



OPTIMIZING THE PATH TO GLOBAL EXPANSION: TOOLS AND TECH TO DRIVE SUCCESS

INTRODUCTION

Global commerce has existed since as long ago as the heyday of the **Silk Road**, and in our century it's being fueled by the phenomenal growth of online marketplaces. These low-barrier points of entry do more than generate sales; they also allow brands to test the waters of new markets, gathering invaluable consumer, market and product data in the process.

Other forms of global commerce, from DTC online sales to in-country retailing, have been more affected by the volatility of world events. To take a somewhat extreme example, many retailers **exited Russia** after its invasion of Ukraine, leaving their brick-and-mortar stores (and their customers) behind. Now, brands seeking to go multinational are likely viewing marketplaces as a lower-risk way to expand.

"Almost by definition, the rise of marketplaces has made it easier for companies to reach into new markets," said Hunter Williams, Partner in the Retail and Consumer Goods Practice at **Oliver Wyman** in an interview with *Retail TouchPoints*. "One of the most important ways [they do this] is playing an 'escrow' role. If you as a consumer needed to buy something from the other side of the planet, in a different currency, there's [going to be] a lack of trust. With marketplaces, you know you'll get what's promised, so **an important role they fill is lowering the trust barrier to getting business done.**"

Marketplaces' scale and network effects also are critical: "Customers are conditioned to know where to look," said Williams. "In China [consumers] go straight to Tmall, because if it's worth buying, it's probably being sold on Tmall. Marketplaces are funneling the buyer to that one spot."

"The marketplace model is growing significantly faster than the traditional wholesale model," said Michelle Evans, Global Lead of Retail and Digital Consumer Insights at **Euromonitor International** in an interview with *Retail TouchPoints*. "In 2022, it totaled **\$1.9 trillion** and accounted for **58%** of all ecommerce sales worldwide. The trajectory of the marketplace business model means that it's one that retailers and brands cannot ignore."

This special report will examine:

- **Five** important questions retailers and brands need to consider as they pursue global growth;
- The ways marketplaces like **Alibaba.com** can help not only with selling but also sourcing products with advanced visual search tools, VR and livestreaming;
- 2023's **global growth "hot spots"**; and
- The impact of more than **1 billion** digital natives, located in **eight** African and Asian countries, who already are (or soon will be entering) their prime spending years as consumers.



5 QUESTIONS TO ASK BEFORE EXPANDING INTERNATIONALLY

There are many potential upsides to cross-border commerce, but as with any business decision there are risks as well. Here are **five** issues that brands and retailers should consider before going global in a big way.

1

Will the changes needed to sell to foreign consumers negatively affect your brand image?

“Business insights that worked in a home market might not apply to the same extent in the new market, so there are likely tweaks or adaptations required to make the concept or product resonate,” said Williams. “That can be expensive, and it can also dilute the consistency of the brand story you’re trying to tell. If you’re telling different stories in different geographies, one can undermine the other.”

2

Is your brand strong enough to command a premium price?

Supply chain and fulfillment costs rise as brands enter new markets, whether or not companies handle tasks like clearing customs themselves or work with importers, distributors or local retailers. “Those additional layers mean new markets can often be margin-diluted, unless you’re able to command a price premium sufficient to offset that,” said Williams. “In some cases being an international imported brand that’s known for super high quality is enough to create that premium to offset those additional costs.”

3

Do the market’s consumers understand how your products and services work?

“Brands may need to rethink operations or educate these new consumers,” said Euromonitor International’s Evans. “For example, as McDonald’s expanded globally, it also had to teach consumers in new markets about the drive-thru concept that is commonplace in America.”

4

Are you prepared to deal with local product requirements and different languages?

Entering new markets means understanding local regulations as well as consumer tastes — another source of complexity. “There are sometimes different standards to meet or you need packaging with different languages on it,” said Williams. “If that’s the case, you’ll have shorter production runs on your packaging lines, which is less efficient. And then you need another slot in your warehouse where these specific products can be held. All of that adds up.”

5

Is your current business organization robust enough to manage new challenges?

