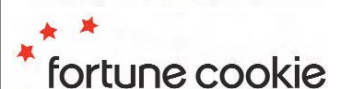


THE FUTURE OF EUROPEAN E-TAIL

an internet retailing special report

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En route for europe

Of all the areas to be considered when selling online in Europe, logistics could be the most taxing. But get it right, says Chloe Rigby, and Europe could prove a fulfilling marketplace.

AS EUROPEAN SHOPPING moves beyond the national, and cross-border online trading starts to become a reality, the biggest challenges to getting it right will be in delivering the goods. That starts with making sure regulations and VAT are dealt with correctly at the point of order and ends in making sure the goods are delivered efficiently and quickly. On top of that, returns and customer service must also be factored in. For a disgruntled customer is unlikely to return, whether they are based in London or Milan. "Every one that isn't received is a failed delivery and an upset customer," says Phil Tingey, operations and strategy director at iForce.

So what are the main questions to consider when looking at selling into Europe?

STRATEGICALLY SPEAKING

The big logistical decisions to make on exporting to Europe are all about meeting customer expectations. Should delivery be free? How fast should it be? Received wisdom says customers increasingly expect free and next-day delivery in the UK, particularly if they are spending sizeable sums. Do European customers expect the same? Is it therefore fair – or competitive – to offer a different

service to customers elsewhere in Europe? Opinions vary but the answer to these questions will inform other elements of the strategy: whether storage is in a UK warehouse or abroad, and where and when to feed into third-party logistics providers.

At the end of the day, though, it's vital to remember how much each sale costs your business, says Total Logistics' Martin Brickell. "If your cost-to-serve is diminishing you have to think: can you sustain it and is it where you really want to be."

DELIVERING ON EXPECTATIONS

The expectation of free and fast delivery is growing in the UK market – and in Europe as well. In Germany, for example, next day delivery is often standard. But is it realistic to offer that level of service to customers when delivering from further afield? Olivier Bourgeois of French e-commerce distribution company Proxi-Business, says that while e-retailers on his side of the channel do often offer free delivery in their ongoing price war, "Financially, it doesn't seem to be bearable." Instead, multichannel retailers are using their stores to offer free pick-up from store or a central delivery hub. Some retailers are in talks with petrol station networks about using their sites as pick-up points.

Other issues to consider

Address

Getting the address right is a vital part of making sure the goods are delivered. Bear in mind that while incomplete postcodes can throw up problems in the UK, it can be more difficult to determine the correct postcode overseas.

Electrical goods

The question here is about electrical plugs. Since voltage and electrical plug design differs in continental Europe, decisions need to be made about whether an adaptor is included in the packaging, or whether information is included.

Language of documentation

If a UK company makes an online sale, then under the EU's 2002 Distance Selling Regulations, emails and documentation should be in the language local to where the purchase was made. Bear in mind that some countries, such as Switzerland and Belgium, have more than one official language.

Setting up a warehouse closer to the customer is one possibility, but may only become viable once sales have reached a critical mass. On the other hand, free delivery could be a loss leader to help develop sales in a new market.

Many UK retailers (see 'How it's being done') seem to be operating on the assumption that customers will make allowances when it comes to ordering from overseas – and if they trust the brand they will buy despite extra delivery costs and sometimes long delivery times.

Alan Braithwaite, chairman of supply chain management advisers LCP Consulting and supply chain professor at Cranfield, says: "High service standards were put in for competitive advantage, but I think customers in general are content as long as they get it within a few days."

Patrick Wall, of Metapack, adds that while this is certainly the current convention, he believes this is likely to change in future as retailers move to differentiate themselves by offering a premium service. "The majority of European shipments are being made to Germany and France, and increasingly it will be possible to offer a cost-effective next day service – albeit with an earlier order cut-off time."

Ultimately, says Martin Brickell, of Total Logistics, the choice for retailers to make is between margin and volume. "It's about where you position your brand," he says.

