Global E-Commerce
Advanced Multichannel Expectations in Highly Developed Markets

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Introduction

Most major retailers and consumer manufacturers are "going global" to capture a larger share of the fast-growing e-commerce market. They are finding that more sophisticated, leading-edge, multichannel experiences are the norm in highly developed markets around the globe. To compete in these countries, retailers must understand customer needs and expectations, and deliver more advanced multichannel capabilities than they may be doing at home today.

Global Gold Rush Meets Different Expectations

All types of retailers—bricks and clicks, pure plays, marketplaces, and manufacturer brand sites—are expanding their global online presence to take advantage of fast growth rates. In a previous study, "The Global E-Commerce Gold Rush: How Retailers Can Find Riches Overseas," the Cisco® Internet Business Solutions Group (IBSG) estimated global e-commerce, including travel, will reach almost $1.4 trillion, a five-year compound annual growth rate of 13.5 percent.[1]

Cisco IBSG's latest study (the subject of this paper) focuses primarily on the highly developed e-commerce and technology markets of Europe and Asia, where there is high broadband and mobile penetration plus a sophisticated delivery infrastructure. Examples include the United Kingdom, Japan, France, and South Korea, which are estimated to represent 30 percent of the global e-commerce market in three years.[2]

What our customers have found in entering these types of markets is an entirely new set of end-customer multichannel expectations, driven by demographic, lifestyle, and technology differences.

Demographics—population density: All of these markets are geographically smaller than the United States but with large populations. The U.K. population is eight times denser per square mile than that of the United States, while Japan's and Korea's populations are 10 times and 15 times denser, respectively.[3] Housing and retail spaces are often packed tightly. Impacts on multichannel include an enhanced ability to provide faster shipping; the necessity of delivery and pickup alternatives for packages left conspicuously at the door; and the desire for alternative, less-expensive retail spaces..

➡ Cisco Internet Business Solutions Group (IBSG)

Lifestyles—small homes and long hours: Homes and refrigerators are typically smaller abroad; U.S. homes are 2.8 times larger in square footage than those in the United Kingdom and 2.3 times larger than typical Japanese living spaces.[4] Public transportation can add hours to already long workdays: Koreans spend 25 percent more hours working and commuting than U.S. workers.[5] Taken together, these factors have created a well-established online grocery market with frequent and flexible delivery options.

Higher degree of government-mandated infrastructure: In many of these nations, particularly in Asia, government and business are more entwined, and government is able to mandate certain infrastructure capabilities and standards. This has led to much earlier adoption of broadband, 3G mobile, and Near Field Communication (NFC) payments. While Holiday 2011 saw a rapid rise in mobile shopping in the United States, using phones to shop and pay for a variety of services is already common in these more advanced geographies. And, with the enabling infrastructure already in place, retailers are experimenting with leading-edge store experiences.

The Key Challenge Is a Knowledge Gap

Clearly, retailers need to understand these differences in shopping behaviors and expectations. However, executives often lack knowledge about international multichannel norms. Multichannel initiatives are often housed in e-commerce divisions where online specialists may have little or no store or international experience. It can seem simpler just to export existing ways of doing business than to tackle the complexities of each market. But, understanding these norms can be the difference between success and failure. (For best practices in staffing global e-commerce operations, see the Cisco IBSG Point of View entitled "The Global E-Commerce Gold Rush: How Retailers Can Find Riches Overseas.")[6]

Current Multichannel Expectations

Four areas of multichannel innovations are commonplace today in these advanced markets.

1. **Fast delivery and order customization:** The U.K. and advanced Asian markets have highly developed delivery infrastructures. Small geographies enable quicker delivery times, and since packages can't be left as easily at the door due to home density or rainy climates, customers demand multiple delivery options. Large retailers in the United Kingdom and Australia offer one- to two-hour delivery windows, including evenings after work. Using Shutl, London customers of U.K. multichannel retailer Argos can receive an order 90 minutes after placing it online, for £4.95.

   Large and small retailers in Asia deliver customized food orders 10 times a day, two hours after an order is placed. In South Korea, Tesco Homeplus' Delivery Memo service allows customers to specify their food preparation online—"Would you like your fish prepared for roasting or boiling? Should it be cut in three pieces or four?"—and receive it two hours later.

2. **Store and alternative site pickup:** Customers' need for convenience and their issues with home delivery have also made store and other location pickup options commonplace. Twenty-five percent of Japanese e-commerce transactions are paid for and picked up at a local convenience store. In the United Kingdom, Argos, Asda, Tesco, Sainsbury, and Marks & Spencer all have "click and collect" in-store options, and Tesco is in trial with a "drive-thru" supermarket. Many U.K. retailers are piloting pickup in more

convenient High Street stores. In France, most e-commerce retailers provide delivery to local post offices and neighborhood stores for weekday or weekend pickup. Similarly, in Australia, customers of Big W, the leading general merchandiser, have the option to pick up their packages at a post office or at work, and Coles is piloting pickups at Coles Express petrol stations.

3. **Online grocery:** Online grocery developed much earlier in more densely populated countries than the United States, where it still represents only about 2 percent of total CPG sales.[7] In the United Kingdom, delivery is offered by all major grocers and constitutes about 4 percent of the market, forecasted to hit between 6 percent and 12 percent in two years.[8] In Japan, 30 percent of the population has purchased grocery or CPG items online, with seniors over 60 the biggest online grocery shoppers.[9] The service is offered by Ito-Yokado (7-11), Walmart, Amazon, and Rakuten, among others. Similarly, in South Korea, online grocery is available through all the major and minor grocers. Even in Australia, where online grocery still represents only 1 percent of the market,[10] the service is provided by the leaders Coles and Woolworths, and is available in both urban and remote areas.