“International markets can be market-dilutive and a distraction, especially if there’s a lot of headroom for growth at home,” said Williams. “If you’re [already] selling faster than you can produce and struggling to keep up with demand, the complexity of introducing sales in other markets is the wrong move.” If, however, global expansion means incremental sales increases and better capacity utilization of manufacturing and warehousing functions, the ROI is likely to be higher.



5 TIPS FOR RETAILERS TO ENSURE ONLINE MARKETPLACE SUCCESS

By Nate Stohrer, Lead Consultant at Vertex

1 Build a clear vision that brings all stakeholders to the table.

Every stakeholder across the organization should agree on the long-term vision for the marketplace. This vision can influence every decision, from big-picture branding to website development. Create a consistent mission and branding to drive positive long-term results.

2 Meet your customers where they are and how they are accustomed to buying.

Provide a seamless experience across channels, no matter how your customers find you — and no matter where they end up buying from you. How can you use omnichannel wisely? According to the *Harvard Business Review* (HBR), “B2B players must create a comprehensive view of each customer and deliver consistent messages across channels [to pave the way for growth].”



3 Open doors and add value to sellers.

Look for ways to fuel the marketplace's growth through seamless onboarding, frictionless catalog management, fast and easy product updates, autonomy to manage the customer experience and visibility into their marketplace performance. If sellers can track performance against SLAs or better understand their customers' experiences, they can optimize their offerings and reward you with growth.

4 Don't underestimate your tax risks and obligations.

The biggest priority is the effective management of tax risks and obligations. Apply the correct taxes to each customer's purchase, determine who is responsible for paying these taxes, create tax-compliant invoices, and keep complete and accurate records. For marketplaces, that means tracking mixed-reporting responsibilities for the sellers on your platform, as well as your own tax liability based on who's responsible for paying. Not factoring in accurate tax rates, rules or liabilities comes with significant risk.

5 Understand your true investment, estimated time-to-profit and what will deliver the best experience at scale.

These three key ingredients can pull it all together for marketplace success...

1. **Team:** A marketplace team should be cross-functional. Many organizations augment this team by bringing on someone with expertise in marketplace development and management.
2. **Technology:** Every marketplace should have support from a robust suite of features, capabilities and integrations. Your technology should support seller onboarding, scalable catalog management, order management and backend office management.
3. **Partner ecosystem:** Think about your marketplace's impact on existing business processes. What will need to change to handle third-party order processing? Seller payment? Taxes?

To learn more about tax technology solutions for marketplaces visit vertexinc.com/marketplace.





HOW ALIBABA IS ADDING HIGH-TECH TOOLS TO SOURCING TASKS

On the customer-facing side, marketplaces are all about smoothly connecting consumers with sellers. But where do those sellers find the products to sell? Some marketplaces, notably Alibaba.com, have made significant investments in tools to streamline the sourcing process.

“We have around **200,000** global suppliers; that number changes constantly,” said Rah Mahtani, Head of Buyer Marketing, North America for Alibaba.com in an interview with *Retail TouchPoints*. He acknowledged that the volatility of the past **three-plus years** has driven many folks to go online to source: “In the broad sense, people were looking to find new avenues to source, and we were perfectly poised with one of the largest networks of suppliers. So if people aren’t able to find something from one supplier, they can use all of our search functionalities to find different products.”

Alibaba's sourcing tools include:

- **B2B livestreaming:** “We have a network of global suppliers that have started to do livestreams to show off new products,” said Mahtani. “It’s happening in Arabic, Portuguese, Italian, French — it’s cross-border commerce happening in real time.”
- **Image search capabilities:** “If you’re in an exploratory phase [of sourcing] and want to source a very specific thing that you saw, or you have problems describing in words what you’re looking for, you can use the image in our search tool to find things that look like it,” said Mahtani.
- **Supplier ratings:** Alibaba.com has built in a “verified supplier” category, and potential buyers can use a filter based on the ratings suppliers have received.
- **Virtual reality showrooms:** “Say you wanted to look through a roomful of tents; how do we manifest that digitally?” asked Mahtani, adding that with VR functionality, buyers can pan through an entire room of all these tents and click “hot spots” within the VR showroom, then inquire about the product directly from the manufacturer.

