Visa e-commerce cross-border handbook *for U.S. retailers*

more people go with Visa.*

VISA

* Visa claim based upon global number of general purpose cards, number of transactions and purchase volume.

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Foreword

Conducting cross-border e-commerce in any country comes with a myriad of challenges and rewards, and doing so in Canada is no exception. While similar to the United States in many ways, the Canadian consumer and its competitive landscape have many differences. And for many internationally ambitious companies, the Canadian market represents the first step in understanding effective solutions as they convert insights into strategies. The global stage awaits for some companies, as e-commerce grows in mature and emerging markets alike.

Our overall objective in developing this handbook, is to provide U.S. retailers, and manufacturers seeking to trial or launch a full scale cross-border initiative, with a set of guidelines and tips, as they embark on this journey. The book is comprised of a broad range of issues, from strategy to consumer insights to operations and legal requirements.

The cross-border e-commerce handbook is not meant to answer all of the questions that will be raised as your e-commerce business delves more deeply into this venture. Each company will have to customize their due diligence and seek professional advice to their own unique situation; yet we have endeavored to provide an accelerated learning curve through this book.

It is our ardent hope that the information contained in the cross-border e-commerce handbook provides your company with the direction and new understanding of the Canadian landscape to enhance your competitive positioning.

To assist us with this endeavor, we have asked leading specialists across a number of key areas, to provide their expertise and knowledge as your company looks to make such an investment.

We would like to extend special thanks to the contributing authors of the handbook. They include J.C. Williams Group; Blake, Cassels & Graydon LLP; CyberSource Inc; Minden Gross LLP; Sally MacKenzie, and Spaide, Kuipers and Company.

Visa Canada

Visa e-commerce cross-border handbook *for U.S. retailers*

Chapter 1: assessing the financial and competitive opportunity

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Chapter 1: assessing the financial and competitive opportunity

Authored by: Gregory Antrobus, J.C. Williams Group

Introduction

When a company embarks on a new initiative or program, a "due diligence" process is undertaken to assess the opportunity associated with that initiative. In this chapter, our intent is to provide you, the retailer, with a set of inputs to assist with that process.

To provide direction in building your business case for the online initiative, we will delve into the following topics:

Sub-topics:

- Sizing the market
- The competitive assessment
- Developing a forecast

Sizing the Market

As a retailer, two important questions you will need to address as you undertake the "due diligence" process are as follows:

1. What is the financial opportunity?; and
2. What does the competitive environment look like?

To assess the financial opportunity, a first step will be to determine the size of the online market and the potential dollars that are available to you. One approach that can be used to ascertain the size of the Canadian e-commerce market is outlined in Table 1.1.

Table 1.1: Estimating the E-commerce Market in Canada

Canadian population	1,000
Percent of Canadian Population online	55%
Canadian population online	550
Percent of Canadians who shop online	40%
Estimated online buyer population	220

The example provides a quick and simple way of determining the number of Canadians who shop online. Please note that the inputs for this calculation will be dependent on when you decide to launch your cross-border e-commerce program.

Several sources can be used to the complete the above chart. For instance:

- Statistics Canada (www.statcan.gc.ca)[1] provides population statistics based on projections made from the most recent census. The data is also broken down by age brackets in the event that you want to focus on specific age groups.
- Ipsos Reid (www.ipsos.ca)[2] is another source that can be used to determine the number of Canadians that shop online. Ipsos' Interactive Reid Report provides tracking data on the number of Canadians who shop online at various points throughout the year.

A second and critically important measure, is estimating the size of the segment that you will be venturing into. Table 1.2 below provides the inputs that will be required to assess the opportunity.

Table 1.2: Estimating the Market Size of a Category in Canada	
Canadian Population (Age 19+)	25,000,000~
Proportion of household with incomes of $50K+	57%~
Number of Canadians with household incomes (HHI) of $50K+	14,250,000~
Est. proportion of Canadians who shop online in past year	61%~
Canadians with (HHI) of $50K+ who shop online	8,692,500
Proportion of Canadian online shoppers with HHI of $50K who bought category online	5%~
Canadians with HHI of $50K+ who have bought the category online	434,625~
Average per capita spending among Canadian online shoppers with HHI of $50K+	$1,000~
Proportion of household expenditure spent on category	10%~
Per capita annual online category expenditure among Canadian online shoppers with HHI of $50K+	$100~
Est. online category among online Canadians with a HHI of $50K+	$43,625,000~

Note: The figures have been used for illustrative purposes

Some of the sources used to calculate the number of Canadians online in a particular household income bracket will be the same sources needed to size the total Canadian market. Data sources are located at the end of the chapter.

[1] Note: Some of Statistics Canada data is available at no cost on their website.

[2] Note: The Ipsos-Reid Interactive Report is not a free service.

The Competitive Set

Determining your current and future competition is also a key input for your "due diligence" process. Assessing your current competition can take the form of a simple audit. This entails asking the question, "Who is in the market?" (e.g., domestic and international players) and, "What are they currently doing?". Alternatively, a more detailed evaluation of your competitors is another, which is discussed below.

Using the Home Improvement sector as an example, a cursory audit of this category reveals the following:

Table 1.3: Simplified Direct Channel Audit

Retailer	Store Presence	Direct Channel Presence
Bombay	■	■
Crate & Barrel	■	■
Ethan Allen	■	
Restoration Hardware	■	■
Williams-Sonoma/Pottery Barn	■	■
IKEA	■	■
Home Sense	■	
Leon's	■	■
The Brick	■	■

Table 1.3 provides a quick overview of some of the key players and whether they have an online presence in the Home Improvement space.

As noted earlier, an alternative would be to conduct a detailed audit of their "direct channel" capabilities.

The detailed audit could provide information about deficiencies and/or solutions that your current competitors in the category may be providing to consumers (this will be covered in Chapter 2).

A sampling of elements in the detailed audit that you may want to look into include the following:

Geographical Attributes
- Store locator
- Language offering

Policies
- Currency of prices
- Payment methods
- Refunds

Customer Experience
- Guided navigation
- Personalization of accounts
- Pick-up options
- Total pricing listed

Cross-Channel
- Cross-channel tools
- Acquisition methods

Loyalty Program
- Availability in Canada
- Benefits

Once you've completed the audit for the respective retailers based on the suggested list of elements, you will be better able to gauge your offerings relative to the current competitive set. In turn, you will be able to articulate a course that would best your competitors.

Finally, another critical piece of the puzzle that you will need to complete in order to determine the long-term viability of the cross-border e-commerce initiative is the development of a forecast.

Developing the Forecast

This entails forecasting the size of your online segment to ascertain what portion of the pie you can conceivably attain.

There are two areas that need to be covered by the forecast. The first will be to address the overall market and the second the particular segment.

Using high-end women's apparel (HEWA) as an example, you will need to determine the growth of the market several years out. Subsequent to this, the portion of the online space accounting for the total market will also need to be forecast.

When developing a forecast, it is recommended that three growth scenarios are utilized (e.g., low, medium and high). Another way of referring to the scenarios would be conservative, stretch and aggressive. Let's presume that the HEWA segment is expected to grow at 5% per annum (Note: This figure could be validated by using the CAGR for the category OR the overall growth of the women's apparel sector could be used as a proxy).

The 5% per annum figure could be used as the low/conservative growth scenario. For simplicity, we will pick 7.5% and 10% respectively for the medium/stretch and high/aggressive growth scenarios. The dollar volume of the HEWA segment is also required in order to complete the forecasts.

If you were to assume that the HEWA sector generated $400 million in sales in 2008, under the low growth scenario, that market would be worth approximately $420 million in 2009.

Exhibit A

Year	Low Growth (5%)	Medium Growth (7.5%)	High Growth (10%)
2009	$420.0	$430.0	$440.0
2010	$441.0	$462.3	$484.0
2011	$463.0	$469.9	$532.4

These projections will offer an overall view of the total HEWA market segment. They also provide direction as to the potential size of the online market for this segment.

Speaking of the online market size for this segment, the second and more crucial forecast is the determination of the size of the online HEWA segment.

Using the calculations in Table 1.2 as an example, let's presume that those calculations represent the "Online Women's Apparel Market among online Canadians with HHI of $50K+" and that number totals $43.6 million.

To calculate the forecast for the HEWA segment, you will need to develop a number of growth scenarios for the segment. You could apply low, medium and high growth levels based on your company's prior results or you could look at other players in the high-end market and use those figures as proxies for the levels.

For our purposes, let's assume the following growth rates for the respective periods, as illustrated in Exhibit B.

Exhibit B

Year	Low Growth	Medium Growth	High Growth
2009–2010	15%	20%	25%
2010–2012	10%	15%	20%
2012–2014	7.5%	10%	15%

Applying the growth projection above to the estimated $43.6 million that we assumed would be the “Online Women’s Apparel Market among online Canadians with HHI of $50K+,” this would yield the following:

Exhibit C

Year	Low Growth	Medium Growth	High Growth
2009	$48.9	$51.0	$53.1
2010	$56.2	$61.2	$66.4
2011	$61.8	$70.4	$79.7
2012	$68.0	$80.9	495.6

Using the information contained in Exhibits C and A, you can now calculate a projected penetration level for each year of the HEWA sector. An example of the penetration level in 2011 using the low growth scenario is an online portion of the HEWA is approximately 14%.

In closing, the steps presented to assist you in calculating cross-border e-commerce opportunities are a guide. Thus, for your particular industry, the application of additional assumptions or caveats will likely need to be applied.

The following chapters will delve into other components of your “due diligence” process and provide examples, tips and additional considerations for you to think about as you embark on this venture.

Implications

- **Financial:** The financial implications of this exercise will provide you with the necessary inputs for your business case. The outcome will determine whether your company moves forward or not.
- **Strategic**: Should the financials and competitive analysis support the business case, the decision to move forward will impact every facet of the project, initially at a strategic level and subsequently at the tactical level. Initially, strategic decisions about IT and operations will have to be made, followed by the type of marketing and merchandising that will be employed.
- **Consumers**: For the consumer, this decision will provide them with another retail option from which to choose.

Checklist

The checklist is intended as a reminder of the key elements your firm will need to confront when considering the Canadian opportunity. In addition, we have highlighted the key cross-border elements that we feel are the most salient, as in Table 1.4.

Table 1.4: Key Elements and Cross-border Checklist

Review of Items	Key Elements	Cross-border Emphasis Required
Market Size Inputs		
■ Population statistics	■	
■ Percent of Canadians online	■	■
■ Percent of Canadians who shop online	■	■
Market Segment Estimates Inputs		
■ Population statistics	■	
■ Percent of individuals in the segment	■	
■ Percent of Canadians who shop online	■	
■ Percent of populations who have made a purchase in category	■	■
■ Share of the market the category represents	■	■
Forecasts		
Market forecast inputs		
- Three- to five-year growth rates	■	
- Estimated size of the market	■	■
Segment forecast		
- Estimated size of the online segment	■	■
- Estimated three- to five-year growth rates	■	■

Data Sources

- Ipsos Reid – www.ipsos.ca
- J.C Williams Group – www.jcwg.com
- Statistics Canada – www.statcan.gc.ca

About the Author

Gregory Antrobus is the Research Director at J.C. Williams Group. Gregory's more than 15 years of market research experience in both a client and vendor capacity spans the retail, packaged goods, and financial services industries. As a research professional, Gregory has provided both internal and external clients with guidance, analysis, and insights in solving their strategic and tactical business requirements.

Gregory has managed various quantitative and qualitative market and consumer research projects for North American and Asia-Pacific companies such as Alliance Data, Black Photo Corporation, E-mart/Shinsegae, Indigo Books and Music, Liquor Control Board of Ontario, Loyalty Group, Price Chopper, Staples Business Depot, Lands' End, Limited Brands and Roche Asia-Pacific.

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Chapter 2: the Canadian consumer

Chapter 2: the Canadian consumer

Authored by: Gregory Antrobus, J.C. Williams Group and Stephanie Wallat, Visa Canada

Introduction

Getting to know more about the Canadian consumer both from a general perspective as well as an online perspective is a task you will need to undertake during the "due diligence" process to help with your business case. To assist you with your business case, the following topic areas will be covered in this chapter.

Sub-topics:
The following sub-topic, which is specific to the Canadian population, will be covered in this chapter:

- The distribution of the population
- The composition of the population
- Online consumer attitudes and behaviors

Distribution of the Population

The Canadian consumer shares similar attitudes and behaviors on a variety of issues with their U.S. counterparts. However, in the area of online and particularly cross-border shopping, those attitudes and behaviors may differ markedly.

To ensure that you are able to discern where those similarities and differences occur, some initial questions you may want to pose include the following:

- How many Canadians are there?
- Where do they reside?
- What is the composition of the population?
- What is the male/female split, if your product is gender specific?
- What does the age and income distribution look like?
- Immigration patterns?

First, Canada is comprised of ten provinces and three territories. While it has one of the largest land masses in the world, its population is relatively sparse with only 33.9 million residents (www.statcan.gc.ca).

Your pool of potential consumers is approximately 28.5 million, representing 84% of the total population, 15+ years or older. An overwhelming majority of the 28.5 million consumers reside in four provinces (see Table 2.1) and over 80% live in a metropolitan center. By metropolitan center, we are referring to communities with populations of greater than 100,000 people.

Table 2.1: Canadian Population by Province		
Province	Population January 2010	% of Population
Canada	33,930,830	100%
Newfoundland and Labrador	510,805	1.5%
Prince Edward Island	141,232	0.4%
Nova Scotia	940,744	2.8%
New Brunswick	750,658	2.2%
Quebec	7,870,026	23.2%
Ontario	13,134,455	38.7%
Manitoba	1,228,984	3.6%
Saskatchewan	1,038,018	3.1%
Alberta	3,711,845	10.9%
British Columbia	4,494,232	13.2%
Yukon Territory	33,992	0.1%
Northwest Territories	43,281	0.1%
Nunavut	32,558	0.1%

Source: Statistics Canada 2006 Census

A closer look at these figures will reveal many more things about the Canadian consumer in general; Statistics Canada would be a primary source for this information.

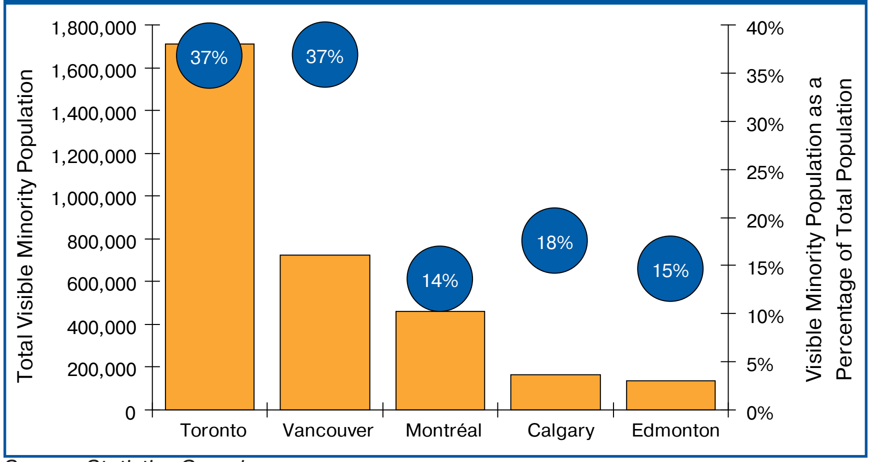
Composition of the Population

Canada is officially a bilingual country (English/French). Approximately one-fifth of the population is of French descent, and resides primarily in the Province of Québec.

While the French culture and language is an important part of Canada, it is only one facet of the Canadian montage. English and French are the languages spoken most often. However, the changing montage has seen an explosion of many different languages being spoken across the country.

The diverse nature of Canada's population, particularly in the large metropolitan areas (see Figure 2.1), makes it unique in many ways and notably different from major U.S. centers.

