakeholders invested in ecommerce-focused innovation.

The global operating model’s P&L sits at the regional level and regional execs take the lead on merchandising, inventory planning and marketing. Although regional and country-level responsibilities can and do overlap at different retail organizations, country-level leads often take on operational responsibilities. These can include dealing with government and regulatory bodies, transacting with and investing via banking/financial partners, partnering with marketing agencies and working with local couriers and delivery agents.

GELF finds a growing consensus that the brand’s commitment to COEs — all tiers, in-region or in-country — can drive sustainable global growth due to centralized scale efficiency and consistent brand control/management. Key leadership challenges lie in maintaining a sustainable balance of power between digital channels and traditional retail teams while evolving in lockstep with a rapidly transforming retail landscape.

Enterprise Execution via Global Playbooks

Perhaps no focus is more acute today for the global lead than developing an overarching vision for the present and future roles of the respective marketing and sales channels in the rapidly evolving global digital ecosystem. Building Global Playbooks, typically by function at global, regional and country levels, successfully accelerates the evolution to a digitally sound global organization.

Because each market is different, playbooks must flex to address channel strategy by market (e.g., China), by function and at global, regional and country levels. Some topics execs prioritize include:

Balancing pros and cons of marketplaces vs. DTC

The vision for digital in wholesale partnerships

Where emerging channels (social commerce/messaging platforms such as WeChat) fit into strategies

The best two “big bets” to make every year

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As cost centers, COEs work well when tied directly to the regions' P&L, including being 100 percent tied to regional KPIs from a bonus perspective. This ensures they deliver on the needs of regions, which creates accountability across the board. In turn this builds trust between the region and global.

However, COEs can look very different from one organization to another. As one executive pointed out to GELF, “COEs have been a constant evolution for us.”

The pace of this evolution differs by size and shape of an organization. Smaller regions and emerging markets tend to trust and embrace COEs. Yet bigger, established regional teams and their leadership (e.g., North America for U.S.-based brands) are more set in their ways. As one executive commented rather dismissively, “We call it the center of the obvious.”

Some COEs are positioned to help address conflicts about who can — and cannot — sell officially via digital channels in different global markets. Digital rights are often unclear, especially regarding who can sell via international marketplaces.

Mature brands with entities all over the globe can be especially hard hit. They often signed distribution agreements early on to quickly grow global sales. Now these deals can create major hurdles when these organization try to grow digital sales. "Some brands want to unwind those deals but have to let them run their course. The reality is that some have signed away their future," explained one ecommerce veteran. Other execs spoke about how existing friction around exclusive sales and distribution agreements in a region or country intensify when digital commerce rights factor into the equation.

Dealing decisively with ambiguous digital commerce rights, market exclusivity and/or a lack of “digital buy-in” takes strong leadership and requires making some tough calls. As one VP of ecommerce who also owns global wholesale pointed out, “It’s almost impossible to grant wholesale and retail to one partner and ecommerce to someone else [in the same market]. We have had some hard conversations with some partners that aren’t ready for ecommerce.”

Leadership is crucial; flexibility was a word we heard repeatedly from senior leaders charged with executing global ecommerce strategies. “Flexing” to sell globally while undergoing digital transformation requires senior-level global leadership that is very open to change and pursuing new opportunities and partnerships. Executing digital-first strategies also benefits greatly from having an executive champion positioned to overcome organizational bottlenecks that slow down the digital team.



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One such bottleneck discussed with several executives involves their heads of global sales. This position often oversees managing and developing international sales channel partnerships, responsibilities traditionally not digital-first in nature. When a retail brand's main messenger isn't savvy about ecommerce, it can be challenging to ask global distributors to "get digital."

Educating global sales leaders about ecommerce can be "easier said than done." Executives in the study shared several ways to bridge the digital knowledge gap: Start by directly educating senior sales leaders. Make digital a priority by linking key metrics around in-country dotcom growth to their performance evaluations. "But leave lots of room to negotiate," cautioned one exec.

Another way to tackle the challenge is via a "digital buddy system," where the digital team provides more informal guidance to the global sales lead. The digital buddy system provides the digital team a side benefit — namely shared insights into valuable retail perspectives. These insights can be quite timely because store and digital leaders are now taking a more cohesive view of each other's roles in international expansion. Although the digital team typically holds responsibility for international ecommerce, they are working closer with B&M teams in-country.

