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Thought Leadership Paper
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Accelerate Global Growth While Reducing Risk

How Third-Party Merchant-Of-Record Services Can Accelerate Your International Expansion Program And Reduce Business Risk

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ABOUT FORRESTER CONSULTING

Forrester Consulting provides independent and objective research-based consulting to help leaders succeed in their organizations. Ranging in scope from a short strategy session to custom projects, Forrester's Consulting services connect you directly with research analysts who apply expert insight to your specific business challenges. For more information, visit forrester.com/consulting.

Executive Summary

For over two millennia, governments and corporations have used overseas trade to build thriving economies and businesses. The examples abound: the Silk Road, the East India Trading Company, and 20th century trans-ocean shipping lanes.

Doing business cross-border is much easier today. Through the eCommerce channel, businesses large and small can bring their products and services to virtually any corner of the globe.

Consider this fact: The US and Europe combined market makes up *less than half* of global gross domestic product.[1] No matter where your business is headquartered, there are significant opportunities for you to grow internationally.

And while the eCommerce channel is largely immune to the threats of its predecessors in earlier centuries, risks still abound. Companies need to comply with governmental rules and regulations, pay taxes, guard against fraud, and provide fundamental customer services. Understanding and mitigating these risks across multiple countries can be daunting.

To better understand how companies go global, Digital River commissioned Forrester Consulting in December 2014 to evaluate the appetite companies have for global expansion through the eCommerce channel, their feelings on eCommerce risks, and their thoughts and attitudes on the use of third-party partners to mitigate and reduce risk.

Partners, particularly third-party merchants of record, help companies enter new countries faster and with lower risk.

KEY FINDINGS

Through a survey targeting the financial decision-makers from 130 US and UK eCommerce branded manufacturers and digital services providers that operate internationally, Forrester found that:

- **Companies are achieving a large portion of revenue from global markets and see further expansion as a key strategy for growth.** Businesses with an international online presence are, on average, generating 45% of their revenue through their eCommerce channels, and 40% of this is international. Recognizing the massive opportunity that international markets present, 67% of respondents consider expanding into new international markets to be a high or critical priority for the next year.
- **Companies expect to begin earning revenue within a short timeframe — most within 12 months.** eCommerce leaders are under a lot of pressure to get up and running quickly in new markets — 82% told us that an acceptable timeframe is a year or less. Figuring out supply chain, developing marketing and distribution plans, and ensuring security and compliance in that timeframe is a daunting task even when expanding into "friendly" Western markets.
- **Partners, particularly third-party merchants of record, help companies enter new countries faster and with lower risk.** Third-party merchants of record reduce financial liability and help to overcome many of the regulatory challenges that companies face when entering new countries. These partners can offer other benefits such as local market expertise, and they are generally doing so with a high rate of satisfaction among firms that employ them.

International Online Expansion Is A Key Business Priority

No matter where your business calls home, the worldwide online market looks very enticing. Forrester Research estimated the 2014 global online retail market at over $1 trillion. The No. 1 market was China with $440 billion in eCommerce, expected to grow to $1 trillion by the end of the decade; the No. 2 market was the US with $249 billion (see Figure 1).[2]

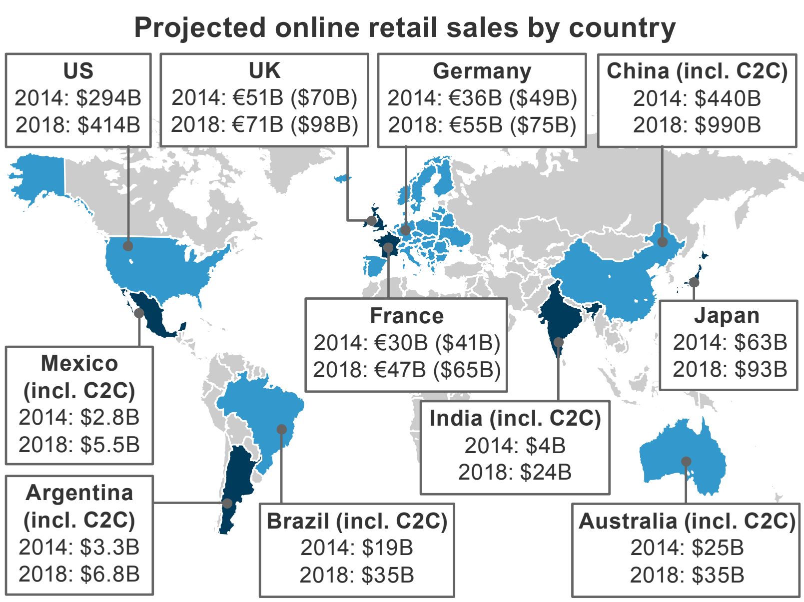
It gets bigger and better. Forrester forecasts that the global market will double by 2018, with the fastest growth rates in China, the rest of Asia, and Latin and South America.