Figure 2.1: Diversity Redefining Canadian Cities

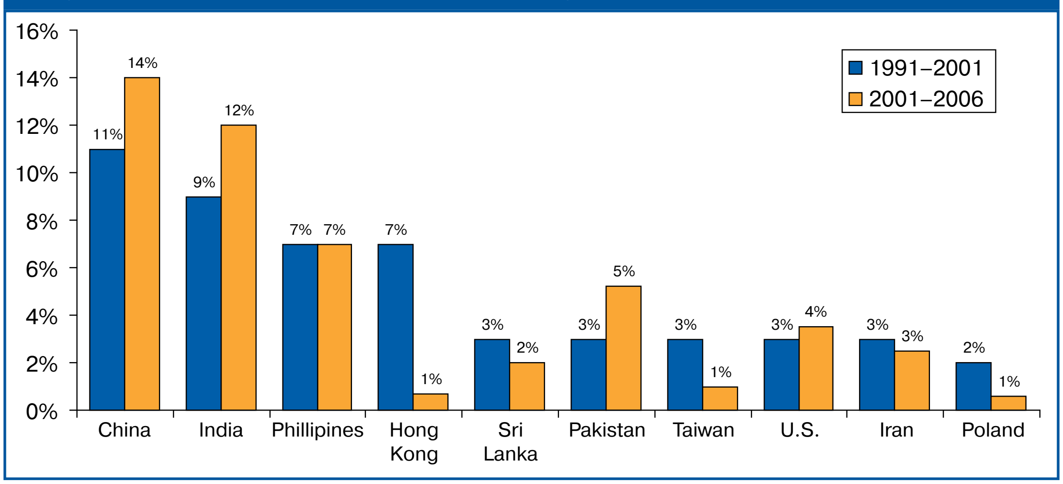


Source: Statistics Canada

Over the past decade, a significantly higher proportion of Canada's population growth has come from immigration when compared to the U.S., thus accounting for the changing population mentioned earlier.

Unlike the U.S., where the majority of immigration has been from Hispanic-speaking countries, the Canadian sources have been noticeably more diverse, with the Asian sub-continent being the largest contributor to the population's growth. This growth has implications primarily in the area of merchandising, (see Figure 2.2).

Figure 2.2: Top Ten Places of Birth for Immigrants (1991 to 2001 vs. 2001 to 2006)



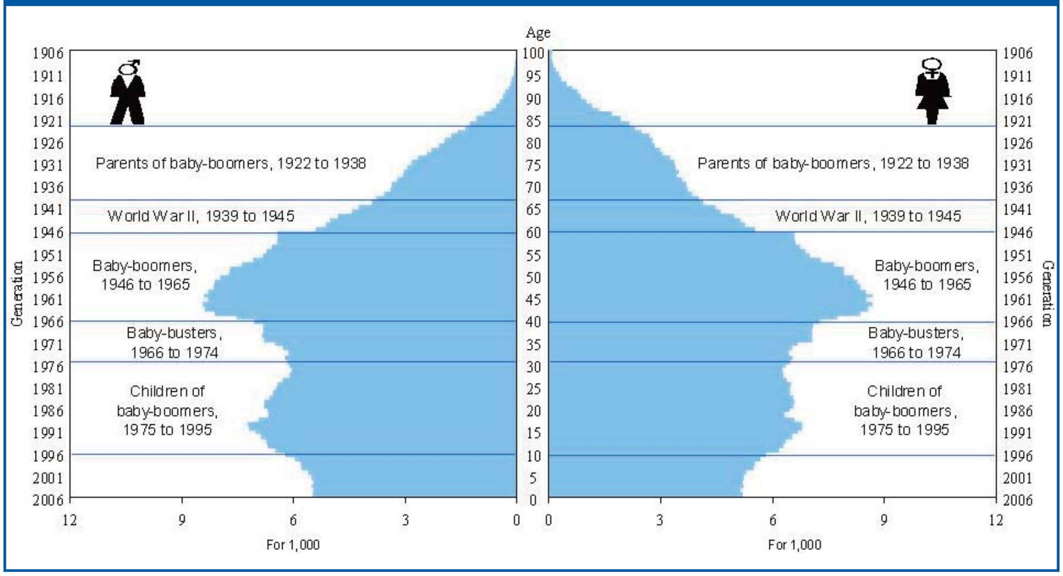
Source: Statistics Canada

Other aspects of the Canadian consumer that should also be considered include gender, age distribution and household incomes, as well as expenditures in the retail category.

Factoid
In 2004/2005, net international migration accounted for two-thirds of Canada's population growth as compared to 38% in the U.S.

Figure 2.3 (below) provides the age distribution of the Canadian population for 2006. It represents the six largest age cohorts. Additional analysis of the six age cohorts and what they are likely to spend both online and offline will provide additional insights about the consumer and future revenue prospects.

Figure 2.3: 2006 Canadian Population by Age Cohorts



Source: Statistics Canada 2006 Census

Coupled with the age and gender distribution analysis, annual household expenditure of the respective categories would also provide additional information on consumer spending patterns. This information can be found using the following link: www12.statcan.ca/census-recensement/2006/as-sa/97-551/figures/c7-eng.cfm[1]

Secondary sources such as Statistics Canada provide general, but invaluable information about the Canadian consumer. Yet, if you wish to seek specific information about particular consumer attitudes, behavior and/or needs, there is also the option of conducting primary research with firms that specialize in e-commerce and multi-channel retailing. (Data Sources are available at the end of this chapter.)

Another manner in which you can view the Canadian population would be by looking at some of the similarities and differences based on their attitudes and behaviors.

[1] Note: In some instances, there is a cost associated with the data from Statistics Canada.

Online Consumers: Their Attitudes and Behaviors

You've gathered the basics about the Canadian consumer; now, it is time to focus your efforts on gaining a better understanding of a subset of the total population—the online consumer. As was noted earlier in the general consumer section, by asking a number of questions about this target group, you will be able to discern key differences between Canadian and U.S. online shoppers.

Some initial questions to begin the process of gaining a better understanding of the Canadian online shopper include the following:

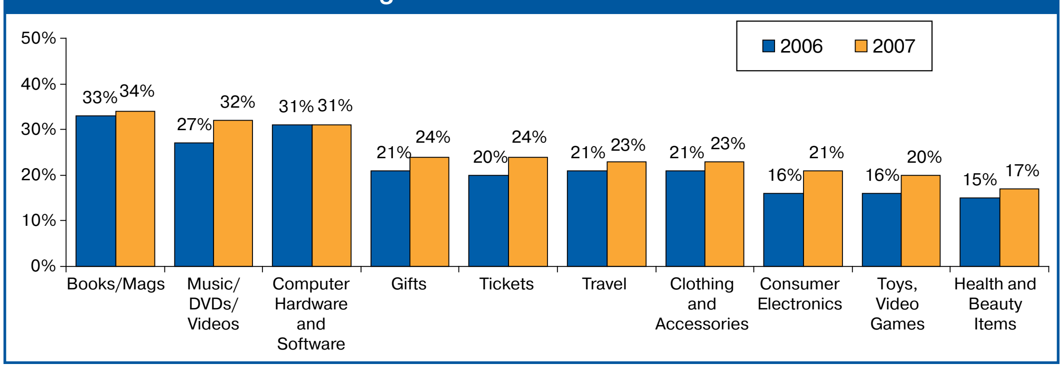
- How many consumers are online?
- What are they purchasing online? (See Figure 2.4)
- Where are they purchasing online? (See Figure 2.5)
- Why are they purchasing at those locations? (See Figure 2.6)
- How much are they spending online? (See Figure 2.7)
- What are the growth projections for e-commerce in Canada?
- What influences online purchases?
- What are the barriers and challenges they face when shopping online? (See Figure 2.8)
- What tools are they using when they are online?
- What attitudinal and/or behavioral characteristics are available about this group?
- Approximately what proportions of their online spending is geared to the category you are in?

A variety of sources can be used to answer some of these questions, and some may have been answered in other chapters.

Determining the number of Canadians online can be calculated using the table in Figure 1.1 in Chapter 1.

The following charts provide some direction in comprehending the Canadian online consumer and their behaviors.

Figure 2.4: Online Purchases



Source: 2007 J.C. Williams Group/Visa Canada/Yahoo! Canada Study

The following charts (Figure 2.5 and Figure 2.6) highlight Canadian online behaviors relative to the location and rationale for shopping at those locations. In Figure 2.5, a 2008 survey conducted by Burak Jacobson for Visa Canada shows that approximately two-thirds of Canadians were shopping at U.S. websites. About 1-in-5 (19%) were shopping at sites beyond North America.

In Figure 2.5, respondents indicated selection and cheaper prices as being their primary motivator for shopping at U.S. websites.

Figure 2.5: Purchase Location

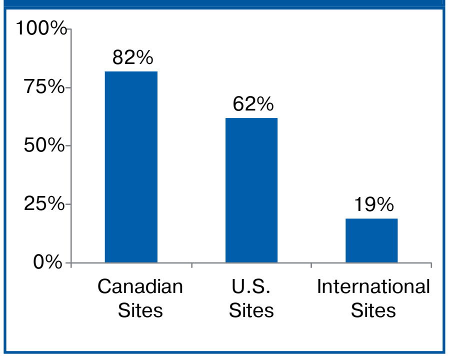
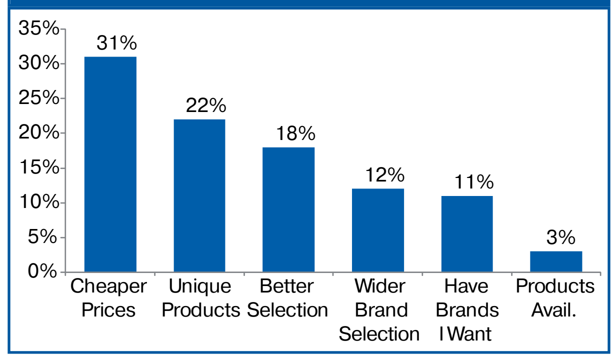


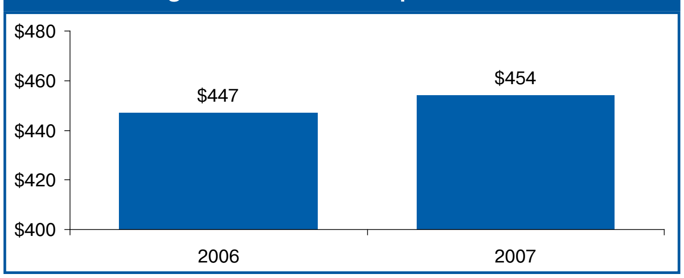
Figure 2.6: Purchasing Rationale



Source: 2008 Canadian Consumer E-commerce Study by Burak Jacobson for Visa Canada

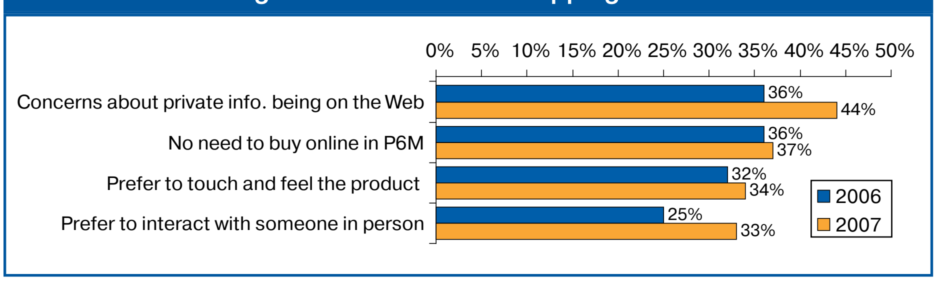
Figures 2.7 and 2.8 highlight the average amount spent and the barriers to shopping online for Canadian Consumers.

Figure 2.7: Amount Spent Online



Source: 2007 J.C. Williams Group/Visa Canada/Yahoo! Canada Study

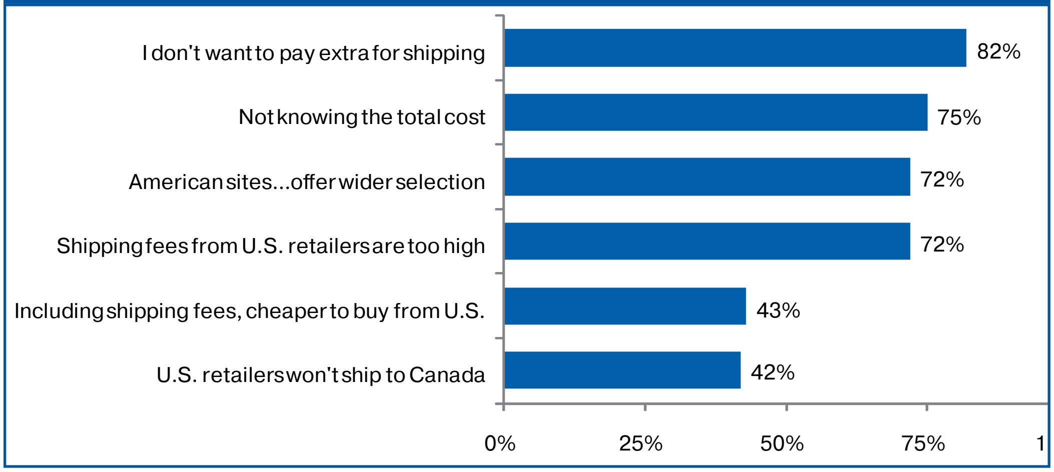
Figure 2.8: Barriers to Shopping Online



Source: 2007 J.C. Williams Group/Visa Canada/Yahoo! Canada Study

In a November 2009 study conducted by Ipsos Reid for Visa Canada (Figure 2.9), additional insights highlight some of the barriers for consumers as it pertains to cross-border shopping.

Figure 2.9: Attitudes and Barriers Towards Online Cross-border Shopping



Source: 2008 Canadian Consumer E-commerce Study by Burak Jacobson for Visa Canada

The study also revealed that Canadians who had previously shopped at U.S. online retailers, were more likely to agree that U.S. retail sites offered more selection (82% vs. 72%), and that it was cheaper to buy from American sites (59% vs. 43%).

Directional information related to some of the other questions posed earlier would be available at sites such as the following:

- www.clickz.com
- www.emarketer.com
- www.internetworldstats.com

While these sites provide additional information on the Canadian online market, a more in-depth analysis of these questions, may require you to commission primary research.

However, before you venture down that particular route, you may wish to contact e-commerce specialists in the Canadian space to ascertain what level of information they have on-hand, or for them to propose alternative sources.

In closing, the Canadian online consumer is diverse, demanding and can be desirable for U.S. retailers looking to venture into this market.

As a retailer, don't fall into the trap that Canada is the 51st U.S. state. If you do, you are likely to be under-whelmed by their response if you do not take the time to understand their needs relative to your capabilities.

Implications

- **Strategy:** The next section of the handbook speaks about the strategic options that are available to you as an online merchant. Who you are targeting and where they live are just two components that will impact your overall strategy. The target audience will also influence your IT, operations, marketing and merchandising efforts.

- **Financials:** The product offering versus your target consumer segment will impact the financials from the perspective mentioned earlier, those being IT, merchandising and marketing. The amount spent on acquiring and retaining customers will dictate budgets across the board.

Having looked at the consumer to understand what information is available and what gaps needs to be filled, developing your online strategy is your next task, and the elements you will need to do so are covered in Chapter 3.

However, before you move on, the following checklist is meant to remind you of the points you will need to ask yourself about the online consumer from both a general and cross-border perspective.

Checklist

Table 2.2: Key Elements and Cross-border Checklist

Review of Items	Key Elements	Cross-border Emphasis Required
Number of potential buyers	■	
Where do they reside	■	■
Breakdown by age and gender	■	
Ethnic composition	■	
Spending patterns	■	■
Percent of Canadians purchasing online	■	■
Percent of Canadians purchasing in your category	■	■
Amount spent in specific category	■	■
Is primary research required to better understand specific attitudes and behaviors?	■	■

Data Sources

- Burak Jacobson – www.burakjacobson.ca
- Clickz – www.clickz.com
- E-marketer – www.emarketer.com
- Internet World Stats – www.internetworldstats.com
- Ipsos Canada – www.ipsos.ca
- J.C. Williams Group – www.jcwg.com
- Statistics Canada – www.statcan.gc.ca
- Visa Canada – www.visa.ca

About the Authors

Gregory Antrobus is the Research Director at J.C. Williams Group. Gregory's more than 15 years of market research experience in both a client and vendor capacity spans the retail, packaged goods, and financial services industries. As a research professional, Gregory has provided both internal and external clients with guidance, analysis, and insights into solving their strategic and tactical business requirements.

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Stephanie Wallat is a Business Leader for E-commerce and Authentication at Visa Canada, where she is responsible for market acceptance of e-commerce platform initiatives (including cross border) and online security technologies and authentication programs. Stephanie also oversees the strategy development and implementation of initiatives in support of Visa's global e-commerce and authentication programs and works closely with Issuers, merchants, their acquirers/processors and other service providers in Canada.

Stephanie, who joined Visa Canada in 2006, has an extensive background in the IT industry managing strategic alliances, client and partner programs and marketing at companies such as Hewlett-Packard, Oasis Technology (a payments software solutions provider) and Hummingbird Communications.

Visa e-commerce cross-border handbook *for U.S. retailers*

Chapter 3: strategy and positioning

Chapter 3: strategy and positioning

Authored by: Jim Okamura, J.C. Williams Group

Introduction

This chapter will provide you, the retailer, with an overview of some of the elements that should be considered whilst crafting a Canadian e-commerce strategy. Both the execution of that strategy and the positioning derived from it will be key in terms of how consumers become aware of and accept the brand. Specific areas that will be covered in this chapter includes the following:

Sub-topics:

- Whether your strategy should be the same or different than your domestic strategy. This should be a function of the consumer need in Canada and the competitive landscape;
- Opportunity to test different positioning or strategy that can be transferred back to domestic business;
- Importance of competitive insights to identify "white space"; and
- Pure e-commerce versus integrated cross-channel strategies and implications for each.