Ideally, the digital commerce team is also aligned tightly with marketing. Marketing leads by pushing the brand forward globally and by driving traffic to the ecommerce site(s). The digital team converts inbound traffic by ensuring international shoppers find the products they want and the information they need on the ecommerce site. In the next section, we will revisit the need for marketing and digital to work collaboratively as we explore what to look for in next-gen distributors.

THINK ABOUT THIS:

Digital commerce is accelerating the global transformation of retail. Leaders must be flexible and adapt quickly, but change can be tough. How do digital leaders make it work?

Plan for constant change as learnings and market dynamics dictate. Be flexible and prepare to shift direction quarter to quarter. Prep for tough conversations that will need to be had with global partners.

Brands cannot overlook the importance of interpersonal communications — internally and with global sales and distribution partners. This focus is especially important as millennials grow into leadership roles. GELF heard about the emergence of key "bridge roles" that speak both to the millennial workforce and to collapsing online/offline sales channel silos.

Conflict-centric communications training is also increasingly important, in part because today's workers — and not just younger ones — use digital communications as a shield. "This can be especially difficult when healthy confrontation is needed to advance a business global relationship," shared one VP of international. "Instead of just organizing international contracts and related business info, now we need to develop and facilitate interpersonal communication."

NOT EXERCISING DIGITAL COMMERCE RIGHTS CAN BE A PROBLEM TOO

When distribution partners with ecommerce rights don't exercise these rights, consumers pay the price. For instance, incumbent distributors with exclusive rights can block digital native brands from selling in a country. This denies online consumers in-country access to innovative new products brought to market by pure plays. These products may originate from brands collecting, analyzing and acting on in-market consumer data insights and the latest trends. Executives from startups say instead of "meeting the shopper exactly when and where she/he shops," the incumbents can freeze the domestic market. This leaves shoppers no choice but to shop via more expensive cross-border ecommerce sites and international marketplace channels.

3. Local Distributors: The State of Digital Commerce Among International Distribution Partners

INTERNATIONAL DISTRIBUTORS KEY FINDINGS:

- Although digital sophistication varies among international distributors and wholesalers, many are not savvy about ecommerce. This can be true of wholesale retail partners too.
- Traditional value-adds required of global distribution partners are broadening from regulatory and operational/logistical support to actively enabling digital commerce growth.
- Sought-after digital commerce skill sets include expertise selling via in-country marketplaces, managing digital content, social selling and managing data/insights (operational and customer).
- Brands must take the lead educating distribution partners about digital commerce and help balance “the load” (e.g., who owns what, who leads when) between enterprise and locals.

More Insights on International Distribution Partners: The study clearly found that the role of international distributors is evolving as brands invest more heavily in their global DTC operations. But make no mistake, the classic value-adds from traditional global distributors and wholesalers are still valued.

Distributors understand country-specific regulations and how to navigate them legally. They know how to build and run in-country operations profitably. Their “front-end” expertise drives customer acquisition, engagement and order capture. Back-office and logistical know-how are increasingly important — especially to brands committed to delivering a seamless customer delivery experience. Local distributors’ market knowledge is often second to none; as such they serve as trusted advisors about trademarks and protecting intellectual property. Physical proximity to retail customers cannot and should not be undervalued.

But as is often the case in today’s world, you must do more than what you’ve been good at for years to stay relevant and valued. As one executive put it succinctly, “Thanks to Amazon, the expectations go up every day.”

What should brand manufacturers expect today from international distribution partners? What should retailers look for as they evolve from wholesale clients of brands into global brands themselves? What can both brands and retailers learn from the data-driven digital native brands that favor international marketplaces over traditional distributors?

At a minimum, distribution partners need to “get it.” Our research clearly found the size of an international distributor is not a clear indicator of digital savviness. Whether global behemoths or family-owned and -operated for generations, distributors need to understand that digital commerce is the new global growth frontier. This is especially true in emerging markets and in the BRIC countries, where the rising global middle class is quickly coming online and shopping across devices.

“The state of digital among our global distributors is much like [digital transformation] in CPG — some of these guys are advancing themselves and some are laggards and are falling behind. For the more traditional distributors, digital isn’t their strength. But if they just stay still as a wholesaler, they will be run over by digital dotcoms or the marketplaces.”