For branded manufacturers and digital services providers, online international expansion is an attractive means to grow. In addition to large and growing markets, eCommerce is a relatively inexpensive way to test new product lines and find new buyers for products that often require little or no adaptation to get them compliant for international markets. In many cases, these products are already being sold internationally via resellers and through online marketplaces like Amazon and Alibaba.

Our study found that:

- **eCommerce is a critical channel for branded manufacturers.** Customers increasingly spend money online and are generating a significant proportion of overall company revenues. Our respondents estimated that 45% of their annual revenue can be attributed to their eCommerce channel (see Figure 2).
- **International makes up a large portion of eCommerce activity.** Companies with an international presence benefit greatly from the extended reach that their eCommerce channels provide. Of firms that operate internationally, 40% of their current online business is conducted outside of the country in which the business is headquartered (see Figure 2).

FIGURE 1
Global eCommerce Is Growing



Source: Forrester Research Online Retail Forecast, 2013 To 2018 (US), Forrester Research, Inc.; Forrester Research Online Retail Forecast, 2013 To 2018 (Western Europe), Forrester Research, Inc.; Forrester Research Online Retail Forecast, 2014 To 2019 (Asia Pacific), Forrester Research, Inc.; and Forrester Research Online Retail Forecast, 2013 To 2018 (Latin America), Forrester Research, Inc.

› **Continued international expansion is a very important strategic priority.** Sixty-seven percent of our global eCommerce respondents consider the expansion of their businesses into new international markets to be a high to critical priority over the next year. Only 1% told us that it is not at all a priority for them (see Figure 3).

Most Businesses Expect Revenue Within 12 Months, But Compliance And Fraud Are Major Concerns

In the past, "going global" meant big investments and long timeframes before payback. Entering a new country was akin to starting a new company. Distribution agreements had to be put in place, marketing campaigns created, supply chains sorted out, and local operations built up.

In the Internet age, of course, much of this has become easier. Online sales bypass distribution, Internet marketing works similarly around the globe, and payments and logistics services smooth the transactions.

Not only is it easier to go global, but it's faster. eCommerce platforms can be localized quickly, marketing campaigns can be targeted at new geographies with the click of a mouse, and payments and logistics services are global by design.

This speed-to-market, when coupled with revenue and profit pressures, means that companies expect to start booking sales fast. Most of our survey respondents expect revenues within a year, and some within months.

Whether driven by country requirements or customer expectations, many aspects of conducting business in new countries are still challenging. Registering products, charging the right duty, paying taxes, remitting funds back to the home country, and providing customer service and returns are also critical to running a successful business.

Our study found that, for all the improvements in conducting business online, companies remain very concerned in areas of compliance, fraud, and customer service.

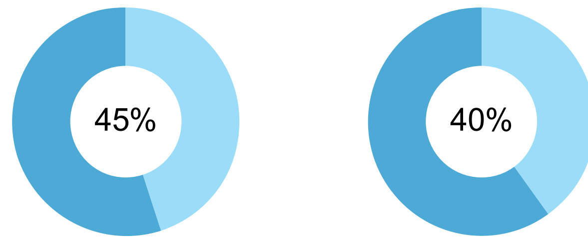
› **Companies have aggressive expectations for generating revenue from international expansion.** Eighty-two percent of our survey respondents told us that an acceptable timeframe to launch eCommerce in a new country, from funding to revenue generation, is within 12 months (see Figure 4).

FIGURE 2

Global eCommerce Revenues Are Significant

"Using your best estimate, how much of your firm's *annual revenue* can be attributed to your eCommerce channel?"