Once you have established confidence that the market potential is appropriately sizeable for your business, and your understanding of Canadian online consumers is significant enough, you are ready to develop an e-commerce strategy; or, at least to embark on your business plan. Once you have decided to develop an e-commerce strategy, the following question arises: what are the necessary elements required in order to form an e-commerce strategy?

The Retail Industry: A Late International Entrant

To provide context, some history on the retail industry, internationally, is in order. As a whole, the industry has been playing catch-up versus other industries in terms of international expansion strategies. The domestic- or local-focus of retailers has been a trademark of the industry for centuries. Only as scale-driven retail strategies emerged in the 1970s and 1980s (e.g., hypermarkets in France, discounters and big-box retailers in the U.S. and U.K.), has the need to look to overseas markets for growth opportunities been apparent.

The trend of internationally recognized consumer brand manufacturers developing their own consumer direct channels, combined with web-enabled global reach for small retailers, international retailing ambitions have never been greater. E-commerce enables tremendous opportunity as an international retail channel. It provides unlimited reach to far-flung markets, with added benefits such as economies of scale, data-driven insights, and consumer adoption curve in both developed and developing nations.

In the past, international expansion from a brick-and-mortar perspective has generally been viewed as an opportunity for only a few of the largest retailers (e.g., Walmart, Home Depot) or global brands (e.g., Nike, Louis Vuitton). Yet, international expansion via e-commerce enables multiple options that changes how and where a consumer is able to shop for their products and services:

- There has been significant leaps in the number of retailers that are exploring their competitiveness on an international stage. Even the smallest e-commerce retailer can sell internationally, and many are.

- "The thin wedge" – e-commerce as a leading indicator of the brand's equity that enables lower cost/lower risk in terms of a brand's potential in a new market. The testing phase can be followed by a stage of investment if early indicators validate the potential for more costly physical store commitments or accelerated investment in direct retail channels (e.g., e-commerce, catalog or mobile channels).

- "Multi-channel approach" – an aggressive, heavily capitalized strategy that combines store openings, joint ventures or licensing partnerships, e-commerce and possibly catalog or mobile channels. This full-scale expansion strategy leverages the ability of globally recognized brands to create demand. Not only that, it engenders both more efficient back-end operations and economies of scale (e.g., supply chain, finance, customer service, etc.). However, the cost of entry and risk is higher due to increased market commitments.

The Canadian e-commerce market has many attractive characteristics, but also many challenges. The net result is vast aggregate potential, with forecasts of above-average growth for many years to come. Yet, in large part, this potential has yet to be realized by both domestic incumbents and by foreign entrants. Why is that? The causes of this unfulfilled potential are typically the same for domestic and foreign retailers alike. These include the following:

- Unrealistic expectations for quick profitability and under-resourcing (i.e., "build it and they will come"). In our experience, the Canadian e-commerce effort by both domestic and cross-border retailers has typically not achieved maximum potential. In most cases, the limited resources devoted to marketing did not allow the business to acquire the reach to drive sufficient traffic to the website.

- The lack of resources includes dedicated interactive and direct marketing staff, especially with localized Canadian experience. The result has too often been self-fulfilling (i.e., modest results to match the modest investment). As the market continues to grow, market potential analysis may reveal greater financial potential, which builds a stronger case for the appropriate level of resources.

- The customer experience is substandard for an increasingly demanding and astute online shopper. This results in below-average performance (versus benchmarks in a mature market such as the U.S.). Operating metrics of conversion, repeat purchasing, average order value and frequency of buying could be negatively affected.

- The customer experience cannot be singled out to a single factor in the consumers' buying cycle. In our experience, conducting competitive benchmarking analyses, the Canadian customer experience has been well below average during the entire buying cycle: the pre-purchase (e.g., information collection, browsing products, etc.); the purchase (e.g., check out, payments); and, the post-purchase (e.g., fulfillment, customer service, returns, etc.). In many cases, as mentioned in the previous chapter, the Canadian consumer is experienced in buying from leading U.S. e-commerce sites, which has thus raised their expectations accordingly.

Additionally, contributing to the lack of growth is poor implementation and execution. This is not meant to criticize the incumbent e-commerce managers and analysts; in most cases, they are working with insufficient resources. A lack of dedicated, localized talent also contributes to the under-resourcing we have observed to date.

Same or Different Strategy?

So how do you avoid some of these common mistakes that yield substandard results? The natural inclination for any veteran e-commerce manager is to leverage the infrastructure and skills inherent in their domestic business, knowing that, ultimately, e-commerce is a scalable business as demonstrated by the lower variable costs per order as the business grows.

Upon further investigation that shows different market conditions versus your home country (e.g., regulatory restrictions, consumer habits, competitive landscape and infrastructure), an inevitable question arises that challenges the retailer's status quo. The question is: should the cross-border entry into Canadian e-commerce be just an extension of the domestic strategy, or does is justify a unique approach and/or particular positioning?

Table 3.1 below outlines a list of criteria for determining whether your strategy should be the "same or different" in respect to the domestic e-commerce business.

Table 3.1: Domestic Strategy Differentiation Matrix

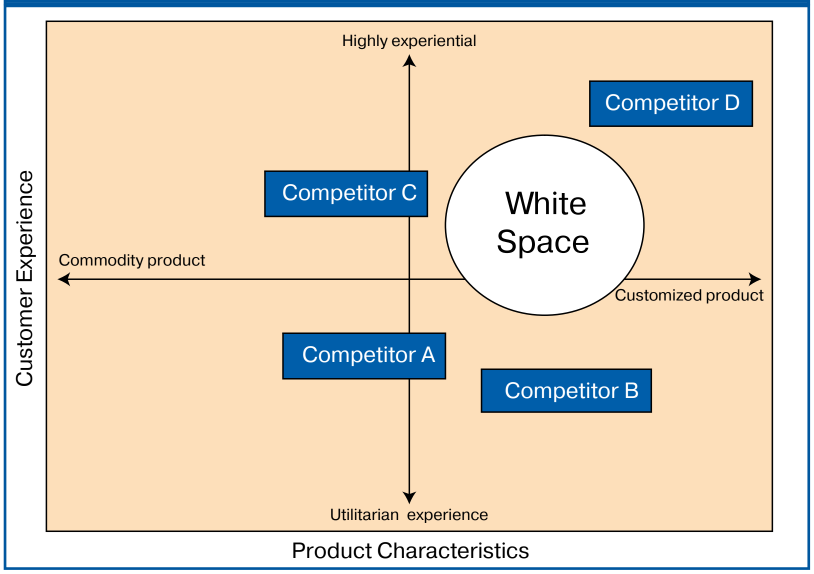
Retailer	Store Presence	Direct Channel Presence
Canadian Market Analyses	Key consideration	Suggests either a customized strategy or leveraging the domestic strategy...
Financial opportunity	Relative to other options for the capital required, including domestic improvements.	The higher the potential of the Canadian opportunity, the better the justification of a customized strategy.
Brand	How well is your brand known and understood in the market?	High brand equity suggests greater potential, likely through a customized approach.
Target customers	Are the best potential customers similar in their profile and online shopping needs, relative to your domestic customer?	The greater the similarity with your domestic customers, the greater the leverage of domestic e-commerce assets.
Competition	Who are the market share leaders among your target customers? Is there "white space" in the market?	Confidence to excel versus the main competition in the "white space" suggests a customized strategy.
Key business partners	Depending on the extent of outsourcing, how experienced are your business partners in growing an E-commerce business?	A proven track record, especially within the Canadian market, suggests a customized strategy.
Internal capabilities and resources	Can you resource the new market entry to build a foundation for growth and gain market share as a priority? Or are you required to do "more with less"?	"Growth" resources suggest a customized strategy; limited resources such as leveraging your domestic strategy.
Risk tolerance and investment time horizon	Are there short-term pressures to show profitable results?	A short investment horizon suggests staying close to the proven domestic strategy.

Your brand equity within the market may be the most pivotal to determine. Ultimately, the path to a highly profitable international expansion can be tied to the brand foundation you have to build upon. Traditional market research and customer service inquiries that indicate pent-up demand are common sources that reveal brand equity.

Identifying the White Space…

The "white space" (see Figure 3.1) identified in a competitive analysis is defined as strategic positioning that captures the greatest market share among your target customers. Typically illustrated as the confluence of core customer solutions your strategy brings to the market (e.g., specialized products, superior customer care, a better customer experience, etc.), identifying the white space opportunity will be the catalyst that drives decisiveness to commit the capital and resources for market entry.

Figure 3.1: White Space Identification



Another factor may be considered in developing the business case for investment in a unique Canadian strategy. Consider the strategic testing opportunity (i.e., a uniquely sustainable strategy, perhaps one that has been considered in your home market yet rejected for high risk for the core business). Were this approach to be used for the Canadian market entry, where it would be in a controlled environment, the strategic importance of the e-commerce launch is enhanced.

For example, Best Buy Canada's strategy in Canada may influence their core U.S. strategy by virtue of their operating two competing brands: Future Shop and Best Buy Canada. Through two competing brands, Best Buy Canada thereby gains greater market share in Canada. Adopting the same strategy in the U.S. may prove successful, as it has been in Canada.

The benefits of a Canadian e-commerce launch may have more strategic value in the form of insights and proof of concept that may provide a competitive edge to your core domestic business. Specific elements that could be tested include the following:

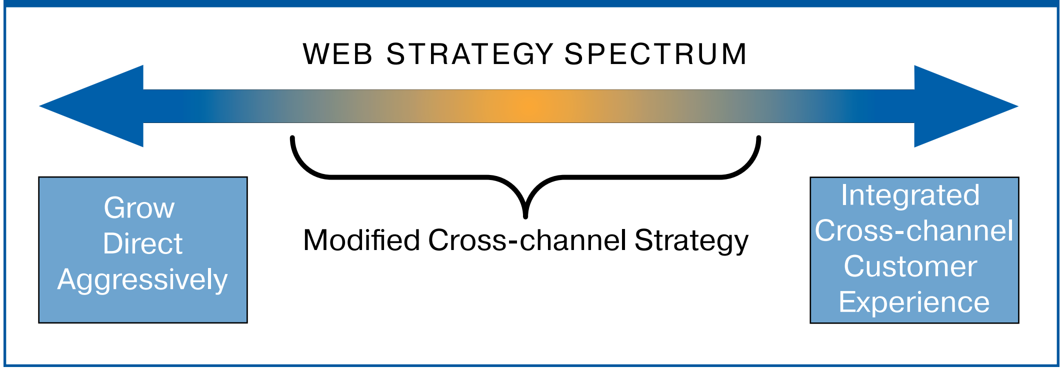
- **New positioning:** It is not uncommon to position your brand differently in a new market. Typically a premium-pricing position relative to your domestic market.
- **New marketing:** Strategies that are too risky for your core business, e.g., greater social media/community engagement, mobile marketing, etc.
- **Advanced cross-channel capabilities:** Integrate the store and online customer experience with a smaller store network in Canada.

Web Strategy Spectrum

Judging the success of your Canadian e-commerce strategy over to your domestic strategy may be enticing, but is unrealistic for many retailers in today's hyper-competitive global marketplace. The reality for most businesses is that their market entry will be evaluated solely on the merits of their web strategy.

J.C. Williams Group's web strategy spectrum has been developed to provide a spectrum of choices facing multi-channel retailers: from a pure direct retail strategy to a highly integrated strategy with stores and other sales channels.

Figure 3.2: Web Strategy Spectrum



Based upon the cases of leading multi-channel retailers' historical use of the e-commerce channel, we have observed the successful growth of a nascent sales channel from a highly independent business unit, into a gradual migration towards an integrated cross-channel customer experience. In other words, most retailer strategies in the first decade of e-commerce were focused on an aggressive "direct retail" strategy. In recent years, however, more attention has shifted towards an integrated cross-channel customer experience as an even bigger payoff for those who can execute well.

The implications of choosing either end of the spectrum are numerous and too specific to each company's current business model to thoroughly explore in this chapter. Examples are cited in Table 3.2.

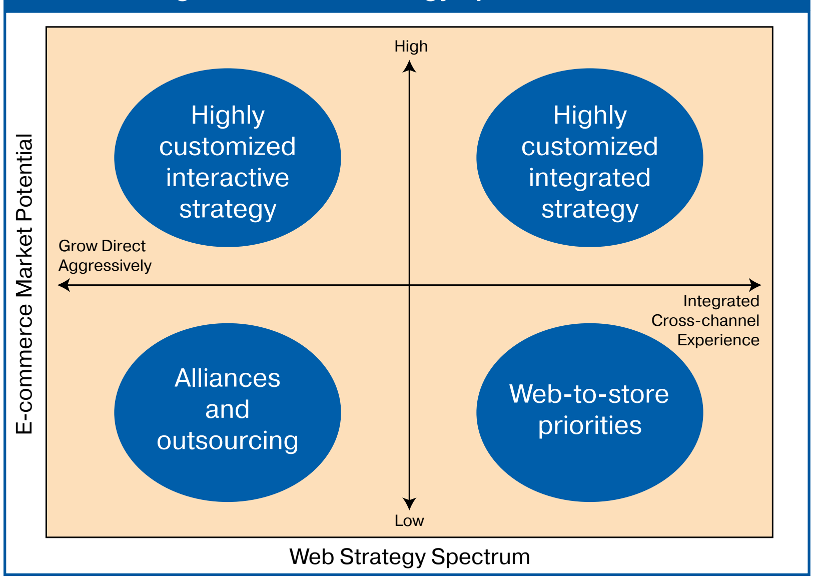
Table 3.2 Web Strategy Spectrum Comparison

Grow Direct Aggressively	Integrated Cross-channel Customer Experience
■ Assortment – online exclusives ■ Layout – customize for online shoppers ■ Pricing – different pricing strategies ■ Marketing – mostly interactive ■ Promotions – frequent channel-specific promotions ■ Inventory control – separate ■ Cross-channel capabilities – basics only ■ Process and metrics – few integration points ■ Sales emphasis – online only	■ Assortment – similar to stores ■ Layout – similar to stores ■ Pricing – consistent policies ■ Marketing – integrated ■ Promotions – integrated brand and promotions ■ Inventory control – separate ■ Cross-channel capabilities – advanced ■ Process and metrics – some integration ■ Sales emphasis – online plus store sales influenced by digital channels

Determining the right "sales model" for your Canadian business will depend on your core strengths, strategic positioning based on local competition, in addition to your resource commitments and risk tolerance. Many of these implications will be further discussed in subsequent chapters.

As you are weighing the pros and cons of a pure "direct" strategy versus an "integrated" one, consider your assessment of the financial market potential in Canada. In the illustration below, your market entry strategy will need to take into consideration the "reward" for your effort and resource commitment, and will often dictate your strategic options.

Figure 3.3: Web Strategy Spectrum Matrix



Starting from the top left quadrant, a highly customized interactive strategy suggests a focus on excelling in e-commerce channel, relative to your Canadian competition on-line. The implications for your target customers' shopping experience will likely include an efficient and easy-to-navigate website, with best-in-class features and functionality that encourages repeat and frequent shopping. The financial implications for this quadrant include the cost of developing a customized, best-in-class website and back-end operations.

Additionally, sufficient marketing resources are required in order to quickly build a large database and drive traffic through primarily interactive media. Confidence in the size of the financial opportunity is key in order to justify the capital expenditure and ongoing expenses of this option.

The top-right quadrant, the highly customized integrated strategy, suggests integration with stores or other sales channels (e.g., catalog or mobile channels). For the customer, their shopping experience should be relatively seamless as you encourage them to move from your website to your store and vice versa. Savvy shoppers are increasingly demanding of their favorite brands' cross-channel capabilities. This requires close monitoring of their expectations and level of satisfaction.

Financially, this option is likely the most costly, as cross-channel capabilities (e.g., buy online, pickup in store, order online while in-store, etc.) are dependent on the technology that underlies these processes. And soft costs such as staff training to ensure your entire organization understands the cross-channel strategy have often been cited by advanced cross-channel retailers as the key to success. All of these plus other costs are in addition to most of the same costs incurred in the top left quadrant, as the need to develop a customized website still exists in this cross-channel strategy.

The bottom-right quadrant, web-to-store priorities, suggests the e-commerce market potential is low, and the opportunity to leverage your website to drive store traffic is deemed most critical to success. For your customers' shopping experience, you will need to provide the motivation for them to visit the website and the store. The latter can be achieved through promotions, product selection, and customer service capabilities that are tailored to a cross-channel strategy.