-VP of international ecommerce

Leaders in the GELF community made it clear that international distribution partners must deliver more than in-country operational expertise. GELF NYC ’18 keynote presenter Tom Davis, international director of ecommerce and digital

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services at Cartier, spoke to how digital commerce is flattening the different tiers of global distribution. “The conversation is all the same no matter what level you’re at — it’s about data, pricing, content control and storytelling.”

International partners also need to support brands that are investing in their own DTC operations. Many brands are simply not set up to fully execute DTC operations, regardless of the maturity of ecommerce in their domestic market. Local partners can help with regional and local logistics, but lag in their understanding of the basics of ecommerce and what drives a good online shopping experience.

Brands should vet partners for proven ecommerce operations expertise, warehouse space for D2C and experience operating local ecommerce sites. Ideal global distribution partners also should bring omnichannel assets and execution-oriented skills operating modern inventory, order management and warehouse systems as well as 3PL expertise.

The need for digital marketing expertise is also clear — as is a demonstrated proficiency selling through international marketplaces. One VP of global ecommerce pointed to Asia, where his Korean wholesale partner has completely revamped its distribution operations into what he described as a “market accelerator” for U.S. brand partners.



Data management was a central theme in conversations with executives, a topic this report examines in the next section where we explore foundations for future global growth. We found data collection and sharing is not an area where traditional distributors shine brightly.

What data-related expertise should brands look for in a “next-gen” global distribution partner? Skill sets for managing both operational and customer data were top of mind for one global supply chain leader interviewed for this report. “I can’t overemphasize their need to leverage operational data and analytics for global forecasting and demand planning. This sophistication is key because if we buy [merchandise] badly you will have all sorts of clearance issues.”

“A good example comes from Korea, where one of our largest global distributors has shifted their entire workforce towards digital. They manage content and promotions and are completely organized in a very forward-thinking way. In Korea if you’re not digital, you are a dead brand.”

-VP of global ecommerce

Accelerating time-to-market is a key value-add. A U.S.-based distributor in consumer electronics spoke to his company’s evolution on the product marketing front. “The importance of our role as a marketing partner has changed how we present ourselves to clients, especially on new product launches.” An industry colleague in electronics distribution spoke about how his company offers brand partners a growing suite of marketing services.

Expect competitive pressures from the likes of Amazon to continue raising the bar for international distributors and resellers. “They can’t just be savvy about posting digital content on marketplaces — they need to figure out smarter and cheaper ways to do customer acquisition,” one executive explained. Another global ecommerce leader concurred: “They will constantly need to do more to stay ahead of the curve. In the long run, the distributors need to own the customer data.”

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Distribution partners also need to collect data about the performance of marketing and content initiatives on a country-by-country basis. We heard the more leading-edge global distribution partners closely scrutinize which products sell well on different international marketplaces and emerging ecommerce platforms. This informs the merchandising strategies they recommend.

Not all international distributors are treated equally by brands. Although new partners are closely vetted for digital expertise — and a lack of digital expertise is likely a deal-breaker — expectations for digital readiness/savviness with longer-established global distribution partners are more nuanced. Decades-long relationships where distributors have full rights for wholesale and retail are not uncommon. In many cases, these relationships include digital commerce rights.

The challenge digital commerce leaders now face is that many longer-tenured distribution partners have not optimized ecommerce opportunities in the countries they “own.” Global ecommerce leaders agreed working together is the best, most mutually beneficial path forward. As discussed in the previous section, the digital team must lead.

However, they also acknowledged that balancing roles and responsibilities is a must. One CMO told us, “We are the brand owner and we have approval rights for almost everything a partner does in an international market for anything outside the norm. We provide content assets but let them manage social and marketing in their own countries.”

Regardless of size, international distributors will look to brands for digital commerce leadership. Brands should expect to shoulder the load for strategy/planning, enterprise execution, innovation and new tools. And yes, part of this load includes paying the IT bill — at least in the beginning.

THINK ABOUT THIS:

Content and storytelling were discussed at length in both research interviews and at GELF@Shop.org's 2018 workshop. Brand executives were quite firm about their need to control how international distributors conveyed their brand story to digital audiences.