"Using your best estimate, how much of your *online business* today is conducted outside of the country in which your company is headquartered?"



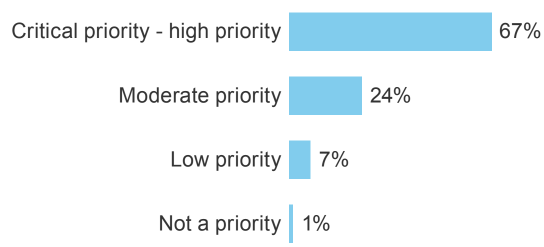
Base: 130 US and UK eCommerce decision-makers in finance, legal, and operations roles

Source: A commissioned study conducted by Forrester Consulting on behalf of Digital River, January 2015

FIGURE 3

Global Expansion Is An Immediate Priority

"How much of a priority is it for you to expand your business into new international markets within the next 12 months?"



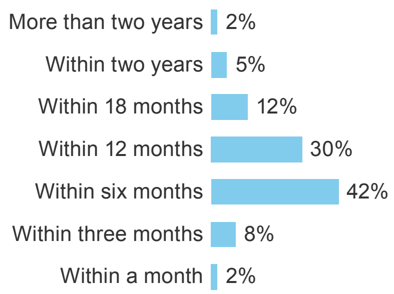
Base: 130 US and UK eCommerce decision-makers in finance, legal, and operations roles

Note: Percentages may not total 100 because of rounding.

Source: A commissioned study conducted by Forrester Consulting on behalf of Digital River, January 2015

FIGURE 4
Success Is Defined By Rapid Launch

"From your perspective, what is an acceptable timeframe to launch eCommerce in a new country, from funding to revenue generation?"



Base: 130 US and UK eCommerce decision-makers in finance, legal, and operations roles

Note: Percentages may not total 100 because of rounding.

Source: A commissioned study conducted by Forrester Consulting on behalf of Digital River, January 2015

FIGURE 5
Compliance Is A Top Challenge

"What are your top concerns when thinking about the risks associated with your global eCommerce strategy?"

Base: 130 US and UK eCommerce decision-makers in finance, legal, and operations roles

Note: Multiple responses accepted. Top four answers are shown.

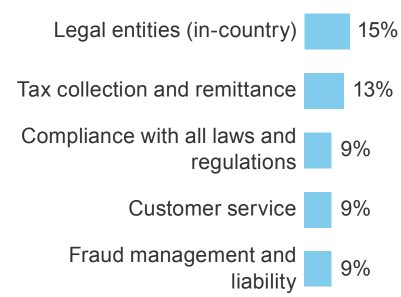
Source: A commissioned study conducted by Forrester Consulting on behalf of Digital River, January 2015

- **Most companies are concerned about compliance, fraud, and customer service.** Compliance came through as the most concerning risk associated with a global eCommerce strategy, with 62% of respondents worried about staying compliant with the laws that govern eCommerce in the markets that they serve (see Figure 5). Additional top concerns are protecting the business against fraud (58%), providing quality customer service in new markets (52%), and protecting customers against online security threats (50%).

- **Legal and regulatory hurdles prevent companies from entering new markets.** We asked respondents how significant a list of challenges were when selling direct through eCommerce into a new country, and we found that almost all respondents are dealing with a wide range of real and significant challenges, from marketing to order fulfillment to customer service. Regulatory challenges — particularly legal, tax, and compliance issues — proved to be some of the most extreme, sometimes preventing companies from even entering new markets (see Figure 6).

FIGURE 6
Regulatory Concerns Can Keep Companies From Entering A Market Entirely

"How significant are the following challenges when selling direct through eCommerce into a new country?"
(Prevented us from entering a market)



Base: 130 US and UK eCommerce decision-makers in finance, legal, and operations roles

Note: top five answers shown

Source: A commissioned study conducted by Forrester Consulting on behalf of Digital River, January 2015

Partners Help Companies Go Global, But Can Be Difficult To Manage

In order to comply and meet local customer needs, many companies seek to attain in-house expertise through market research or via consultants. While this will make sense for major markets, it can be expensive and slow to hire and develop these skill sets for each individual country when a company is striving for global expansion.