LOCATION, LOCATION, LOCATION

The next decision is about where to deliver from. Here the key choice is whether to send from the UK, in the same way as deliveries to the UK are made, or from an overseas fulfillment centre either operated by the retailer or by a third-party operator.

Setting up an overseas fulfillment centre means a long-term investment with a high initial cost, a factor that could well prove less attractive in times of recession. But, says Felix Velarde, of Underwired, if goods are made in China, it may make sense to ship them to a central European point rather than distributing from the UK.

A logical approach for those still building a market could be to start by sending from the UK, until volumes get large enough to justify taking on an overseas distribution centre. Metapack's Wall says there is no need to hold separate stock when sending from the UK – and that existing pick

and pack methods can be used unchanged. However, do bear in mind, says iForce's Tingey, that warehousing goods in a single UK warehouse to fulfill more than one country website could lead to hard decisions about who gets the goods if orders come in simultaneously from, say, Scotland and Belgium. This is a question, says Tingey, of making sure the relationship between the web front end and the stock-file is robust.

In the UK most e-retailers outsource fulfillment, once they get real sales volume. That capability is also starting to grow on the other side of the Channel, where companies such as France's Proxi-Business offer a white label service. UK e-fulfillment specialists are also starting to look to European markets for growth in their own businesses. Expect to see announcements of new European delivery contracts this autumn.

CHOOSING LOGISTICS PROVIDERS

The potential importance of this market is reflected in a growing array of services from logistics companies keen to support those going into Europe. The Royal Mail says its Aisre delivery option is currently its fastest growing product, offering two to three day delivery to western Europe with the ability to track and trace packages. Next-day delivery is now available to western Europe through Royal Mail group company Parcelforce, while the Royal Mail's international sales consultants can advise on

How it's being done

So how are leading UK e-commerce retailers currently approaching distribution into Europe?

For the most part, the answer seems about allowing international delivery from an English language site and from stock in UK warehouses. It's an approach most clearly suited to UK expatriates who know the brand, know what they want and are prepared to wait.

Marks & Spencer last year launched an international service delivering to parts of Europe where it has no stores. So customers in France, Germany and Spain can now buy clothes and other goods from its existing website, marksandspencer.com, at a delivery cost of £10. Next now has the Nextdirectory.eu English language site that delivers across western Europe for a €5 charge.

Similarly, Littlewoods has just launched its LittlewoodsEurope.com website in France, Germany, Spain and Portugal, which charges €5 delivery per order and ships within seven working days. There's a 14-day home approval guarantee. For all, payments are the UK standard – via credit and debit cards.

Mark Newton-Jones, chief executive of Littlewoods' owner Shop Direct Group, says: "This is an exciting proposition for many British families living abroad and their European neighbours who want to shop at one of their favourite British online retailers. Lots of customers have been asking us to provide a European online offer for Littlewoods products."

The retailer that tops the UK's Hitwise list of successful retailers is Amazon.co.uk. The US retailer has dedicated country sites and distribution in France and Germany. The German site delivers orders of €20 or more free to seven European countries, including Austria, Germany, the Netherlands and Switzerland, while the French site delivers all book orders free to French metropolitan areas, Monaco, Switzerland and Belgium, with a €20 minimum for free delivery of other, non-bulky goods. Tellingly, says GSI Commerce's Steve Davis, Amazon is the only company that features in the top ten retailers in the UK, Germany and France.

What the experts say

Good times

"Right now the economic climate is ideal for export – the pound is at a record low against the euro, which means that millions of consumers and businesses in the Eurozone view the UK as one of the most attractive markets to buy from, which is great news for the UK retailers who need to capitalise on these favourable conditions and reach out to their potential customers. It is just another postcode area."

Danijel Karadza, international product manager, Royal Mail

Complicated

"It's [exporting to Europe] got a lot of complications. All of which are potentially solveable, but businesses are going to have to say we're really going for it."