The financial implications include the need for most of the same investment required for cross-channel capabilities as in the top-right quadrant, with less investment in the website itself. The measures of success for this strategy rely upon understanding the effect of a customer, who shops both the web and store, and identifying and measuring their resulting buying behavior in-store. Cross-channel measures such as this are closely tied to your "visibility" to the customer through your data and analytical capabilities. In some cases, traditional market research techniques may be used to enhance your analytics. Regardless of the technique used to measure success, the ability to track the cross-channel business model is critical for buy-in across your organization (including store managers).

Finally, the bottom-left quadrant, alliances and outsourcing, suggests a nimble, highly interactive strategy that still seeks to exploit select aspects of your e-commerce business model (e.g., access to unique merchandise, pricing, and promotions). The focus on the online shopping experience is accomplished largely through strategic alliance partners and outsourcing arrangements, to provide a lower-cost option to match the smaller market potential forecast. This option also gives the fledgling business the chance to test their business model. The trade-off with this strategy is the less-than-optimal customer experience, and those companies protective of their brands will need to consider this risk.

Financially, this option minimizes up front capital investment and the outsourcing partners may be agreeable in relation to performance-based compensation to share the risk. This strategy may be deployed as a preliminary stage to test a new market's potential, with the intent of migrating to one of the other quadrants should the test prove successful or the financial potential become upgraded.

Implications

- **Financial** – The financial implications of developing an e-commerce strategy that is not in tune with the market's needs, can spell the difference between a site meeting its goals or becoming a significant drain on capital with little return. While still significantly less than the cost of a brick-and-mortar store, the financial outlay for a new site can be substantial. Thus, lacking a set of realistic goals for its success, an e-commerce-driven website can be financially troublesome for a company, and quickly sour the senior management's team support for such a sales channel.

- **Consumer** – from the perspective of the customer, if a website's positioning is not the same as the other assets of your brand, customers will be confused. If the customer is a store-based customer, their reluctance to shop online may increase, if they perceive the website does not carry the products they need. This, in turn, leads to lower sales and a likelihood that fewer and fewer people will shop the brand.

Checklist

As you develop your e-commerce strategy for the Canadian marketplace, a checklist of questions your company will need to ask to determine the appropriate strategy overall and the specific elements that will require greater emphasis from a cross-border perspective include the following:

Table 3.2: Key Elements and Cross-border Checklist

Review of Items	Key Elements	Cross-border Emphasis Required
Same or different strategy to be employed		
■ Market	■	■
■ Financial opportunity	■	■
■ Brand awareness and strength	■	■
■ Target consumer	■	■
■ Competitive set	■	■
■ Company's internal capabilities	■	■
■ Risk tolerance and investment horizon	■	■
White-space opportunity	■	■
Is the web strategy focused on an "indepen-dent or integrated" model?	■	■
Market-entry approach	■	■

About the Author

Jim Okamura is a Senior Partner, managing the Chicago office for J.C. Williams Group. Jim has 15 years of consulting experience focused on the retail industry, including strategic planning, branding, consumer behavior and multi-channel project work. His work in multi-channel retail strategies has resulted in industry-leading thinking on retailer best practices.

Recent publications include *Retail Details: Best Practices in Multi-channel Integration*, The Shop.org *Multi-Channel Retail Report*, a groundbreaking study measuring the interaction of stores, online and catalog channels; and its predecessor, *Channel Surfing: Measuring Multi-Channel Shopping*.

Clients include: Border's, E-mart/Shinsegae, Gap Inc. Lands' End, Microsoft, Williams-Sonoma, Limited Brands, Levi Strauss, Timberland, Sears, DoubleClick, HMV, Lowe's Companies, Mayors Jewelers, Crate and Barrel, Lenox, Royal Bank of Canada, BCE Emergis, GERS, Certegy, Loyalty One, Cadillac Fairview, VISA, Footlocker, Holt Renfrew, Harry Rosen, and RadioShack.

Jim is a frequent speaker on consumer, multi-channel, and retail trends at corporate planning sessions and public conferences, including the National Retail Federation (NRF), Shop.org, the Retail Institute of Scandinavia, the Retail Council of Canada, the Professional Market Research Society, the Canadian Marketing Association, DMA Catalog Conference, and The Real Estate Forum.

Visa e-commerce cross-border handbook *for U.S. retailers*

Chapter 4: marketing and analytics

Chapter 4: marketing and analytics

Authored by: Maris Daugherty, J.C. Williams Group

Introduction

As the lead marketer for your business and as someone who is part of the team charged with “bringing eyeballs to the site,” your initial thoughts about extending your reach into the Canadian marketplace likely revolves around the differences between the U.S. and Canadian customer. What will it take to drive Canadian traffic to your site? How do you improve conversion rates and build loyalty amongst those Canadian consumers who are potentially your target customer?

In this chapter, we will discuss some of the differences between the current U.S. and Canadian online customer experience, and provide suggestions on a number of marketing methods to assist you in improving the customer experience.

Sub-topics:

- Marketing basics
- Marketing methods to drive traffic
- Measurement and metrics

First, we offer a perspective on the Canadian e-commerce market from our experience over the past decade. Canadians have not embraced e-commerce and multi-channel retailing with the same degree of enthusiasm as their U.S. counterparts, and although this is changing, it is important to understand some of the underlying trends.

Historically, Canada has not had an abundance of catalog and direct businesses. Waiting for packages and paying for shipping is somewhat new. The majority of the Canadian population resides in urban centers, which have a higher concentration of retail stores than you will find in the U.S. This, therefore, makes shopping in stores more convenient than in the U.S. The abundance of brick-and-mortar retail stores helps to explain Canadians’ propensity to embrace cross-channel capabilities (e.g., buy online, pick up or return in-store). However, these capabilities are not yet readily available at most Canadian retailers.

In addition, Canadian retailers have not embraced multi-channel retailing with the same vigor as in the U.S., resulting in reduced choices of familiar brands and products.

Conversely, as mentioned in a previous chapter, many U.S. retailers have expanded into Canada but have provided a less than optimal customer experience. This has resulted in longer delivery times, customers who are unaware of final delivered costs, as well as customer concern over returning products purchased online.

Being aware that e-commerce adoption in the Canadian space has been hampered by some of these elements can help you as you determine what your online and multi-channel vision for this market will be.

Marketing Basics

You'll find that the basics will not differ from the U.S. These include the following:

1. Support the brand;
2. Provide a stable site;
3. Provide an easy, simple, and clean shopping process; and
4. Deliver what you've promised!

- To help the cross-border expansion run more smoothly, it is vital that the internal team has a clear understanding of the brand and the strategy. The ability to clearly communicate your brand message and determine your target audience will help you to identify your Canadian competition. Clear brand guidelines and segmentation can also help you to choose and educate partners and vendors that may not be as familiar with your brand.

- Site stability and regulatory compliance are critical regardless of geography. Attention should be paid to the added value that third-party providers having Canadian experience can bring to your project. In expanding across borders, working with third-party providers that have local representation or experience in Canada is an advantage. Operations and fulfillment specifics are discussed in more detail within Chapter 6.

- An easy, simple, and clean Canadian shopping experience will help provide a better customer experience. While none of these suggestions are mandatory, creating a customer experience that allows the Canadian customer to shop your brand knowing that you have taken their unique geographic and cultural needs into consideration will increase your conversion rate and frequency of purchase. The degree to which you customize the Canadian experience and the order in which you choose to implement these customer-experience modifications will greatly depend on your brand guidelines, overall market potential, and enterprise investment commitment.

The provision of a Canadian-friendly shopping cart is paramount to the success of the site. Key elements of the shopping cart include the following:

- Acceptance of credit cards drawn on Canadian banks;
- For the Canadian customer to make an educated purchasing decision, they must understand the total cost of the product in Canadian funds;
- The cost of duties, customs, and value-added tax; and
- Shipping costs including the final mile to their door at fair and reasonable costs.

Almost as important is customer service. Allowing for easy returns in the post-purchase process is another revenue accelerator. Retailers with a store presence in Canada should give serious consideration and organizational priority to cross-channel capabilities. Specifically, this includes providing the facility for the online customer the ability to return items in-store.

When shipping across the border, retailers should provide the highest level of service possible based on their business model. At a minimum, this means an address in Canada for the customer to ship their returns to, as opposed to having to mail returns to a U.S. warehouse.

Higher degrees of service options exist and these include pre-printed return labels, as well as parcel pick up by the retailer's designated carrier. These services can be provided for free, or the cost can be deducted from the customers return credit. By providing a better returns process, it increases the convenience factor for your shoppers.

Acknowledgement e-mails at each step of the return process (e.g., your return has arrived at the consolidation center, your return has arrived in our U.S. warehouse and we will process your credit within xx days) are additional examples of enhanced customer service in Canada. When providing service, previous research has shown that Canadians appreciate being provided sales assistance via live online chat and access to a customer-care number during the sale.

It may be easy to miss or overlook the cultural nuances within the Canadian e-commerce experience. Being recognized as Canadians either by their authenticated sign in or through URL sniffing allows for a more targeted Canadian experience. In the optimal Canadian customer experience, the copy would include the following:

- Canadian English (e.g., color versus color, jewellery versus jewelry, etc.)
- Metric measurements (e.g., centimetres versus inches)
- Creative treatments should represent a greater diversity than the U.S. given the higher proportion of immigrants (e.g., Asians and South East Asians)

Any geographic targeting should take into account regional sensitivities and holidays. The most notable of these differences are found in Québec and the French language laws. This is discussed in additional detail within the regulatory chapter.

If by virtue of your Nexus it is necessary or you decide to embrace the French language laws to support your site experience in Québec, you will have to translate your site and all of your marketing efforts, invoices, and packing lists to Québecois French. As you consider your regional strategies, keep in mind that consumers in British Columbia identify strongly with environmental issues/movements, whereas consumers in the Maritimes may not be as concerned.

You will also find that in Canada, regional holidays differ by province. A holiday calendar can be found here: www.pch.gc.ca/eng/1266346058558

One of the trends in customer behavior is the desire to shop across channels, when they want, how they want, and where they want. While this is not something to be leveraged for the retailer shipping across borders, retailers with a physical presence in Canada should consider cross-channel capabilities as a strategic point of difference.

The popularity of researching online, but buying in-store is prevalent in the Canadian market, and may be a natural extension of the customer's behavior with your brand. Providing store capabilities such as visibility to online inventory at point of sale, allowing the customer to shop a broader selection that is available online while in the store, or having the product shipped to the customer's home from a different store's inventory requires substantial technological investment. For successful implementation, providing these store capabilities calls for a high level of support from Senior Management. If these cross-channel capabilities are right for your brand, it is likely that the market will embrace them.

Marketing Tactics

There are a number of Marketing tactics that can be employed to help customers navigate across your channels, for both multi-channel retailers with stores in Canada and those without.

If you are a multi-channel retailer with stores in Canada, one opportunity is an integrated marketing program. At its simplest, integrated marketing makes all aspects of marketing communication work together as a unified force, rather than each channel operating in isolation. It can be thought of as a gestalt system. And at its most advanced, it involves integrating your customer's feedback from all channels into the customer experience.

Additional integrated marketing tactics that can be used include the following:

- Providing awareness of tools (e.g., product comparisons or wish lists);
- Using promotions that help them find information or make decisions regardless of where they transact;
- Using customer feedback and reviews to help guide your online search;
- Promoting in-store events using email or using the Web will help to make your site a destination for brand-friendly shoppers;
- Collecting email at the point of sale;
- Using your private-label credit card statements for cross-promotional messaging can assist in reducing your overall marketing expense;
- Marketing the Web in the store and providing a good reason to shop the Web can increase your online traffic; and
- Consider the value of providing electronic credit card statements online or extended product categories and even gift cards for any occasion. Promoting these from inside the store will contribute to maintaining your band's awareness with the cross-channel, technologically astute customer.

All retailers entering Canada via their online channel should be aware that the marketing infrastructure is very different from the U.S. As a result of a lack of history of catalogs, the mailing-list industry has lagged. There are no "shopping portals" that promote online shopping and locally based comparison shopping sites are few. Agency partnerships with local media buying expertise should be considered as you design your market-entry plan.

A strong reliance on search engine marketing programs has been popular, but, there will be little difference in cost between the U.S. and Canada for keywords due to the population concentration in border states and the strong competition among U.S. brands.

Email programs are successfully used; however, the accepted frequency of messaging in Canada versus the U.S. should be carefully tested. Typically, Canadians are more sensitive to the volume of marketing messages they receive. Expect the same deliverability issues you see in the U.S. We recommend early discussions with the larger ISPs in Canada to become white-listed. The three biggest providers are:

- Bell;
- Rogers; and
- Telus.

Affiliate programs are another source of performance-based marketing that has experienced success in the Canadian market. U.S.-based affiliate management programs have successfully extended into Canada. However, if you are viewing the Canadian market as a strategic launch point, it is worth considering a dedicated business development resource headquartered in the country. This resource would be focused on developing marketing partnerships that would be otherwise difficult from afar.

Social networking is something to consider and test for a Canadian market entry. Sites like Facebook, and MSN Spaces are very popular with Canadians. Promotionally based acquisition programs targeting users in Canada can be a low-impact and low-cost way of building your customer data file.

The biggest shift that marketers need to make in relation to Canada is the available marketing universe. In the U.S., there are more than 190 million people online, whereas in Canada, that figure is closer to 24 million. This dramatically shifts your marketing emphasis to both acquisition and retention. Therefore, the importance of maintaining your relationship with a customer in Canada and enhancing the frequency of visits, as well as the basket size, is very important to your marketing costs and revenue model.

Canadians love loyalty programs. Do not miss the opportunity to extend yours into Canada if you have an existing program. Be sure to give consideration to the development of a Canadian test pilot for loyalty if you do not. There are two large loyalty coalitions (AirMiles™ and Aeroplan™) that can help you jumpstart your Canadian marketing efforts through their widely embraced consumer loyalty programs.

When considering cross-channel capabilities, don't forget to include promotional and pricing considerations. Do you want your online channel to offer the same prices as those in stores and what type of pricing policy will you have in case the channels are out of sync?

Analytics

Consideration and consensus on how success will be measured as you enter the Canadian market will be dependent upon your market-entry strategy. Variables include close alignment with your Canadian stores (if available) or if you are entering the market as a purely online retailer.

Additionally, market potential, the level of investment you are comfortable with, and your investment horizon will dictate how aggressively you develop your in-country experience. The latter will also dictate your customer-acquisition costs. Building an independent online business can be more costly, but may grow more quickly. A multichannel approach can be slower but make acquisition less costly as you leverage the store network to support your integrated marketing efforts.

We suggest that upon market entry, the same website performance metrics be used as in the U.S. (e.g., average order size, acquisition costs, cart abandonment, conversion rates, etc.). Anticipate that these will be different for the Canadian market than for the U.S. While the metrics will differ, they provide the ability to compare across the various channels and this will be invaluable to a cross-functional working team.

As you consider success measurements and marketing tactics remember that execution is more than just the Marketing team. Include an enterprise-wide team of people in the planning process. Use one planning document for each channel (e.g., store, Web, catalog, PR, and any other communication channel involved). Maintain a continuous flow of information and education to the greater group to help engage the enterprise.

While your systems may not be find tuned for your market expansion, capture as many of the metrics that you're able to given the new environment, but allow for some creativity in how that is undertaken. Capture cross-functional goals and expectations, then test, measure, refine, and test again.

Encourage creativity and set aside 10%–20% of your budget for testing. Make it the culture of your team to ask for a budget to try new things. Bring innovation into your regular marketing meetings. Watch industry trends and new media ideas. Celebrate successes and learn from failures. Never stop trying new ideas using Canada as a small testing ground that may benefit the organization globally.

Implications

- **Strategy:** The marketing strategy that is employed for your Canadian launch will determine your success and the speed with which that success is attained. As noted, the Canadian e-commerce market differs from the U.S., and thus a studied approach to the type of marketing efforts expended could mean the difference between success and failure.

- **Financial:** Being aware of the differences in the Canadian e-commerce marketplace will provide your team with the knowledge that is required to determine the financial commitment to attain the desired goals. Failing to conduct your "due diligence" as you would for any new venture could hamper your efforts and potentially result in unmet expectations.

- **Customer:** For the consumer, the implications can be significant. If they feel they are receiving a subpar online experience, they will find another retailer who will provide them with the experience they have come to expect.

Checklist

The checklist below is meant to be a reminder of some of the things you will need to consider as you embark on developing your marketing program. While the basics need to be adhered to, we are aware that the “marketing tactics” will be employed based on ROI. The list of metrics are but a starting point.