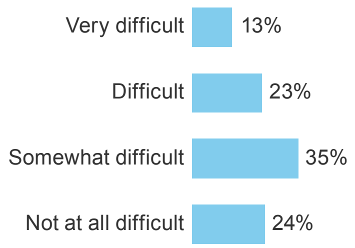
Not surprisingly, our survey found that companies expanding their international eCommerce are taking full advantage of partners. This makes sense: Partners bring highly specialized knowledge of each market and the intricate legal and regulatory requirements necessary to operate. But the survey also found that there is a balance — businesses need to work with partners to get the job done, but the more disparate vendors and systems there are in place, the more difficult it becomes to manage a seamless integration between them.

- **Companies use many partners to help manage international expansion.** Ninety-five percent of decision-makers reported using third-party vendors for at least some international business functions such as customer service, payment, security and privacy, tax collection, and global market expertise. These businesses are managing an average of seven different vendors.
- **Managing many partners can be difficult.** Our study found that seven in 10 organizations experience some sort of difficulty with integrating their multiple systems and partners to manage their commerce business infrastructure (see Figure 7). Companies expanding internationally worry about communication, security, and quality of service in new countries in addition to the inherent added time, cost, and complexity of organizing and managing new partners.

FIGURE 7

Seventy-One Percent Of Firms Have Difficulty Integrating Systems And Partners

"How difficult is it to integrate multiple systems, companies, and partners to manage your in-country commerce business infrastructure (e.g., tax, fraud, risk management, compliance, security, order management, etc.)?"



Base: 130 US and UK eCommerce decision-makers in finance, legal, and operations roles

Note: "don't know" responses not shown

Source: A commissioned study conducted by Forrester Consulting on behalf of Digital River, January 2015

Companies Value Use Of Third-Party Merchants Of Record To More Quickly And Safely Enter New Markets

One function that firms tell us they are outsourcing is that of the merchant of record. The merchant of record is the organization that is held financially liable by an acquiring bank for customer returns and chargebacks. Other responsibilities include legal and regulatory compliance, security and privacy, and tax collection and remittance.

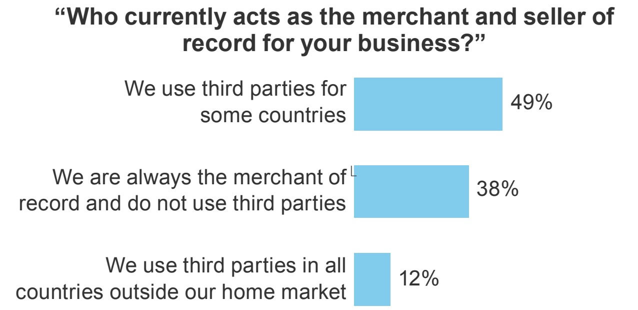
As companies enter new markets, they need to think carefully about who will be their merchant of record. Because of the risk associated with not getting these responsibilities right in a new country environment, companies we surveyed rely heavily on third parties to play this role. Whether merchants of record have limited responsibilities or are grouped with broader business services, they are key partners in reducing risk and increasing speed.

- **Third-party merchants of record are key partners for expanding companies.** Sixty-one percent of global eCommerce firms use a third party as their merchant of record for at least some countries (see Figure 8). And satisfaction is high — 42% said that they were "very satisfied," 34% "satisfied," and 20% "somewhat satisfied" with their third-party merchants of record. Not a single respondent expressed dissatisfaction (the remaining 4% were "don't know" responses).

› **Third-party merchants of record provide market savvy, speed, and efficiencies.** Third-party merchants of record often provide a number of business benefits on top of reducing liability and risk. Decision-makers expect their merchants of record to provide expertise as it relates to entry in new markets, faster time-to-market, lower costs, and reduced burden on internal resources (see Figure 9). Even for companies that are comfortable being their own merchants of record, setting up a legal entity in a new country, attaining operating trade licenses, and establishing a banking relationship can take years and be costly. Using a third-party merchant of record accelerates entry into the market even if the long-term goal is to have the firm eventually assume these responsibilities. As one respondent told us, their outsourced merchant of record makes it "easier to enter foreign markets without issues, within a quick amount of time."