Alan Braithwaite, chairman of supply chain management advisers LCP Consulting



Adapt and prosper

"The main lesson from retailers who are doing well is to see logistics as an enabler, not a barrier. Greater challenges exist elsewhere. As long as there is the flexibility to engage with new carriers, logistics can adapt to the EU opportunity almost immediately."

Patrick Wall, CEO, Metapack



Different sectors

"In the food market, services such as order preparation and delivery dominate. In fashion and shoes, the ability to return the product is essential."

Olivier Bourgeois, founder of Proxi-Business

Margin v volume

"I think it is how you choose to position your brand and how you play margin versus volume."

Martin Brickell of Total Logistics



the exact requirements of sending to individual countries. "Our volumes are growing by up to 20 per cent on average; destinations like Ireland, Germany, Holland, France are extremely popular," says Danijel Karadza, international product manager at Royal Mail.

And UK company Palletways says it's the first pallet network to offer door-to-door distribution from the UK to western Europe. European sales and marketing director Martin Clough also puts an emphasis on traceability. "Internet retailers should ensure that any logistics service they consider for Europe has the IT systems in place to enable fast and efficient tracking and tracing of products throughout the entire supply chain and allow real time distribution of proof of delivery information," he says.

E-retail fulfillment specialist Metapack works with a variety of carriers. Its chief executive Patrick Wall says: "Not all UK based carriers offer European services, some have their own networks, others share with partners: so the retailer has to take this into account when review the appropriate carrier partners," he says. "Costs vary hugely, so it's worth making the effort to get this right."

But those retailers who base themselves within their overseas markets may also consider using European logistics

companies. These benefit from having the inside knowledge of the market and local delivery expectations.

REGULATIONS AND VAT

For many, complying with European regulation will be seen as the most off-putting part of exporting into the continent. But maybe the first thing to note is how much doesn't have to be done because the UK is part of the EU already. The E-Commerce Directive, adopted in 2000, means e-commerce service providers are subject to the law in the country where they are established – and are free to sell anywhere else in the European Union.

Being an EU member means there are no customs duties to be paid, for example, when sending within the region, while standard UK packaging is acceptable throughout the EU. Note that additional documentation is required, however, for sending to countries that are in Europe but not members of the EU, including Switzerland and Norway.

Beyond this, exporters should be aware that rules they observe in the UK, from VAT to WEEE regulations, are interpreted differently in other EU countries. This is where the complexity does arise, especially for anyone thinking of selling in many – or even all – of the EU countries.

To take the example of the UK, VAT is charged at the rate that applies in the country where the supplier is based until sales reach £70,000 a year. After that, European retailers must register for VAT in Britain. Those selling alcohol or tobacco must register for UK VAT in any event. And bear in mind that the rules are due to change in 2010, when a new electronic VAT refund system will be launched to cover internal European sales.

Julie-Lynn Tikekar, product manager at digital marketing company Digital River says the other main EU regulations to bear in mind are copyright, battery recycling, use of hazardous substances and WEEE (Waste Electrical and Electronic Equipment) laws. Digital River has developed a solution that enables client sites to reflect the legislation and taxes relevant to the geographical location in which the sale is made. It's not been an easy job: the solution, says Tikekar, covers the legal permutations in each of the different EU countries – and took nearly two years to develop. E-tailers should be careful to find out exactly which regulations, in areas from packaging to taxes and fees, apply to the country that they are selling in.

RETURNS

Under European law, consumers have the right to return malfunctioning goods bought in the EU – so wherever the goods are going, it's always important they should be returnable. It's an important issue to be bear in mind since the costs can be high. Brickell adds: "It is fantastic and exciting and enterprising for business to think about developing sales, new products, marketing, but you must always acknowledge and understand the returns. It costs money but you need to understand returns – and how you are processing them." That might mean considering whether and how faulty goods can be returned to the manufacturer or suppliers, or about making sure the delivery network can process returns within the time that the retailer promises.

Wall adds, "Overseas customers will put up with difficult returns for some time longer, but as in the UK, good service will ultimately become the standard." ■