PINPOINTING GLOBAL GROWTH HOT SPOTS

Finding the countries and regions that hold the greatest growth potential is a major challenge in international expansion. While the answers will differ significantly from brand to brand, here are some macro-level analyses of key global hot spots (and some that are just warming up).



China is “too large and important an economy to ignore, and there’s still opportunity there,” said Oliver Wyman’s Williams. “However, businesses are now viewing it in a more balanced way so that they’re not overly dependent on China, whether they’re thinking about their supply chain or their profit share. I lived in China for **eight** years, and if there’s one thing I learned it’s how little I know.”

Thomas Harms, Managing Partner at **EY**, noted that China is “still growing in wealth and also has the latest [retail] innovations,” but also warned that the sheer size and diversity of the country — with its more advanced coastal regions and large cities compared to its vast rural areas — means that brands hoping to expand there may need to have multiple strategies in place to succeed.



India has seen strong growth of its middle class, which is generating “huge demand,” said Harms. As with China, it’s vital for brands to understand regional and local differences in such a vast country: “The kind of curry people like in Chennai is different than the kind they like in Delhi,” he noted as an example.



Latin America had previously lagged other regions in ecommerce growth due to “the large unbanked population, weak postal systems and consumer distrust of the channel as well as other factors,” said Euromonitor’s Evans. However, “COVID-19 led companies to make bigger investments in digital, which included developing its website experience, adding DTC operations and partnering with delivery services. Many turned to social media platforms like Instagram, Facebook and WhatsApp to facilitate interactions.”

The results? Latin America has posted the strongest growth of any single region, with a **32%** jump in goods sold online since 2019, Evans said, adding that Euromonitor projects an **11%** CAGR (compound annual growth rate) for the value of goods sold online through 2027, making it the fastest-growing region alongside the Middle East and Africa.

“Euromonitor expects Latin America to carry the growth story during the forecast period, propelled by Mexico, which is narrowing the gap between itself and the region’s largest ecommerce market, Brazil,” said Evans.



In **North African** countries such as Egypt, the growth potential comes from the relatively undeveloped retail industry there; Harms estimated that “only **30%** is a modern retail infrastructure.”

And although the Ukraine invasion has isolated **Russia** from much of the world, it is “still in the mix, trading with China and India — that’s where the oil is going,” said Williams. “Trade is realigning around different poles.”



1 BILLION+ YOUNG DIGITAL NATIVES CLUSTERED IN 8 FAST-GROWING COUNTRIES

Eight countries in Africa and the Asia/Pacific region are home to a new generation of more than **1 billion** digital native consumers, currently aged **six to 26**, according to the **Accenture** report *The Next Billion Consumers: A Fast-growing Opportunity for Digital Commerce*. Living in Bangladesh, Egypt, Ethiopia, India, Indonesia, Kenya, Nigeria and the Philippines, these Gen Z and Gen Alpha members represent **36%** of these countries' populations.

This youth population explosion represents a significant opportunity for global companies, according to the report, particularly because digital commerce lowers many traditional barriers to entry when selling internationally. And despite digital commerce revenues having increased **4X** in these markets since 2017, equating to **\$211 billion** in 2022, the report indicated that most multinational companies are not set up to serve these digital-first consumers.

These digital shoppers spend significant time online discovering, considering and making purchases:

- **80%** of surveyed consumers use search engines, social networks and videos to research products and services before purchasing;
- “Likes” and “good comments” on social media influence **76%** of these consumers' online buying decisions, and **more than half** of these emerging consumers prefer shopping on social media apps compared to other purchasing platforms;
- **65%** of these consumers prefer to use online payment methods;
- Convenient delivery options such as click-and-collect and free delivery are critical online purchase drivers, at **73%** and **79%** respectively; and
- **75%** see easy return policies as a key influence on their online purchasing decisions.

“These new consumers are relevant to companies that operate in these countries today, as well as the multinationals looking to grow their footprint and balance their global portfolios,” said Fabio Vacirca, Global Commerce Lead, Accenture Song in a statement. “However, strategies based on the Western model of consumerism — the steady evolution from brick-and-mortar to digital commerce models that occurs over decades — won’t work for these consumers. Companies will need to be digital-first, leapfrogging older legacy approaches.”

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