4. Foundations for Future Growth: Innovating and Optimizing for Global Growth

GROWTH FOUNDATIONS KEY FINDINGS:

- Optimizing international ecommerce operations to scale global sales distribution is Job No. 1.
- Boosting cross-border conversion starts with getting the basics right: Fraud/security, payments, total landed costs, harmonization and especially shipping and the cross-border delivery experience.
- Job No. 2? Investing in international marketing and demand generation programs, which greatly benefit from enhanced cross-border and local website shopping experiences.
- Data management is the foundation for international growth. Data-centric operational and marketing optimization must allocate and re-allocate relevant resources continuously.

Insights on Optimizing International Ecommerce Operations: International shopping experiences — whether cross-border or otherwise — still lag the experience in-country shoppers find when shopping domestically! Almost 20 years into the digital commerce era, global ecommerce leaders tell us getting the operational basics locked down is Job No. 1, especially for their cross-border ecommerce teams. Major priorities for them include lowering the costs of cross-border order processing and the expense of fulfilling orders via international shipping.

Lowering cross-border order processing costs starts with an operations-first approach targeting the top cross-border challenges retailers face — fraud detection, currency risk, international payment issues and accurately calculated tariffs. Operational optimization also helps improve the cross-border shopping experience by reducing border clearance delays, high shipping costs and delivery times.

International shipping and delivery are typically top challenges faced by both merchants and shoppers. These barriers aren't going away. Shoppers are becoming less patient about long international delivery times. Increasingly, speed matters — and not just in the U.S., U.K. and China. “Now that Amazon has entered Australia, we think Australia could evolve quickly toward faster cheaper shipping — Korea, too, due to the population density,” commented a VP of international ecommerce.

“At the end of the day, if our fundamentals are not sound, then it's tough to build a strong foundation for growth in any global market.”

-VP of global CEM, data strategy and ecommerce on how prioritizing cross-border fundamentals enhances the cross-border shopping experience

Another global lead told us Amazon is quickly changing delivery expectations in Europe, which is forcing brands to act boldly. “Two-day free shipping in the U.S. was an exception five years ago, but not now. Now we're seeing this expectation in Europe too.” Executives in the study pointed to Netherlands-based operations as a fulfillment option for driving one-day fulfillment, while also supporting same-day shipping in Europe.

International customer delivery expectations are changing outbound practices. In the U.S., brands are prioritizing getting packages out of the country faster. Some brands and 3PL/global logistics partners are moving DCs from coastal regions to more centrally located facilities. Others are adding central U.S. locations to coastal-based options and investing in shipping practices like zone-skipping to get product out of the U.S. quicker.

DETAILED FINDINGS

Local inventory staging, drop-shipping and carrier-direct strategies are increasingly popular cross-border fulfillment strategies. Although scale can lower the cost of cross-border shipping, the persistent high costs are encouraging retailers to explore local fulfillment options and innovations.

Senior ecommerce leaders spoke about their plans to increase investments in local inventory sourcing and optimization as well as regional and in-country drop-shipping. “Figuring out how to get product closer to the customer is where we are investing,” said one executive.

Whether international shoppers buy via international marketplaces or DTC sites, sourcing and/or staging inventory closer to shoppers does improve the customer experience. However, in-region/in-country inventory staging can be a double-edged sword. For brands/retailers that sell thousands of SKUs online, matching this online inventory selection locally is often impractical. As a result, we see some brands creating special assortments for different markets and for different marketplaces channels such as Tmall. However, limiting selection doesn’t always fit well with the expectations of international shoppers. Lack of selection can negatively impact consumer perceptions of the brand.

Our research found international distributors can add value here. Distributors with pick, pack and ship capabilities can combine this capability with their traditional fulfillment infrastructure to drop-ship regionally for brand partners and luxury marketplace channels. Interestingly, we heard that some distributors offering this service are adopting revenue-sharing models associated with marketplace selling.

Brands developing innovative global fulfillment strategies should make sure they vet the sophistication of their international distribution partner’s back-end/back-office and fulfillment systems. Aging systems will stifle innovative international strategies and partnerships, as one digital native brand executive explained to us.

“The big problem was that our fulfillment partners’ system was too outdated to take advantage of our new cross-border and ecommerce technologies. They weren’t set up to provide the data transparency we — and our partners — needed, so that was a massive disappointment. We thought our customer satisfaction numbers would go up and costs down. But it turned out to be a one-year setback.”

“Amazon sees logistics as a core competency, but for us product is our core differentiation, not logistics. Right now, our priority is trying to figure out how to produce product closer to the consumer instead of focusing on how to get product shipped faster.”