FIGURE 8

Many Firms Use Third Parties As Merchants Of Record



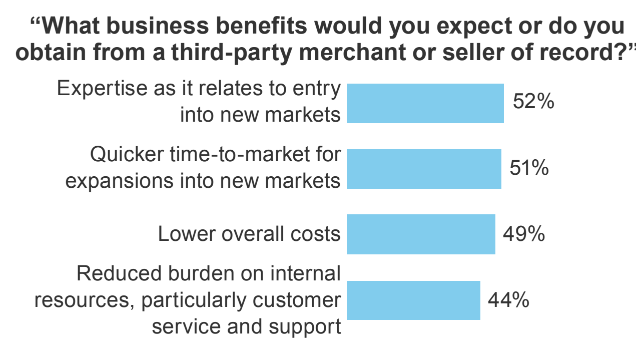
Base: 130 US and UK eCommerce decision-makers in finance, legal, and operations roles

Note: Percentages may not total 100 because of rounding.

Source: A commissioned study conducted by Forrester Consulting on behalf of Digital River, January 2015

FIGURE 9

Businesses Value Third-Party Merchants Of Record For Local Market Expertise And Speed-To-Market Capabilities



Base: 130 US and UK eCommerce decision-makers in finance, legal, and operations roles

Source: A commissioned study conducted by Forrester Consulting on behalf of Digital River, January 2015

Key Recommendations

International expansion is clearly a huge business opportunity that also carries significant risk, and businesses are under pressure to manage that risk quickly to achieve a successful launch. To maximize success in entering new countries, eCommerce decision-makers should:

- **Invest in global online expansion while picking markets carefully.** A very quick way to multiply your addressable market for your current products is to go international. Many companies have achieved significant international revenue and continue to invest. However, be careful in picking markets. Look at the market size and likely fit for your products. For most businesses, as you move beyond North American and Western European markets, the barriers to entry increase significantly. When it comes to APAC, Eastern Europe, the Middle East, and the countries of Brazil, Russia, India, and China (BRIC), focus first on assessing the eCommerce opportunity in markets where you already have operations, as existing presence and market domain knowledge will greatly accelerate your ability to move fast.

- **Decide on an entry strategy.** For major strategic markets, you may want to have more control over the approach and prefer to go it alone. For more opportunistic markets where the market structure is different than your home market, you will likely need to change your approach and look to partners to help you get set up and operational. In some markets, finding a partner that can act as your legal entity will be an imperative to entry.

- **Balance needs for expertise versus complexity when working with partners.** On the one hand, you need partners that can provide the needed expertise in the market. On the other hand, having too many partners is hard to manage. Work to strike the right balance. Challenge your existing partners with their ability to move into new markets. Challenge new partners with their ability to make doing business with you easy. Gather in-country intelligence from peer companies to make informed decisions.

- **Understand the cost of compliance.** Staying compliant with local laws, tax regimes, and customs regulations, which differ significantly market to market, is a major challenge for your legal and risk teams. Furthermore, protecting your business against fraud in new markets and ensuring the privacy and security of customer data cannot be underestimated. Bringing in outside counsel can help you get launched but won’t necessarily provide the protection needed on an ongoing basis. Consider using a partner with deep in-market ties and expertise that can shoulder some or all of these risks on an ongoing basis.

- **Consolidate commerce technology.** When using local partners in each market, control over your commerce technology costs, governance, and performance become hard to manage. Furthermore, maintaining brand consistency market to market becomes a challenge. Consider consolidating all of your markets onto a single commerce technology platform with a centralized center of excellence supporting each of the markets. With consolidation comes economies of scale, and re-use of best practices can be more efficiently shared and applied market to market.

Appendix A: Methodology

In this study, Forrester conducted an online survey of 130 branded manufacturers and/or digital services providers in the US and UK to evaluate their practices when expanding their eCommerce channels into new countries. Survey participants included decision-makers in finance/accounting, operations, eCommerce, and legal roles with responsibility for eCommerce strategy. Respondents were offered a small incentive as a thank you for time spent on the survey. The study began in December 2014 and was completed in January 2015.

Appendix B: Endnotes

[1] Source: The World Factbook (https://www.cia.gov/library/publications/the-world-factbook/).

[2] Source: "The Global eCommerce Opportunity," Forrester Research, Inc., March 28, 2014.