Table 4.1: Key Elements and Cross-border Checklist

Review of Items	Key Elements	Cross-border Emphasis Required
Market Size Inputs		
■ Support the brand	■	■
■ Provide a stable website	■	■
■ Make the shopping process easy, simple and clean	■	■
■ Deliver what you promise	■	■
Market Segment Estimates Inputs		
■ Use of tools such as product reviews and wish lists	■	■
■ Customer reviews	■	■
■ In-store promotions on the Web	■	
■ Collecting emails at the point-of-sale	■	
■ Cross promotions using a private label card (if applicable)	■	
■ Use of promotional pricing		
■ Use of search engine marketing	■	■
■ Use of email programs	■	■
■ Use of social networking	■	■
■ Use of affiliate marketing programs	■	■
■ Consumer joining forces with an established loyalty program	■	■
Forecasts		
■ Average order value	■	■
■ Acquisition costs	■	■
■ Cart abandonment rate	■	■
■ Conversion	■	■

Data Sources

- AirMiles™ – www.loyaltyone.ca
- Aeroplan™ – www.aeroplan.ca
- Bell Canada – www.bell.ca
- Rogers Communications – www.rogers.com
- Telus Canada – www.telus.ca

About the Author

Maris Daugherty is a Senior Consultant in the Chicago office at J.C. Williams Group and she brings over 20 years of experience in the retail industry as a key stakeholder in both entrepreneurial and Fortune 500 companies. She strongly believes in customer-centric, multi-channel management practices having learned their value throughout her career in marketing and merchandising positions within e-commerce and catalog management business areas. She has extensive experience in maintaining consistent brand messaging across multiple channels, customer segmentation processes, contact strategies, advertising planning, building vendor relationships, and promotional marketing.

Maris is skilled at building and fostering fully cross-functional teams that span the corporation. The depth of her retail experience includes positions such as VP of Relationship Marketing for RadioShack.com where she helped create and develop strategic direction for RadioShack's brand extension and integrity in multi-channel marketing. As Director of Marketing for ubid.com, she supervised all internal and external marketing communications and company messaging. Additionally, she is an Advisory Board Member for Internet Retailer, providing a competitive advantage to clients as they strive to increase revenue and market share.

Visa e-commerce cross-border handbook *for U.S. retailers*

Chapter 5: merchandising

more people go with Visa.*

* Visa claim based upon global number of general purpose cards, number of transactions and purchase volume.

Chapter 5: merchandising

Authored by: Sally McKenzie, E-commerce Consulting.com

Introduction

The guiding principles and best practices of great online merchandising hold true throughout the world. Yet, for the retailer selling to Canadians for the first time in the online channel, there are unique considerations that should be explored in order to ensure that your e-commerce presence will truly deliver on the merchant mantra of "right product, right price, right place, and right time."

As you develop your Canadian online merchandising strategy, there are two critical factors that will impact your decisions:

- Will you offer Canadian online shoppers a website experience that is separate from your U.S. site?
- Will you ship product across the U.S. border to your Canadian customers, or will you fulfill orders in-country?

Both of these factors will determine how extensively you will be able to cater to the specific needs of the Canadian shopper versus the more simplified approach of just allowing them to partake in your U.S. offering per se.

If you plan to offer a separate website shopping experience for Canadian customers, you will have the ability to tailor assortments, promotions, and pricing specifically for them. However, it will be a separate shopping experience and operation, for you to maintain, and thus more resource intensive.

If you plan to ship products across the border, your ability to share U.S. inventory will be leveraged and you will avoid the cost of operating a separate distribution facility and maintaining separate inventory. However, lead times to customers can be lengthy, and shipping costs and duties can be extensive.

Overall, wherever possible, retailers should strive to help Canadian online shoppers feel welcome, acknowledged, and catered to through their merchandising efforts.

Sub-topics

In this chapter, we will discuss the following aspects of Canadian e-commerce:

- Product assortments
- Product pricing
- Product information and presentation
- Promotional planning

Prior to making any merchandising decisions about your Canadian e-commerce operation, a thorough competitive audit should be conducted across a variety of dimensions:

- Who are the important competitors in Canada (both brick-and-mortar and online), and how dominant are they in the market?
- What is the size/depth of their assortment, and how does it differ from the U.S. (if they have a presence in the U.S.)?
- How do they price their products? How do Canadian prices compare to the U.S.? Do sales and promotions mirror that of the U.S.?
- How sophisticated is their e-commerce website? What features and functionality do they offer? How are products presented?
- What are their customer service hours and policies (including returns)?
- What are their shipping methods and costs?

This audit will provide valuable benchmarks, allowing you to understand where the bar is set and where opportunities for differentiation exist. It will also prove to be a good source of best practices and ideas for problem solving.

Product Assortments for Canadian E-commerce

Ideally, your Canadian e-commerce merchandise assortment should be tailored specifically to the Canadian audience, taking into account Canadian taste levels, seasonality and competitive dynamics. In reality, many retailers begin by offering all or a portion of their U.S. assortment, glean information about the differences between U.S. and Canadian shoppers and gradually adjust and optimize the Canadian assortment to maximize sales.

If you are planning to tailor an assortment specifically to Canadian consumers, the following factors should be considered:

- **Seasonality:** Study temperature/weather patterns across Canada to understand how seasonally sensitive assortments should be handled. Watch how competitors handle the timing of seasonal floor sets and markdowns. Keep a calendar of Canadian holidays at hand when determining assortments.

- **Demographics, culture, and taste:** Many retailers find that urban Canadians gravitate to European styling and color choices more so than shoppers in the U.S. While Canadian economic trends can mirror that of the U.S., merchants should watch for shifts that would indicate increasing price sensitivity or demand up-ticks that are unique to Canada.

- **Brick-and-Mortar assortments:** If you have retail stores in Canada, the desired and practical level of synergy between the stores and e-commerce site will need to be determined. Given the somewhat limited online marketing opportunities in Canada, we encourage leveraging whatever possible synergies exist between the two domains. Note that Canadian store staff can be a great resource for insights into Canadian trends, style preferences, and online shopping habits.

- **Competitive offering:** (see competitive audit remarks above)

- **Legal restrictions:** Some products are not allowed in cross-border shipments (applies only to those retailers fulfilling from the U.S. and shipping product into Canada). Consult with your legal team for details on items that are restricted. Also note that if you operate stores in Quebéc, all product shipped into Canada is required to have French language labels, hang tags, packaging, and invoices/packing lists (see Chapter 7 for more details).

- **Operational implications:** If you are building an e-commerce website specifically for Canada (as opposed to simply allowing Canadian shoppers to request Canadian shipping from your U.S. site), it will be cost effective to leverage assets such as product photography and copy from the U.S. website where possible. If you are planning to carry product that is unique to Canada, be sure to budget for the necessary asset creation and management.

- **Product testing opportunities:** While likely not high on the priority list for Canadian e-commerce newcomers, some retailers find that a Canadian e-commerce presence allows them the opportunity to test new products and styles on a smaller audience in a less visible forum.

Regardless of the assortment decisions that your make, it is important to forecast sales conservatively in order to avoid costly inventory liabilities. Start gathering historical sales data to guide decisions in future seasons/years.

Product Pricing for Canadian E-commerce

When pricing product for the Canadian e-commerce shopper, it is important to establish a methodology that is compatible with critical retail back-end systems. The most common approach to Canadian e-commerce pricing is to price product comparably to the U.S., factoring in exchange rates. For example, an item priced at $50 U.S. would be priced at $54.62 based on today's exchange rate. When determining your approach to pricing, the following should be considered:

- **Brick-and Mortar-synergy:** If you have stores in Canada, pricing should be consistent or Web pricing clearly stated as "online only."

- **Seasonal/holiday considerations:** Seasonal markdowns and holiday themed sales and promotions should be timed to the Canadian holiday calendar (this will be discussed further in the promotions section later in this chapter).

- **Third-party fulfillment providers:** If you are using a solutions provider that offers shipping services (e.g., Borderlinx) or is fully integrated (e.g., E4X) to handle cross-border transactions and fulfillment, the conversion from U.S. to cross-border pricing will be determined by their systems.

Regardless of approach, display Canadian pricing throughout the shopping experience, or as high in the purchase path as possible.

Product Presentation and Information for Canadian E-commerce

In recent years, consumer online expectations for detailed, rich and readily available product information has skyrocketed.

The rise of consumer usage of the Internet for research and information collection, coupled with rapidly increasing social media usage and improved rich media technologies, has driven leading online retailers to invest heavily in product information and presentation.

Common "must have" best practices in product presentation and information are as follows:

- Clear product images, providing the customer the ability to see a larger view, view color choices and easily see important details.
- Clear, detailed product descriptions, focused on important features and benefits, answering key customer questions. Product dimensions, specifications and sizing charts should be easily accessible from the product page.
- Easy to read pricing, with sale prices and savings stories legible and easy to understand.
- Customer ratings and reviews, allowing shoppers to see what other customers think of the product.
- Easy access to product availability, delivery, and shipping costs.
- Suggestions for alternate or complimentary items.

When adapting these best practices for your Canadian e-commerce efforts, it is likely that you will want to leverage your U.S. e-commerce product assets as much as possible to save time and money. The following items should be reviewed and considered as additions or changes to your U.S. assets to best serve the Canadian shopper:

- **Language:** If you have brick-and-mortar stores in Québec, you are legally required to offer a French-language website and ship all products with French labels, tags, packaging and invoices/packing lists. Even if you do not have a legal obligation to do so, many Canadian e-commerce sites offer a French-language option as a courtesy to customers. There are cultural differences in the English language in Canada vs. the U.S., so if possible, all website copy should be reviewed by someone familiar with Canadian culture.

- **Pricing:** Show Canadian pricing consistently throughout the shopping experience wherever possible, and show accurate shipping charges as early in the purchase path as possible.

- **Specifications:** Product specifications such as dimensions and weight should be expressed in metric terms. Sizing charts should reflect European sizing equivalents.

- **Reviews:** Encourage Canadian customers to post reviews of products to create a culturally relevant point of view on the site.

- **Shipping Information:** Set customer's expectations by indicating delivery times and shipping costs up-front. This is especially important if you are shipping across the border. Pay special attention to holiday shipping cut-off dates for Canada.

Promotional Planning for Canadian E-commerce

The fundamental discipline in creating a well-developed promotional calendar is well known to most retailers. When developing a promotional strategy for Canada, it will be critical to collaborate with your marketing team, as methods of reaching e-commerce customers in Canada may be less robust than in the U.S., and the timing and promotions will need to be adjusted for the Canadian holiday and seasonal calendar.

Ample lead time should be allowed for unique Canadian creative assets to be developed if needed. If you have brick-and-mortar stores in Canada, it will be critical to involve the store merchandising and marketing teams to coordinate the effort and gain valuable cross-channel synergy.

Used effectively, your promotional calendar and supporting tools can provide the foundation for the collection of sales history data and future sales forecasts, which will be important as you establish your Canadian e-commerce business.

We recommend that two calendar tools be developed for planning promotions and recording results:

The quarterly promotional calendar: This calendar shows major milestones (holiday dates, start and end dates of sales and events, floor set dates, home page changes, etc.). It also allows for components for the calendar to be filled in as they become available as different channels/ media require different lead times. Using the calendar enables an "at a glance" view of what has been decided and what can still be impacted —this is especially helpful for contingency planning. It also reveals promotional conflicts. The calendar is typically managed/maintained by the head merchant or the head of the creative team.

The daily calendar: This calendar provides daily promotional informational along with dashboard metrics versus the previous year's plan and forecast

- Visits
- Orders
- Conversions
- Sales
- Average order size

It also:

- Shows time of key promotions, holidays, shipping cut-off dates, etc., that impact business.
- Services a critical business review tool, helping to guide discussions and decision making for contingency planning.
- Allows for the business team to "see what's coming" in terms of high-volume days from last year to create promotional activity to mitigate risk.
- It is the starting point for the creative team to plan their workflow and publishing schedule (start and end dates, etc.).
- This calendar is typically managed/maintained by an analyst who is responsible for reporting and forecasting.

It is important to get into the habit of forecasting business performance based on current trends. We suggest doing this on a weekly basis. Such forecasting requires discipline and resources, but can provide significant payback through the business intelligence gained.

When planning Canadian e-commerce promotions:

- Carefully examine similarities and differences that must occur between Canada and the U.S. for maximum impact:
  - Timing – note seasonal shifts and holidays unique to each country.
  - Creative/messaging – look to leverage assets, remaining sensitive to cultural and linguistic needs unique to Canada.
  - Offer – offers may need to be somewhat unique to Canada based on the uniqueness of the Canadian assortment and inventory makeup.

- Coordination of events will require advanced planning and cooperation with the U.S. e-commerce team, and if applicable, store merchants and marketers. Assume at least a 90-day lead time, more for complex events around key holidays. Coordination points include the following:
  - Timing – consider online shipping cut-offs for holidays versus in-store "last minute" opportunities;
  - Messaging – thematic elements, value statements;
  - Creative assets for Web and offline (signage, ad photos/copy, email, etc.);
  - Training of store and call center associates;
  - Redemption of offers, terms and conditions across channels (note that these may need legal review);
  - Coordination of inventory & pricing across channels; and
  - Measuring and reporting results.

- Online-only Promos: Online-only promotions offer the opportunity for faster turn/flexibility when needed to:
  - Improve conversion;
  - Liquidate slow-moving inventory;
  - Increase basket size; and
  - Respond to competitive activity.

  These promotions can be "layered in" to the cross-channel/cross-country calendar. Assume lead times of a few days up to two weeks to identify the offer and set up the promotion. The elements for the promotion would include the following:
  - Identify offer
  - Determine customer segment/target (if needed)
  - Set up and test promotion
  - Creative development
  - Build email, landing page, banner, and online promotional assets
  - Inform/train call center staff and fulfillment staff
  - Set up tracking/reporting

- A note about holidays – coordination of on-site messaging for shipping cut-off dates around major holidays typically proves to be very complex for most online retailers. This effort must be tightly coordinated with any fulfillment third parties, call center and distribution teams. It must also be consistently communicated throughout the site, as well as throughout the checkout, email and all other marketing communications. Plan for extra time!

Tracking and Reporting Results

It will be especially important to track, analyze and document Canadian-specific results during your first year of selling online in the Canadian space. This will help in understanding differences between U.S. and Canadian buying patterns as well as revealing operational challenges and needs.

Marketing and merchandising will need to coordinate efforts in tracking and reporting results—it is recommended that each major promotion have a formal "results and lessons learned" write-up to assist with planning the following year. It should include the following:

- Objectives, description and timing of events;
- Merchandise offers included;
- Marketing support by channel;
- Results of merchandise offers (units sold, coupons redeemed, etc.);
- Results of marketing support: spend and response rates by channel;
- Lessons learned: what worked, areas of opportunity for next year; and
- Operational issues: call center or fulfillment wins/opportunities.

Throughout this chapter, we have discussed the unique considerations that must be made when approaching merchandising for the Canadian e-commerce shopper. This information is not intended to be exhaustive, but rather to reveal issues for further investigation and consideration. While the close proximity of Canada and the lack of language barriers makes it an attractive location for exploring international expansion, it is particularly important to acknowledge the unique needs of its customers and the operational challenges involved. Careful planning and focused execution are keys to success, as is tracking results and learning from this information.

Implications

- **Financial:** the implications financially for your merchandising program will determine whether your company is profitable or not. Having the right product at the right time for your customers, along with a pleasant shopping experience, will provide customers with a clear choice.

- **Strategic:** strategically, the product selection and positioning in the Canadian marketplace will enable your firm to quickly define your market segment. If your online merchandising does not reflect every aspect of your brand, customers will become confused, thus potentially impacting the overall brand.

- **Customer:** for the customer, it demonstrates that you have taken the time and energy to select products that they like and want. If customers do not feel you are not paying attention to their specific needs, they will find an alternative.

Checklist

A quick review of the items your firm needs to think about prior to developing your cross-channel merchandising strategy is illustrated in Table 5.1 below:

Table 5.1: Key Elements and Cross-border Checklist

Review of Items	Key Elements	Cross-border Emphasis Required
Product Assortment		
Seasonality	■	■
Demographics, culture and taste	■	■
Competitive offering	■	■
Legal restrictions	■	■
Product Pricing		
Synergy with the store	■	
Seasonal/holiday considerations	■	■
Third-party fulfillment providers	■	■
Product Presentation and Information		
Language	■	■
Pricing	■	■
Specifications	■	■
Customer reviews	■	■
Shipping information	■	■
Promotional Planning		
Quarterly calendar	■	
Daily calendar	■	
Awareness of statutory holidays	■	■
Tracking	■	■

Data Sources

- Bongo International – www.bongous.com
- Borderfree: www.borderfree.net
- BorderJump – www.borderjump.us
- Borderlinx: www.borderlinx.com
- Canadian Statutory holidays: www.pch.gc.ca/eng/1266346058558
- E4X (FiftyOne): www.fiftyone.com
- MyUS.com – www.myus.com

About the Author

Sally McKenzie is an e-commerce veteran with over 13 years of leadership experience in e-commerce general management, spanning strategic planning, merchandising, marketing, and operations. Her consulting practice is focused on helping companies of all sizes maximize their online selling results through sound strategies and customer-focused execution.