-Global supply chain lead on getting product to shoppers

THINK ABOUT THIS:

Leaders weighed in on the importance of enhanced data transparency throughout the post-order delivery experience. Several discussed improving international order tracking as cost-effective ways to drive loyalty and repeat purchases. Ensuring cross-border shoppers can track orders across regional carriers and local couriers is another way to improve the delivery experience.

Amplified by social and word of mouth, the cross-border experience will increasingly define the brand promise to global shoppers. Our research suggests optimizing cross-border checkout and global logistics needs to be higher up on brand marketers to-do lists. The “brand police” must do more than just communicate and control a brand’s global identity via media and PR. Their focus must broaden to include enhancing the cross-border shopping experience during the order and post-order processes.

DETAILED FINDINGS

Insights on Job #2 - International Marketing and Demand Generation: Over the past decade, ecommerce teams have learned how important it is to invest in international customer acquisition. Early on, cross-border brands primarily harvested organic demand coming to their sites. They soon learned organic growth was not sustainable, especially given the cross-border experience was often far from ideal. To scale their investments in cross-border ecommerce infrastructures, they had to invest to generate new international demand.

Acquiring international customers requires investing in the right marketing mix and with the right local marketing partners. Brand equity helps define the proper mix. Lesser-known brands often need to incorporate more traditional media, feet-on-the-street PR and events to build awareness. Better-known brands also benefit from these marketing tactics but are often able to focus more on digital marketing.

Our study explored how the international marketing mix is evolving and what digital marketing tools are working best today. Paid search (localized by market), affiliate/performance marketing and social are proven international marketing programs. The optimal mix varies by country and can be retailer/brand-specific as well as dependent on product category. Beauty brands, for instance, prioritize social — “Social and influencers are where we hang our hat,” shared a marketing executive in the beauty world.

A clear consensus about rising digital media costs and marketing costs across the board emerged from interviews. Spending on social display with Facebook is especially in flux, we’re told. “Social isn’t a no-brainer anymore — getting any real traction with Facebook now requires a significant amount of money,” shared one director of international marketing.

Influencer marketing can also be expensive. Global ecommerce leaders suggest focusing on second tier, local and B-list celebrities, which generate a better ROI than spending big on A-list national celebrities.

What marketing expertise do international retail executives expect from distribution partners? Experience with local language search and social marketing (including influencers) were the top two answers. Content marketing and managing product content for marketplace channel partners are also key skill sets for which to vet, especially from distribution partners evolving into “market accelerators.”

As discussed in the last section, content marketing, storytelling and social engagement are growing in importance. “In the end, great content always wins the day,” concluded one senior ecommerce executive. Leaders see controlling and sharing the right digital content for the right audience as a growing challenge — one that traditional distributors without digital expertise are usually not equipped to handle.

Content-related dynamics also underscore the continuing push and pull between centralized marketing teams at global headquarters and local marketing teams and their partners. The key points of friction revolve around properly empowering local teams, how much customization and localization are appropriate for different international markets and who makes the final call about ensuring this balance.

THINK ABOUT THIS:

Other ecommerce leaders admit they need to better prepare their own teams and local partners for the intersection of digital marketing and digital commerce. We spoke about how messaging platforms like WeChat are emerging as future platforms blending content, conversations and commerce.

One executive suggests the answer lies outside the U.S. and mature western markets: “Look to China for the future of convergence and not the U.S. Here in the U.S., we simply look at digital marketing and social media for product discovery or for understanding last touch attribution.” Another research participant added, “Simplicity of interaction is what people are looking for — being social, fun and easy to check out — the way people communicate is the way people shop globally.”

Regardless of where they look for inspiration, international distributors that want to remain valued and trusted for their local market knowledge need to become more content-savvy digital marketers.

DETAILED FINDINGS

Insights on Building Data Foundations for the Future

For international marketing to perform optimally across digital media and sales channels, data vigilance is a must — as is a commitment to continuously allocate and re-allocate resources to marketing and media partners based on results.

It is no surprise that we heard about how the strong migration toward data analytics is accelerating, albeit slower in some countries. A commitment to data vigilance emerged as another key screening criteria for prospective international distributors and resellers.