4. **Mobile shopping:** While much of the innovation in smartphone mobile shopping is centered in the United States and Europe, Asia leads the world in m-commerce with a pervasive mobile phone culture. In Japan, where 85 percent of mobile subscribers have data plans, m-commerce represents at least 20 percent of e-commerce sales (versus 1.5 percent in the United States).[11] Contactless-payment capability (NFC) has been available in South Korea and Japan since the early 2000s, and there are five times more NFC-capable handsets in Japan than there are in the United States.[11] Customers use their phones to pay for subway fares, shop in nearly every kind of store, and purchase pay-per-view movies.

Advanced Retail Experience Pilots

This established technology base means that these nations are now piloting much more advanced retail experiences.

3D video mapping: 3D video mapping uses projectors to alter the look of exteriors and interiors for promotions and special events. Examples include "holiday wrapping" the H&M flagship store in Amsterdam and creating a Coca-Cola Happiness Store inside a grocer in Rio de Janeiro.

Interactive video windows: Retailers are using exterior windows enabled by interactivity or augmented reality (AR) to draw in customers and turn physical stores into always-on websites. HUGO BOSS created an augmented reality window promotion in its Sloane Square window in 2010 that drew holiday crowds. In Singapore, Sing-Tel has exterior glass walls with embedded interactive digital screens for product browsing and payment, even when the store is closed.

Interior augmented reality: AR is also bringing the virtual into the physical interior of stores to enable convenience, personalization, sharing, product education, and fun. In Shiseido's flagship store in Tokyo, the entire first floor consists of AR makeup simulators; customers have to go to the second floor to actually sample cosmetics. At Lego stores, kids and parents can see what a completed Lego product will look like by aiming the bar code at an AR mirror.

Customized tablets: Retailers around the world are piloting tablets to provide customized, entertaining experiences. In the Miele showroom in the Netherlands, customers are given tablets

upon entry that provide a personalized store guide and product information when passing connected digital signage. In the United Kingdom, Sainsbury's is testing shopping carts with built-in iPad holders and speakers that are used for customized marketing messages, personal shopping lists, entertainment, and shopper insights.

Expanded storefront: With retail space at a premium, retailers are expanding the definition of a storefront with innovative pop-ups (temporary venues). Japan's FamilyMart created mobile convenience stores from trucks to service areas hit by the earthquake and tsunami. H&M opened a temporary store made out of a shipping container in a seaside resort in The Hague. And, Amazon has introduced pickup lockers in U.K. shopping centers, accessible by PIN number.

Mobile commerce and payments: Mobile innovations are driving convenience in both shopping and payments. Famously, Tesco Homeplus has created a grocery store in a Seoul subway where commuters can use their phones to scan QR codes on product pictures and have groceries delivered to their home two hours later. A consortium of 30 U.K. retailers is trialing a service from the Mobile Money Network called Simply Tap, through which customers can use their smartphones to identify products and make one-step immediate purchases. At the 2012 Olympic Games in London, Apple, Visa, and Nokia will all heavily promote NFC-driven mobile commerce capabilities.

The Way Forward

U.S. retailers cannot expect just to export current ways of doing multichannel to highly developed markets. They need to meet existing customer expectations and speed of innovation—for e-commerce logistics, online grocery, mobility, in-store experiences, or pop-up stores. The first issue will be acquiring knowledge and talent. Retailers should expect to: add local talent as well as allow learning-curve time for expats; hire young, enthusiastic Millennials at headquarters to "figure it out"; and create significant levels of coordination and collaboration across the globe.

New capabilities will be required across all retail functions. For example, supply chains will need to deliver speed, customization, and alternative pickup sites at reasonable costs. Real estate and store design teams will need to rethink store sizes and digital capabilities as well as creative pop-up options. IT departments will need to create global versus local architec-tures, with an emphasis on the network, mobility, virtualization, interactivity, and collaboration.

Cisco can help retailers and consumer manufacturers compete effectively in these advanced markets with business strategy and innovation development, mobility, video, and collaboration solutions, plus new data centers and IT architectures.

Creating and successfully executing a multichannel strategy in an advanced market requires rigor in three areas:

1. **Understand your local market:** Become knowledgeable about the country's underlying demographic, lifestyle, and technology differences; customers' baseline multichannel expectations; the competitive landscape; and leading-edge pilots.

2. **Invest in the right talent and operational model:** Retailers need talent in e-commerce and advanced multichannel design, and the right balance of local versus headquarters

personnel. And, they need to adjust for changes in real estate, store design and operations, supply chain, merchandising, marketing, and IT.

3. **Design the right IT platform architectures and capabilities:** Make sure that your online shopping capabilities include global requirements like alternate payments, currency conversions, site translation, and alternate merchandising content. Evaluate scale and speed requirements, including data center locations. Provide for mobility, video, and collaboration at headquarters, in stores, and online—and make sure that investments can handle future advanced features like AR or interactive glass.

For further advice on finding e-commerce riches overseas, please contact:

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Endnotes

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More Information

Cisco Internet Business Solutions Group (IBSG), the company's global consultancy, helps CXOs from the world's largest public and private organizations solve critical business challenges. By connecting strategy, process, and technology, Cisco IBSG industry experts enable customers to turn visionary ideas into value.

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