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Visa e-commerce cross-border handbook *for U.S. retailers*

Chapter 6: IT and operations

Chapter 6: IT and operations

Authored by: William J. Spaide and Tamy S. Butterfield, Spaide, Kuipers & Company

Introduction

The primary operating objective for any online retailer is to build and manage a customer service and fulfillment environment that delivers a superior level of service to the customer at an acceptable cost to the business. This goal is difficult for a retailer to achieve in its own domestic market, let alone in a new international market, such as Canada. For that reason, if international expansion is to succeed, the retailer must provide to its international customer a shopping experience comparable to its domestic customer's experience. This includes things like easy ordering and returning of merchandise, customer-friendly service policies, and quick, low-cost shipping options.

Sub-topics:
With a focus on the decision-making framework necessary to ensure a successful entry into the Canadian online retailing marketplace, this chapter will address three critical activities. These activities are necessary when designing, building, and managing a world-class operating environment to support a Canadian e-commerce business:

- Discovery;
- Operations planning; and
- Implementation.

Discovery

The first step in the discovery process is to establish the relevant business requirements needed to launch the new Canadian enterprise. This includes, but is not limited to, customer acquisition and traffic opportunities, multi-year sales projections, merchandise and other related product considerations, and financial and legal implications such as tax, duty, payment methods, etc. Most of these requirements are detailed elsewhere in this handbook. For the most part, this chapter will focus instead on identifying the service, operating, and system requirements that are unique to the Canadian marketplace.

Service-related Requirements

- **Localization:** Customer touch-points, including the website, contact center and other customer communication activities, should employ both French and Canadian English, i.e., color versus colour. Also, certain terminology, e.g., zip codes versus postal codes and seasonal promotional practices including "back to school" in July or t-shirt sales in the fall, should be modified for the Canadian market.

- **Communications:** When it comes to customer service contacts, Canadians prefer live online chat as opposed to emails. If Canadian enquiries are being answered outside of Canada, attention must be paid to slang, such as "ah ha" instead of yes.

- **Currency management:** Merchandise and other related costs should be displayed in Canadian dollars on the appropriate product pages and at checkout.

- **Shipping:** Customer in-stock orders should be delivered within at least five days from the time of ordering. Also, the retailer should have near real-time visibility from all transportation carriers that touch the order from the retailers dock to the final mile delivery to the customer. Also, the retailer should be able to integrate these status updates to its customer care systems and e-commerce platform.

- **Backorders:** Backorders pose a special problem when it comes to international commerce in that the delivery cost associated with the first pound of a package is very expensive while any additional pounds only incur an incremental charge. As a result, the retailer must decide whether to:
  - Fill and ship the order with only the available items and then ship the back-ordered item(s) when they become available
  - Hold the shipment until all items are available
  - Simply not allow back-ordered items to be ordered

Operations/Systems-Related Requirements

For the purposes of this chapter, it is assumed that the online retailer's order management and e-commerce platform must possess at a minimum adequate and appropriate functionality to support an online retailing business. This includes, but is not limited to, features such as the following:

- Order Management
  - Ability to support world-class customer service in an efficient operating environment
  - Receipt and processing of Web, telephone, and mail orders
  - Control of cash, credit cards, and receivables
  - Warehousing and distribution support
  - Production of picking and shipping documents
  - Reporting of inventory usage, balances, and costs
  - Identification and control of back orders and preparation of customer communications
  - Research and resolution of customer inquiries and complaints made by phone, email or mail
  - Processing of returns
  - Creation of accounting entries and other related administrative activities such as adjustments, refunds, and purchases
  - Preparation of e-commerce marketing, merchandising, inventory, operating, and financial reports
  - Supplier drop shipping to customers
  - Customer communications across multi-channel touch-points including the Web, the catalog channel, in-store sales associates, gift registries, and point-of-sale messaging
  - Exception order handling

- Web Platform
  - Personalization on "My Account"/profile/purchase history
  - Cross sell/up sell
  - Customer reviews
  - Wish lists
  - Enhanced product views
  - Guided search
  - Improved shopping cart
  - Product groupings
  - Robust product images/zoom/rotate
  - Priority to acquire contact data (e.g., promotions, newsletters, etc.)
  - Gift cards
  - Stored shopping cart
  - Guided navigation (e.g., top tabs drive left navigation detail)
  - Copy – feature and benefit
  - Creative treatment that identifies brand personality
  - Promotion types – (e.g., $ off, % off, free ship, gift card w/purchase, clearance, etc.)
  - Shipping charges estimated prior to confirmation (shipping calculator)
  - Order tracking
  - Unique channel offers (e.g., online exclusives)
  - Beyond this basic e-commerce feature set, the retailer's systems must also satisfy Canadian-specific functionality such as:

- Guaranteed landed costs: A product harmonization process must be in place that will categorize the retailer's products into specific codes as outlined in the internationally standardized Harmonized Commodity Description and Coding System or HS codes. Restricted products for an individual country should also be identified as part of the harmonization process. At the time of checkout, these codes are used to accurately calculate duties, taxes, and tariffs in the destination country and to allow the retailer to provide an accurate landed cost to the customer.

- International check-out capability: Most likely, the retailer's existing domestic shopping cart will have to be enhanced to support the international check-out requirements described elsewhere in this chapter. For example, currency management, import/export compliance, accurately quoted landed costs, etc. A common approach to satisfying these requirements has been for the retailer to acquire an international shopping cart software application. Please note that a list of suppliers of this software is provided at the end of the chapter.

Generally speaking, the leading international cart software solutions provide similar functionality. Clicking on an "International Checkout" button or, in some cases, simply by entering a foreign "ship-to" country, identifies the customer as an international customer. The contents of the retailer's shopping cart are then sent to the international cart provider's secure server. This is where the customer is presented with a series of "branded" international checkout pages that allows the customer to select the destination country, international shipping options, preferred currency, and payment method. The customer is then provided the total guaranteed landed cost for their order (including international transportation costs and any applicable duties and taxes, etc.). Once the order is completed, the order information is sent back to the retailer's order-management system.

The cart supplier will also maintain and update daily exchange rates and automatically convert merchandise pricing during the purchasing process.

- Inventory management: Depending on the volume of Canadian parcels, the cost of inbound transportation, and other order-related characteristics, (e.g., unique sizing, language-specific collateral, etc.), the retailer will have to determine whether to maintain a separate inventory for its Canadian orders. Furthermore, they will need to determine whether to ship individual consumer parcels either directly into Canada or, to ship inventory in bulk to Canada for subsequent shipment to Canadian customers.

- Transportation/logistics: For those retailers who do not intend to develop a Canadian distribution operation, they must fulfill customer orders from outside of Canada. The cost associated with international parcel delivery typically will exceed all of the other operating costs combined. That fact, combined with the time to deliver the order to the customer, will in large part determine the operating approach to be employed and quite possibly the potential viability of the expansion itself.

  Basically, the retailer has two shipping options from outside the country. The most common alternative would be to use an international logistics partner to provide logistics and transportation support into Canada. The key facts to consider when evaluating international logistics partners are as follows:
  - Use logistics partners with local market expertise and developed trade lanes that will offer lower costs with faster delivery.
  - Confirm that your logistics partner uses one of the leading Canadian transportation carriers for the "last mile" to the customer's door.
  - Look for continuity in customs clearance relationships from your partner; established, consistent relationships will facilitate injection across the border.
  - Determine if the supplier does not provide direct shipping to Canada. Instead, employ a two-step shipping process. The Canadian customer order is first shipped from the retailer's distribution center to the service provider's domestic consolidation center. At the consolidation center, the Canadian shipping paperwork is produced and attached to the package. The contents of the package are then put through a quality-control process. Finally, the package is shipped to the destination country.

Another option that retailers employ either in addition to using an international logistics provider or as its sole sell and ship solution is to partner with an international e-commerce marketplace. In this case, the customer ships the product to the domestic address of the marketplace and the marketplace assumes responsibility for the international delivery.

- Returns handling: Basically, there are several approaches to handling product returns based on the location of the retailer's distribution center that services Canada. Typically, retailers who fulfill within Canada or the U.S. will instruct the customer to ship the items in question back to the retailer's distribution center. Retailers who fulfill outside of Canada or the U.S. have two options. Customers can ship returns to a third-party Canadian warehouse facility, in which case the returned inventory can either be used to fulfill new orders when possible or consolidated and then shipped back to the retailer at specified time intervals or volumes levels. In any case, the customer credit/refund or exchange should be processed as soon as the return is received from the customer. The question of who pays for the shipping cost associated with the return (the customer or retailer) is a policy matter.

Once the service, operating, and systems requirements have been identified, the retailer must then determine if any of its existing operating and technology assets can possibly be leveraged to support the expansion. Such assets include:

- Canadian brick-and-mortar retail presence;
- Distributors;
- Third-party fulfillment or customer-support providers;
- Other Canadian-based business relationships;
- Existing Web platform;
- Order management application;
- Processes;
- Inventory; and
- Facilities and organization.

The ability for a retailer to leverage existing assets, be it either internal or third-party, will greatly reduce both the cost and the risk associated with the launch of a Canadian enterprise.

Finally, the retailer should at the conclusion of the discovery process undertake a traditional GAP analysis in an effort to document both the current and future state requirements and any operations and systems enhancements needed to support the expansion.

Operations Planning

Once the operating requirements and any existing Canadian assets that can be leveraged have been identified, the retailer would be well served to investigate a variety of operating solutions to support its expansion efforts. In developing these options, the retailer should consider a full range of operating and systems alternatives and combinations thereof. To that end, the following options represent the more typical 'go to market' approaches for retailers:

1. Upgrade the existing operational and technological infrastructure to support the business from outside of Canada.

2. Typically, this approach represents the most common choice for U.S. retailers that do not currently have a physical presence in Canada. This option involves the retailer making the necessary enhancements to its current operating environment that at a minimum will support the launch and at least one to two years of ongoing operations in Canada. At a minimum, these enhancements would include the implementation of an international shopping cart and logistics solution provider as previously discussed. With this approach, the retailer has the time to ascertain the viability of the Canadian business along with gaining a better understanding of the necessary operating and marketing requirements before having to make major investments in Canadian systems and infrastructure. It also has the potential for lower operating costs and better customer service than a third-party solution, primarily because the retailer has the ability to leverage its existing systems and operations and to maintain a single inventory. The negative considerations with this approach are longer transportation times, additional freight/duty costs, and potential customs-related delays.

   Typically, the timing and costs of this approach are dependent on the scale and complexity of the modifications to the current systems.

3. Utilization of outside service contractor(s) for any or all of the operations and/or technology activities in support of the Canadian enterprise.

   This approach is usually employed if the retailer is located outside of North America; employs third-party service providers in its domestic online business; or if the business has determined that the enhancements to the retailer's existing operation to support the Canadian undertaking will take too long or be too costly. As was the case with the first option, the retailer will be able to defer major infrastructure investments until after the viability of the Canadian launch has been determined. Most likely, this approach will also result in lower start-up costs and a faster deployment than an in-house option. Also, the retailer will have the advantage of leveraging the supplier's systems, knowledge, and experience resulting in the need for less internal resources from deployment all the way to operational maintenance. In terms of adverse implications, there are a limited number of qualified suppliers. Additionally, the retailer will have indirect control over the customer experience, and a separate inventory must be maintained in Canada. Lastly, there is the potential for financial and operational instability of the contractor.

4. Build-out of standalone Canadian-based operating capability.

   This approach will most likely require the longest lead time and the highest cost to deploy. As a result, it is usually limited to major Canadian expansion efforts, in particular with retailers that already possess some assets or experience within the Canadian market. Also, European and Asian retailers would be more likely to set up inside Canada as a result of the inbound transportation costs associated with parcel delivery to the customer. The retailer should expect to incur major capital outlays at launch and for several years down the road. Further, given the level of complexity of the deployment, the retailer should assume a 12-month lead time at a minimum.

5. Development of a hybrid solution through a combination of several options.

   It is often the case that the retailer will employ individual components of several options to build its Canadian solution. Some of the more common variations include the following:
   - Outsourcing fulfillment activities to multiple third-party suppliers, each with a specific operating specialty, such as tele-services and fulfillment;
   - Employment of a third-party supplier to provide one or more of the operating functions with the retailer retaining responsibility for the remaining activities; and
   - Joint venture with another online retailer or fulfillment supplier in which the retailer might invest in the development of a new facility and/or share in the operating costs of an existing one.

   Depending on which option is employed, the retailer will typically have more direct control over its operations and service deliverables than a “pure” outsourced solution. In addition, the one-time costs should be lower than the in-country option and the ongoing operating costs should be marginally lower than a fully outsourced solution.

Once the various options have been identified, the retailer must evaluate the attendant costs, risks, potential return, execution feasibility, and fit of each option within the retailer’s long-term vision for the enterprise.

Implementation

The implementation of an international shipping solution demands extremely close management by the retailer given the critical nature and overall complexity of the endeavor; the significant costs involved; and, the potential risk to the brand resulting from a less-than-successful implementation.

As a first step in the process, the retailer should prepare a detailed Statement of Work (SOW) for the undertaking once the operating approach has been determined. Depending on the approach that is taken, the SOW should at a minimum include the following:

- Method of handling the various customer service, fulfillment, systems, and transportation activities;
- Operating considerations such as service, staffing, and general system and equipment specifications;
- Enhancements to the Web platform and the order-management application;

- Prepare Request for Proposal (RFP) and listing of qualified third-party suppliers able to meet the requirements of the recommended approach;
- Definition of new interfaces with the Web platform, order-management application, and legacy systems;
- New contact center and distribution center facility and systems requirements;
- International payment processing, shopping cart and shipping solutions;
- Operating budget that includes:
  - One-time and capital expenses
  - Fixed and variable payroll
  - Information Technology
  - Occupancy
  - Freight in and out
  - Supplies

Next, the activities that are required to implement the recommended approach should be identified and listed in chronological order. Alongside the activities, each should be accompanied by a brief description of each task, how each will be accomplished, and by whom. Through this listing of tasks, all involved personnel will understand the scope of the implementation activity. As a result, responsibilities could be assigned and detailed schedules prepared.

A project manager should prepare and distribute a weekly progress report listing each task and showing responsibility, scheduled start and completion dates, and progress to date.

Basically, there are two critical elements of an international deployment that a retailer should focus on to ensure that the launch and subsequent processing goes well. First, choose your in-country partners wisely. Throughout the process, the retailer will need to rely on its partners to provide valuable insight. What is the best way to localize operating and service offerings while at the same time preserving the brand? Partners will provide insight into questions such as these. Second, plan on the overall process taking more time than a comparable project would normally take at "home". The distance involved, the language, and, most importantly, the level of complexity and uncertainty associated with entering a "foreign" business and cultural environment will invariably result in unplanned detours and delays along the way.

Implications

- **Financial:** The implications to the company from a financial perspective in terms of a significant investment in technology and operating infrastructure could be significant. Looking at your long-term goals and objectives for the e-commerce channel will enable your company to better gauge the financial resources required.

- **Strategic:** As with your domestic business, superior operating performance can be used as a key point of difference from your competitors. Pre/post-purchase capabilities that enable the consumer to seamlessly order products from your company and have it delivered in a timely manner could represent a strategic difference.

- **Consumer:** For the consumer, it means the company delivers a world-class level of service that meets or exceeds the customer's expectation.

Checklist

Some of the elements your firm needs to consider prior to either leveraging or building your IT or Operations infrastructure for its Canadian launch:

Table 6.1: Key Elements and Cross-border Checklist

Review of Items	Key Elements	Cross-border Emphasis Required
Discovery: Service-related requirements		
■ Localization	■	■
■ Communications	■	■
■ Currency management	■	■
■ Shipping	■	■
■ Back-orders	■	■
Discovery: Operations and systems-related requirements		
■ Order management	■	
■ Web platform	■	
■ Payment methods	■	■
■ Landed costs	■	■
■ International check-out capability	■	■
■ Returns handling	■	■
■ Inventory management	■	
■ International logistics/shipping	■	■
Operations Planning		
■ Upgrade existing technology infrastructure to support business from outside Canada	■	■
■ Whether to use outside resources to support Canadian business	■	■
■ Whether to build out Canadian operating capability		
■ Developing hybrid solutions	■	

International Checkout Vendors

- Access Technology Solutions – www.accessts.com
- Bongo International – www.bongous.com
- Borderfree – www.borderfree.net
- BorderJump – www.borderjump.us
- E4X (FiftyOne) – www.fiftyone.com
- GSI Commerce – www.gsicommerce.com
- International Checkout – www.internationalcheckout.com
- TradeGlobal – www.filltek.com
- VineGlobal Solutions – www.vineglobal.com

About the Authors

Bill Spaide, a senior partner in the firm of Spaide, Kuipers & Company, will bring to this assignment 30+ years in management consulting with a specialty in multi-channel customer service and operations in the United States, as well as Europe and the Far East. As a recognized specialist in these areas, he has lectured frequently and has authored numerous articles on these subjects. His recent clients include: Avon Products, Banana Republic, Brooks Brothers, Godiva Chocolatier, Hershey Foods, J Crew, LEGO, Mercedes Benz, NEXCOM, Payless ShoeSource, Pfizer, and Roche Diagnostics, among others.