Data management increasingly touches the entire organization — domestic and international partners alike. This reality is why we are concluding our report by stressing the importance of leveraging data as the foundation of international retail growth. This is true whether global expansion plans are store-centric or digital-first — or a combination of both.

However, we also want to amplify the words of caution we heard about big data and data analysis hype and hyperbole. One seasoned ecommerce exec summed up this sentiment nicely: “Our industry is producing too many reports that aren’t actionable — insights need to be simple and digestible.”

In closing we should emphasize that capturing and sharing customer data is only part of the picture. Data collaboration is a foundation for optimizing operations as well, whether the optimization involves staging inventory closer to international pockets of demand or enhancing the shopping experience.

THINK ABOUT THIS:

Several international ecommerce executives spoke about using data personalization as the “front end of localization.” They are using data and personalization engines to infer preferences of cross-border and international consumers. This approach jumpstarts localization and engagement initiatives by pushing the right message at the right time via messaging or email — and/or by presenting the right product on-site based on browsing history. Tweaking personalization engines to improve the cross-border shopping experience is yet another example of how global ecommerce leaders are innovating today.



Just Being There Isn't Enough

Many conversations about the current state of retail often revolve around a simple question: “What about Amazon?” Yet this study stemmed from the question, “What about China?”

Connecting the dots between the dominance of China’s marketplaces and the rise of Amazon as the leading global distribution platform leads us to an obvious conclusion: International marketplaces offer brands and retailers alike a valuable platform for connecting with online shoppers around the world. Marketplaces reduce market entry friction and help brands quickly learn what sells well where.

Marketplaces are also flattening retail’s global distribution ecosystem. This latest wave of digital disruption is crashing into the wholesale distribution tier. There will be winners and losers.

Is disruption ultimately a good thing? For many brands, the answer appears to be yes. Working with a marketplace platform like Amazon certainly has its ups and downs. But few will deny that Amazon is raising the bar for everyone in the global retail distribution channel. However, as with many trends, the pendulum can swing too far. Brands are still cautious about too much risk from extensive marketplace selling without the balance of brand-controlled customer experiences of their own digital selling channels and access to data about customer preferences and behaviors.

Disruption within wholesale distribution channels by international marketplaces is a trickier proposition for traditional retailers. As their brand partners go direct — whether via international marketplaces, cross-border ecommerce operations or localized sites — retailers’ role as wholesale partners is evolving. Those distributors that see a brighter future being a global brand themselves appear to be on the right track; a path is also being blazed by borderless, global native retail startups.

These and other retailers also see an opportunity to expand their role in the ecosystem. “When I look at the wholesale business it seems to be declining. Most of the big in-country retail guys will become the distributors,” shared an executive interviewed for this report.

What about distribution partners sitting in the middle between upstream brands and downstream retailers? Traditional international distribution partners that “don’t get it” are already feeling the pain.

Those distributors holding onto the past may already be part of the past. Those investing in digital marketing and commerce expertise appear to be part of the future as they transform into market accelerators. By becoming proficient at social and marketplace selling, they provide much-needed value to upstream brand partners. They also position themselves to take advantage of their own digital-direct selling opportunities. As one digital lead at a next-gen distributor put it, “Global distributors will merge or will slowly become retailers and digital commerce companies all in one.”

For years, global ecommerce leaders have talked about the importance of spending time in international markets learning about the people and how the digital age is transforming how they shop. They speak about the value of their in-country partners and how much they have learned from these partners.

If there is a single headline from this study, it’s a simple one: Just being there is not enough anymore.

We learned this lesson in our China report last year. First generation Tmall partners were no longer providing enough value once global brands wanted to get serious about growing ecommerce sales in China. Traditional retail distribution partners in China could no longer just help with physical store expansion; they needed to understand digital too and had to help drive ecommerce growth as well.

That is the lesson from this study. As digital commerce flattens the global retail ecosystem, international marketplace channels are evolving into global distribution platforms that will disrupt incumbent middlemen distributors that resist change. The incumbents have the advantage of being trusted partners that know their market. But trust must be earned continuously; trust takes transformation.

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Founded in 2014, the Global E-commerce Leaders Forum (GELF) is the largest community of digital retail executives focused on growing cross-border and international ecommerce sales. GELF's thought leadership, community development programs, conferences and events are 100 percent dedicated to cross-border and international ecommerce. GELF strives to answer the toughest questions facing ecommerce leaders tasked with growing global retail sales.

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