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Tamy Butterfield was born in California. She lives and works in Canada and has dual citizenship. As a facilitator and problem solver, she's a retail industry expert in B2C, e-commerce strategy, and operations.

Visa e-commerce cross-border handbook *for U.S. retailers*

Chapter 7: customs laws and procedures

Chapter 7: customs laws and procedures

Authored by: Navin Joneja, Blake, Cassels & Graydon LLP

Introduction

Importing and selling goods into Canada can be a fruitful venture for many companies. However, this exercise is best accompanied by an understanding of Canadian customs laws and procedures and other border measures. In this chapter, we provide some background on these particular laws and how they operate, as well as a discussion of the potential benefits offered by Canada's various trade agreements and how to take advantage of these. The following topics will be covered:

Sub-topics:

- Importing goods into Canada
- Tariff classification
- Tariff treatment
- Tariff calculation
- Tariff assessment
- Country of origin markings
- Penalties for customs non-compliance
- Voluntary disclosure
- Border security and transport
- Import and export controls

Importing Goods into Canada

In Canada, the federal government regulates the importation of goods. Canadian customs law is founded on two principal statutes: the Customs Tariff and the Customs Act. The Customs Tariff imposes duties on imported goods. The Customs Act sets out the procedures that importers must follow when importing goods and specifies how customs duties payable on imported goods are to be calculated and remitted to the relevant governmental authority.

Under the North American Free Trade Agreement (NAFTA) to which the United States, Canada and Mexico are signatories, barriers to trade in goods between these three countries have largely been removed. Tariffs between Canada and the United States have generally been eliminated since January 1, 1998. In the case of Mexico, tariffs on most goods were eliminated by January 1, 2003.

In order for goods to be eligible to take advantage of NAFTA, they must satisfy certain "rules of origin," which require a certain level of North American value-addition. These sophisticated rules are based on changes in tariff classification and/or regional value content, the latter being calculated by either transaction value or the net cost method. Goods that do not meet these requirements will remain subject to Canadian, U.S. or Mexican tariffs. Foreign-owned Canadian companies can take full advantage of the liberalized rules, as their application does not depend on the ownership of the business. In the case of services, the provisions of NAFTA are generally open to enterprises of other NAFTA members, even if controlled by non-NAFTA nationals, so long as the enterprise has some substantive business activities (i.e., is not merely a shell).

The following is a discussion in greater detail of the particular steps involved in importing goods and the relevant laws applicable to cross-border transactions.

Tariff Classification

All goods imported into Canada are subject to the provisions of Canada's customs laws, including the provisions of the Customs Act and the Customs Tariff. To determine the rate of duty, if any, applicable on the imported goods, the goods must be classified among the various tariff items set out in the List of Tariff Provisions of the Customs Tariff. Canada is a signatory to the Harmonized Commodity Description and Coding System, to which the United States is also a party. Therefore, tariff classifications up to the sixth digit should be identical between Canada and the United States.

Tariff Treatment

Once the tariff classification of imported goods is determined, the List of Tariff Provisions indicates opposite each tariff classification the various tariff treatments available in respect of the goods, depending on their country of origin. Where no preferential tariff treatment is claimed, the Most Favored Nation (MFN) tariff treatment applies.

However, as a result of Canada's participation in several bilateral, plurilateral and multilateral trade agreements in recent years, various preferential tariff treatments are available to goods from certain countries. For example, all customs duties on goods originating in the U.S. have been eliminated pursuant to NAFTA.

There are similar tariff reductions in other Free Trade Agreements that Canada has entered into (e.g., with the European Free Trade Association, Chile, Costa Rica, and Israel). Moreover, the General Preferential Tariff (GPT) treatment provides partial duty relief to goods originating in certain developing countries, including China and India. To claim one of the preferential rates of duty, the importer must establish that the goods qualify for the claimed treatment pursuant to the relevant rules of origin and that proper proof of origin is obtained, usually from the exporter.

Tariff Calculation

The amount of customs duties payable on any importation is a function of the rate of duty (as determined above) and the valuation of the goods. This is because most of Canada's tariff rates are imposed on an ad valorem (or percentage) basis. In Canada, the primary method for customs valuation is the "transaction value" system, under which the value for duty is the price paid for the goods when sold for export to a purchaser in Canada, subject to specified adjustments. A non-resident may qualify as a "purchaser in Canada" where the non-resident imports goods for his own use and not for resale, or for resale if the non-resident has not entered into an agreement to sell the goods prior to its acquisition from the foreign seller. Otherwise, customs duties will be based on the sale price charged by the non-resident seller to the customer who is resident, or who has a permanent establishment, in Canada. The transaction value method may not be available in certain other circumstances, such as where the buyer and seller do not deal at arm's length. In such circumstances, other valuation methods will be considered in the following order: (1) transaction value of identical goods; (2) transaction value of similar goods; (3) deductive value; (4) computed value; and (5) residual method.

The transaction value method, if applicable, begins with the sale price charged to the purchaser in Canada. However, the customs value is determined by considering certain statutory additions, as well as permitted deductions. For instance, selling commissions, assists, royalties, and subsequent proceeds must be added to arrive at the customs value of the goods. The value of post-importation services may be deducted from the customs value of the goods.

If the importer's goods originate primarily from suppliers with whom the importer is related and the importer wishes to use the transaction value method of valuation, the importer is frequently requested to demonstrate that the relationship did not influence the transfer price between the importer and the vendor. In such a situation, documentation may be required to establish that the transfer price was acceptable as the transaction value.

Tariff Assessment

Canada has a self-assessment customs system. This means that importers and their authorized agents are responsible for declaring and paying customs duties on imported goods. In addition, as a result of recent changes to the Customs Act, importers are required to report any errors made in their declarations of tariff classification, valuation or origin when they have "reason to believe" that an error has been made. This obligation lasts for four years following the importation of any goods. The Act imposes severe penalties for non-compliance with this and other provisions, up to Cdn.$25,000 per occurrence for listed instances for non-compliance.

"Country of Origin" Markings

In accordance with regulations made pursuant to the Customs Tariff, certain goods to be imported into Canada must be marked with their country of origin. The regulations set out a list of all imported goods that require country of origin marking. If particular goods are not included in the list, no country of origin marking is required. There are two sets of regulations that are applicable depending on the place of shipment of goods intended for importation into Canada. In the case of goods imported from a NAFTA country, the relevant regulations base the determination of origin on the basis of tariff shift rules, which are in turn dependent on the tariff classification of components and the finished product. In the case of goods imported from any country other than a NAFTA country, the country of origin is the country in which the goods were "substantially manufactured."

Penalties for Customs Non-compliance

Where a person has failed to comply with the provisions of the Customs Act, the Canada Border Services Agency is authorized to take several enforcement measures, including seizures, ascertained forfeitures, or the imposition of administrative monetary penalties.

Seizures and ascertained forfeitures are applied to the more serious offenses under the Customs Act, such as intentional non-compliance, evasion of customs duties, and smuggling.

Since October 7, 2002, importers are liable for penalties of up to Cdn.$25,000 per contravention in accordance with the customs administrative monetary penalty system (AMPS). Under the AMPS, importers may be held liable for penalties ranging from a warning, flat rate amount, or amount based on the value of the goods in question. In addition, the penalties are increased for repeat offenders. The Canada Border Services Agency maintains a “compliance history” for each importer. Each contravention is included on the importer’s compliance history and is purged after one year and in some cases after three years.

Voluntary Disclosures

Companies that become aware that they have contravened Canadian customs legislation, provided the time periods to use the corrective mechanisms in the Customs Act have expired, may make a voluntary disclosure in order to be relieved of potential penalties and interest arising from an instance of non-compliance. The purpose of the voluntary disclosures program is to promote voluntary compliance with the accounting and payment of duty and tax provisions under the Customs Act, Customs Tariff, Excise Tax Act and Income Tax Act. To qualify, companies must come forward "in good faith” to voluntarily disclose past omissions and errors.

In order for the voluntary disclosure to be “valid,” it must be made voluntarily (e.g., before any enforcement or verification activities are undertaken by authorities). Also, it must be complete, must involve at least one penalty, and must not be part of a pattern of non-compliance or an attempt to avoid legal obligations. Finally, the existing corrective mechanisms must not apply.

Companies that have made a voluntary disclosure are required to pay the duties and taxes owing on the imported goods plus interest. The interest charge payable will be calculated at the prescribed rate as opposed to the higher specified rate.

Border Security and Transport

To keep pace with security measures adopted in the U.S., Canada has imposed a number of border security measures that impact the transportation of goods between the two countries. For instance, the Canada Border Services Agency has implemented the Partners in Protection (PIP) program that is the Canadian equivalent of the U.S. Customs-Trade Partnership Against Terrorism (C-TPAT) to strengthen the security of supply chains. Participating in the PIP program allows for more efficient customs processing of shipments.

In addition, PIP participants may be eligible to participate in the Free and Secure Trade (FAST) program, which is a joint initiative between the U.S. and Canada to make cross-border shipments simpler and reduce delays, while enhancing security. The FAST program allows pre-approved goods to move across the U.S/Canada border more quickly by verifying trade compliance away from the border. Certain lanes at border-crossings are devoted exclusively for FAST participants.

There are a number of other initiatives underway to reduce border-crossing delays while enhancing security for trade between Canada and the United States.

Import/Export Controls

Canada restricts the import and export of certain goods by regulations enacted pursuant to the Export and Import Permits Act. In particular, Canada restricts the export of specified products, primarily for security reasons, under the Export Control List. Through the Area Control List, Canada restricts exports to certain countries (namely, Myanmar [Burma] and Belarus). These controls are based on several international agreements to which both Canada and the U.S. are a party. Therefore, the controls are largely similar, though not identical.

There is also an Import Control List, which imposes restrictions on the importation of specified goods that primarily relate to certain agricultural and food products that are part of Canada's agricultural supply-management system and goods made from endangered species.

To import or export goods that are subject to such controls, a permit authorizing the particular import or export must be obtained through the Department of Foreign Affairs and International Trade. Depending on the specific goods, it may be necessary to obtain additional permits from other government departments (e.g., from Natural Resources Canada, Health Canada, or Environment Canada).

In addition, in relation to exports of defense articles and services to Canada for end-use in Canada, the U.S. International Traffic in Arms Regulations (ITARs) that regulate export and licensing of certain defense articles and services from the United States, contain a limited exemption for a "Canadian-registered person" for which registration under the Canadian Defence Production Act is required.

Implications

- **Financial:** The financial implications of non-compliance with the rules governing the importation of products could be substantial, including monetary fines to the company and/or the seizure of products. The financial impact of such fines and seizures, including the monetary value of the fines or products seized, expenses involved in resolving the issue and costs of supplying alternate products to the customer if required, could all impact the bottom line of the company.

- **Strategic:** The strategic implications for a company that does not comply with these legal requirements is that the company runs the risk of financial detriment due to the fines or seizures, reputational harm if such non-compliance occurs frequently and becomes public knowledge, and long-term adverse effects on customer relationships if there are regular delays in supplying customers due to non-compliance with relevant legislation.

- **Consumer:** From a consumer perspective, if a company repeatedly runs afoul of the legal requirements and this becomes known to customers, the customers may raise concerns as to the reliability of the product as well as the company. Over the long-term, this would be detrimental to the company, as it would damage customer relations and the company's reputation in the industry.

Checklist

To recap, the legal considerations your company should take into account as it embarks on an e-commerce program that involves importation of products into Canada are, as in Table 7.1.

Table 7.1: Key Elements and Cross-border Checklist

Review of Items	Key Elements	Cross-border Emphasis Required
Importing goods into Canada	■	■
Tariff classification	■	■
Tariff treatment	■	■
Tariff assessment	■	■
"Country of origin" markings	■	
Penalties for customer non-compliance	■	
Voluntary disclosure	■	
Border security and transport	■	■
Import and export controls	■	■

Data Sources

- Consolidated Customs Tariff: www.cbsa-asfc.gc.ca/trade-commerce/tariff-tarif/2009/01-99/tblmod-eng.html
- CBSA Customs Memoranda (on various topics) available at: www.cbsa-asfc.gc.ca/publications/dm-md/menu-eng.html
- CBSA Checklist for Importing Commercial Goods: www.cbsa-asfc.gc.ca/publications/pub/bsf5034-eng.html
- CBSA Guide on Importing Commercial Goods into Canada: www.cbsa-asfc.gc.ca/publications/pub/bsf5079-eng.html
- Export and Import Controls Bureau website: www.international.gc.ca/controls-controles/index.aspx
- Export and Import Controls Bureau, website on Import Controls: www.international.gc.ca/controls-controles/about-a_propos/impor/permits-licences.aspx?menu_id=13&menu=R
- Information on the Partners in Protection (PIP) border security program: http://cbsa-asfc.gc.ca/security-securite/pip-pep/
- Information on the Free and Security Trade (FAST) program: www.cbsa-asfc.gc.ca/prog/fast-expres/

About the Author

Navin Joneja, a Partner in the Competition, Antitrust & Foreign Investment Group at Blake, Cassels & Graydon LLP, has expertise in representing foreign-based businesses seeking to invest in Canada. His practice entails providing advice on corporate competition law compliance programs and developments in international antitrust/competition law matters.

Navin secured regulatory approval under the Investment Canada Act for several high-profile transactions, and comments frequently on legal and policy developments in the area of foreign investment in Canada.

Navin has advised on international trade and business regulation issues including: domestic and international trade litigation, foreign market access, export controls and anticorruption laws.

Visa e-commerce cross-border handbook *for U.S. retailers*

Chapter 8: legislative

Chapter 8: legislative

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Introduction

This chapter outlines the various regulatory issues that U.S. retailers need to consider prior to implementing and launching their online website for Canada. The following topics will be covered in this chapter.

Sub-topics:
- Online agreements
- Online pricing errors
- Consumer protection issues
- Privacy issues
- Spam
- Appropriate copyright notices
- Domain name disputes

Online Agreements

When dealing with customers in an e-commerce environment, the fact that an online agreement is entered into as opposed to a paper-based agreement does not vitiate the need for adherence to basic contract principles. Failure to address the ordinary contract principles in your online agreement may result in your agreement not being enforceable.

In particular, your marketing and legal team should ensure that your online agreement form addresses the following issues:

- Customer consent regarding the use or acceptance of electronic documents for conducting business; and
- Your customer's acceptance of the terms of the contract must be clear and unequivocal.

The most common approach is to require the customer to read the terms of the contract and then click on an "I Agree" option to confirm that the customer has read and agreed to such terms.

When using this form of "click-wrap" agreement, the "I Agree" option should not be available to the customer and the customer should not be permitted to proceed to the check-out page prior to scrolling through all of the terms.

In addition, the company should ensure that adequate notice is brought to the customer's attention regarding any special terms that are particularly onerous from the customer's perspective. For example, if all sales are final and no refunds or credits are available, such an onerous term should be highlighted or some other method should be used to ensure that the customer is aware of it.

Failure to bring adequate notice of onerous terms to the customer's attention could result in subsequent complaints and challenges that the online agreement is not enforceable.

Courts have also upheld the enforceability of "browse-wrap" agreements, which involve customers signing an agreement allowing the retailer to amend the terms at any time by posting amendments online. Notwithstanding this practice, when dealing with repeat customers, a better approach is to require the customer to scroll through and read the terms and conditions, prior to the first purchase. Included in these terms and conditions would be a clause such that their agreement thereof would apply to all future purchases. If the terms and conditions change over time, the customer should not be permitted to make additional purchases until the customer is made aware of and agrees with the updated terms and conditions.

Online Pricing Errors

Pricing mistakes have long been a hazard that retailers strive to minimize. Although pricing errors happen from time to time in all retail businesses, given the size, scope and accessibility of an e-commerce environment, pricing errors can be particularly harmful to online retailers. For example, there have been instances in which products (e.g., computers) have been mistakenly listed on a retailer's website for well below the actual retail price. If honored, this would result in significant losses for the company.

How then, does a retailer attenuate these mistakes?

A suggested approach is to structure your online purchasing model so it is made clear to the customer up front that although every reasonable effort is made to ensure the accuracy of the prices listed on the website, the prices are subject to error and that you reserve the right to correct prices at any time.

In addition, it would be prudent to insert a clause in the terms and conditions that provides that the company has the right not to complete sales at erroneous prices. For example, language similar to the following may be one of the terms and conditions of your online agreement:

"All prices and specifications are valid in [name of applicable country] only and subject to error and change without notice. ABC Inc. will not sell products at prices that are listed on the website in error and ABC Inc. reserves the right to correct the prices and specifications on the website at any time."

Finally, as the laws in different jurisdictions will vary in terms of how contract principles relate to pricing mistakes, your legal team can provide guidance with respect to the most preferable jurisdiction to use for the law that governs the online agreement as well as the most appropriate forum for any disputes.

Consumer Protection Issues

As your company's website will no longer have borders in this environment, you should be aware that various jurisdictions will have different and distinct consumer protection legislation in place. Therefore the company will need to consult with its legal team to become sensitized to the local issues and take appropriate steps to comply.

Generally speaking, consumer protection legislation will require that specific information be disclosed before the consumer enters into the online agreement, that such disclosure is clear and comprehensible and that the consumer is able to retain and ultimately print the information.

Although the specific information required to be disclosed may vary from jurisdiction to jurisdiction, you should ensure that your disclosure includes at a minimum, the following:

- Your company's name and, if different, the name under which your company carries on business.
- Your company's telephone number, the address of the premises from which your company conducts business, and information respecting other ways, if any, in which your company may be contacted by the consumer, such as your company's fax number and email address.
- A fair and accurate description of the goods and services proposed to be supplied to the consumer, including the technical requirements, if any, related to the use of the goods or services.
- An itemized list of the prices at which the goods and services are proposed to be supplied to the consumer, including taxes and shipping charges.
- A description of each additional charge that applies or may apply, such as customs duties or brokerage fees, and the amount of the charge if you can reasonably determine it.
- The total amount that will be payable by the consumer under the agreement or, if the goods and services are proposed to be supplied during an indefinite period, the amount and frequency of periodic payments.
- The terms and methods of payment.
- As applicable, the date or dates on which delivery, commencement of performance, ongoing performance, and completion of performance are expected to occur.
- For goods and services that are to be delivered, particulars regarding the destination to which they are to be delivered.
- If the company will be delivering products in a particular manner and intends to charge the consumer for delivery, it needs to specify the manner in which the goods and services will be delivered, including the name of the carrier, if any, and including the method of transportation that will be used.
- The rights, if any, that the company agrees the consumer will have in addition to the rights under applicable legislation and the obligations, if any, by which the company agrees to be bound in addition to obligations under the applicable legislation in relation to cancellations, returns, exchanges and refunds.
- If the agreement is to include a trade-in arrangement, a description of the trade-in arrangement and the amount of the trade-in allowance.
- The currency in which amounts are expressed.
- Any other restrictions, limitations, and conditions that the company intends to impose on your customer.

In addition, your company should also give consumers express opportunities to accept or decline an agreement in order to correct errors immediately before entering into it. Depending on the applicable jurisdiction, failure to disclose the proper information to the consumer or to give the consumer an express opportunity to accept or decline may result in the consumer being able to cancel an online agreement for a period of time.

Immediately after entering into an agreement with a consumer, a copy of the agreement should be given to the consumer. This can be accomplished in electronic form by email, provided that it is accessible so as to be usable for subsequent reference. In some jurisdictions, if a copy is not provided, a consumer may cancel an online agreement within a certain period of time.

Privacy Issues

Many jurisdictions have enacted legislation that is designed to support and promote e-commerce by protecting personal information that is collected, used or disclosed in commercial activities. The main principle behind such privacy protection legislation is that an individual's knowledge and consent are required for the collection, use or disclosure of his or her personal information except in specific exceptions such as law enforcement or emergencies.

As an e-commerce retailer, your organization will likely collect personal information in order to bill the customer for the initial and subsequent online transactions and to build a customer profile with respect to future marketing opportunities. Therefore, the company should take the appropriate steps to address the following main privacy principles:

- **Accountability** – Your company is responsible for personal information under its control and should designate an individual or individuals who are accountable for your organization's compliance with these principles.
- **Identify the purpose for which personal information is collected** – The company needs to clearly identify the purposes for collecting personal information at or before the time the information is collected.
- **Obtain consent** - The knowledge and consent of the individual consumer are required for the collection, use or disclosure of personal information, except when inappropriate.
- **Collection should be limited to the extent necessary or desired from the perspective of the consumer** – The collection of personal information should be limited to that which is necessary for the purposes you identify and the consumer agrees to.
- **Use, Disclosure and Retention should be limited** – The company should not use or disclose personal information for purposes other than those for which it was collected, except with the consent of the individual or as required by law. Your company should only retain personal information as long as necessary for the fulfillment of those specific purposes.
- **Ensure accuracy** – To the extent possible, your organization should ensure that the personal information that is collected is accurate, complete, and up-to-date as necessary for the purpose for which it is to be used.
- **Use appropriate safeguards** – Your company needs to employ security safeguards commensurate with the level of sensitivity of the personal information you collect.

- **Be open** – Your company needs to make readily available to its consumers, specific information about its policies and practices relating to the management of their personal information.
- **Give individuals access** – Upon request from a consumer inquiring about personal information the company maintains, that individual should be informed of the existence, use and disclosure of his or her personal information and should be given access to that information. In addition, that individual should be able to challenge the accuracy and completeness of the information and have it amended as appropriate.
- **Challenging compliance** – Your company should enable consumers to address challenges concerning compliance with applicable privacy laws and your privacy policy to the individuals in your organization responsible for such compliance.

When implementing your Canadian website, if you have not already done so, your first steps toward compliance with applicable privacy legislation should be to:

- Arrange for a privacy audit;
- Appoint a Chief Privacy Officer;
- Establish and draft a privacy policy in clear and unambiguous language;
- Establish an appropriate "opt-in" mechanism to obtain consent; and
- Implement appropriate safeguards to protect personal information you collect.

In addition, your organization should also:

- Properly train employees involved with its e-commerce program regarding the company's privacy policy.
- Develop a procedure to handle personal information access requests or complaints.
- Develop a contingency plan to deal with complaints regarding collection, use, and disclosure of personal information or breaches of applicable privacy legislation or your privacy policy.

Spam

As discussed above, it is important to obtain your customer's informed consent in order to use his or her personal information. One such example is using personal information (i.e., the customer's email address) to provide the customer with marketing materials, news about upcoming sales, etc.

A suggested practice is to clearly obtain "Opt in" consent for the communication of such emails and their content to your customers. This is typically achieved by having the customer check an online box indicating that they wish to receive certain types of electronic correspondence, which you should clearly describe. Such an approach should also be documented in your organization's privacy policy.

As consumers are increasingly becoming annoyed with spam (i.e., unsolicited commercial emails) and given that various jurisdictions acknowledge such concerns by enacting anti-spam legislation, your legal team should be consulted to ensure that you are acting in compliance with any applicable anti-spam legislation. Typically, such legislation will prohibit the sending of commercial email messages to an email address unless the recipient has either expressly or impliedly consented to such correspondence.

Furthermore, when sending email to your customers, the messages should be in a form that clearly identifies your organization as the sender, provides only the type of information requested by the customer pursuant to his or her "opt-in" consent, enables your customer to readily contact you, and sets out a mechanism pursuant to which your customer can unsubscribe.

Appropriate Copyright Notices

When populating your website with product information and images, your company should ensure that appropriate copyright notices are maintained and that you do not inadvertently infringe any party's intellectual property rights.

Domain Names

A well-recognized domain name is part of any successful e-commerce program. Consideration should be given to registering domain names that have the same root but a different top level domain. For example, if your website is "abc.com," it may be worthwhile to consider registering "abc.ca" and "abc.net" and cross-referencing the addresses so that any visitors that do not know the correct website address but make an intuitive guess as to the domain name will ultimately end up at your website. This practise also serves to preclude "cybersquatters" from registering similar domain names with your trademarks as part of the domain name, which could confuse the public and have negative effects on your brand.

In the event that a third-party has registered a domain name based on a trademark of your organization, you should consider whether it is an abusive registration that warrants initiating administrative proceedings to require the domain name registrar to cancel, suspend or transfer the domain name.

Finally, it is prudent to ensure that the domain name is registered for a significant period of time and that appropriate systems are in place to re-register the domain name prior to expiry.

Implications

- **Financial:** The financial implications for not complying with the legislation that govern the various topics discussed could be substantial. The nature of the Web enables consumers a plethora of options to obtain the products and services they want and need, and if your company is not adhering to some of the basics (e.g., privacy), they will fulfill those needs at a retailer who they trust.

- **Strategic:** Strategically, the reputation of the brand is at stake. Once the website is up and running, if your company chooses to not adhere to these rules, the likelihood that such information may become public is high. Once in the public realm, the damage to your company's reputation and the brand can be detrimental to its long-term goals.

- **Consumer:** From a consumer perspective, companies who do not protect their privacy or honor commitments (e.g., pricing errors) run the risk of a significant backlash from the online population. The backlash can be financial in the form of consumers not wanting to shop at the site, for fear that their information is being used inappropriately and to the reputation of the company.

Checklist

To recap, the regulatory considerations your company needs to take into account as it embarks on a program for the Canadian market includes:

Table 8.1: Key Elements and Cross-border Checklist

Review of Items	Key Elements	Cross-border Emphasis Required
Online agreements are in place	■	■
Online pricing policies	■	■
Consumer protection policies	■	■
Privacy policies	■	■
Appropriate copyright policies	■	■

About the Author

Jack Tannerya is a Toronto business law partner with the Canadian national law firm of Miller Thomson LLP. In addition to advising clients on corporate and commercial issues, Jack has a particular focus on information technology and privacy-related matters. Jack regularly advises an entire range of clients including new ventures, owner-operated concerns, national chain stores and city improvement projects with respect to website issues, information technology-related procurement matters, e-commerce implementation issues and privacy legislation compliance issues.

Jack has particular experience in advising clients regarding domain name disputes and effecting the removal of defamatory websites. In addition to assisting clients with commercial matters dealing with e-commerce and information technology, Jack also has particular experience in assisting clients in responding to requests for proposals. Recently, Jack advised and assisted a computer assets value-added reseller regarding the preparation of a response for a large dollar value request for proposal. With Jack's assistance, the client was awarded an exclusive contract to supply and service the hardware assets of a national department store.

Visa e-commerce cross-border handbook *for U.S. retailers*

Chapter 9: cross-border payments

Chapter 9: cross-border payments

Authored by: Stephanie Wallat, Visa Canada

Introduction

Expanding your operations to participate in cross-border e-commerce will allow consumers from Canada to shop at your website, but it does involve accepting payment types used by these consumers. This chapter assumes that you will not set up an online presence in the local country—at least in the short term. While fairly straightforward, there are a few key considerations that will impact the customer experience in different ways.

Subtopics

Accepting Payments from Canada

- Payment methods
- Multiple Currencies
- Taxes, Customs, Duties, Shipping
- Accepting Canadian Payments
- Risk Management
- Chargebacks
- Best Practices

Payment Methods

As a first step, you will need to determine what forms of Canadian payment to accept while keeping it easy and convenient for your new customers. The primary method of online payment for Canadians is still credit cards. Nielsen research showed that 79% paid for online shopping with a credit card followed by alternative payments,[1] although soon Canadians will have the ability to pay online worldwide with their new debit cards from the card schemes. Research that Visa co-sponsored in 2007 on e-commerce and social media in Canada also showed similar online payment behavior.[2] Accepting Canadian credit and debit cards will be seamless if you already accept these payment types today. For other payment types, you will need to check with your payment services provider.

In order to accept payments from Canadian consumers, you will need to amend your online checkout to accommodate for the address differences. The “bill to” and “ship to” addresses must include the Canadian postal code format (alpha-numeric), Canadian provinces/territories instead of states and the country Canada. If you do not already have Address Verification Service (AVS) in place, it is recommended that you add this tool as part of your online security strategy as discussed in the following fraud management and security chapter.

[1] Online Shopping: A Canadian Perspective, Nielsen Global Omnibus survey, 2008

[2] E-commerce and Social Media in 2007: A Canadian Perspective, A study sponsored by Visa and Yahoo Canada! and prepared by the J.C. Williams Group

Similar to how you communicate the accepted payment methods to your U.S. customers on your website, clearly indicate the same for your Canadian customers. For added consumer confidence, you may want to include information about the security measures in place on your website as well as those used during the checkout to help provide assurance that their payment information is safe and secure.

Multiple Currencies

You will need to decide whether to localize your website to allow your Canadian customers to pay in their local currency or to keep everything in U.S. dollars.

While Canadian consumers prefer localized websites, accepting foreign currencies is more involved and requires not only website changes (from providing pricing in local currency to the design of the web pages), but also system changes on the back end. For more information, contact your acquirer/payment processer.

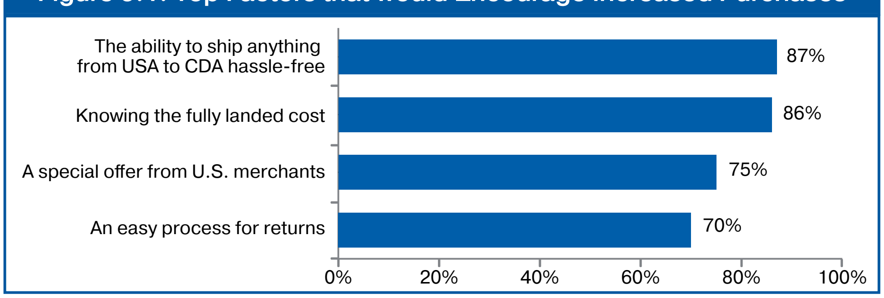
Some considerations to keep in mind include consistency of pricing between Canada and the U.S. and presenting only one currency to your Canadian customers. Although the Canadian dollar fluctuates against the U.S. dollar, as the CAD dollar nears par, Canadians expect similar pricing. By presenting pricing in Canadian dollars, it does require regular updates to account for currency fluctuations, but these should be done on the back end to minimize any customer impact.

Accepting card payments only in U.S. dollars, the actual cost of goods your international customers pay will depend upon the foreign exchange rates at the time of purchase plus any additional conversion fees, such as any assessed by their card Issuer, which they will then see on their monthly statement. You can also check whether your payment services provider can perform currency conversion at the time of settlement.

Taxes, Customs, Duties, Shipping

Before asking for payment, you will still need to choose whether you will show your Canadian customers the fully landed cost of their purchase, including the appropriate Canadian federal and provincial/territorial goods and services taxes (GST, PST, or HST) as well as the customs and duties that apply to the items in addition to the shipping cost. Canadian consumer preference is for full transparency as it helps in their purchasing decision. In a recent survey, 86% of respondents agreed that knowing the fully landed cost would help to increase their cross-border purchases as identified in Figure 9.1 below.

Figure 9.1: Top Factors that would Encourage Increased Purchases



Ipsos Reid Online Omnibus Survey for Visa Canada, Oct.–Nov. 2009

Anecdotal stories abound from Canadian cross-border shoppers being asked by the shipper to pay anything from a nominal amount up to the full cost or more of their purchase in customs and duties fees (on top of the amount already paid for the purchase to the merchant) when their order is delivered to their door. The sticker shock has resulted in many deliveries being returned and the Canadian shopper hesitating to make any further online cross-border purchases due to the negative experience.

Calculating the required Canadian customs and duties can be quite complex so you may want to use a third-party that specializes in these areas. Many fulfillment, logistics and shipping firms also include this as one of the many services they offer to retailers. For more information on exporting goods into Canada, a good place to start is by reviewing Chapter 7: Customs Laws and Procedures and visiting the Canada Border Services Agency website at www.cbsa-asfc.gc.ca/import/menu-eng.html. Chapter 6 also provides a list of some of the International checkout vendors.

Third parties can also calculate the appropriate Canadian federal and provincial/territorial goods and services taxes that need to be applied to U.S. purchases depending on where the Canadian consumer resides. If you decide to do this internally, it is important to note that there are different provincial/territorial rates in addition to the government goods and services tax. And some provinces/territories have or are moving towards a harmonized sales tax (HST) between the two. More information on these can be found at the end of this chapter.

The cost of shipping is another factor in the Canadian consumer's decision-making process when conducting a cross-border purchase. Canadians understand that shipping will be an additional amount to their purchase, but expect it to be reasonable. Mark-ups on the shipping should be avoided as high shipping costs can result in online purchases being abandoned.

If a third-party vendor is used, it's always best to clearly indicate this on your website and explain the nature of the relationship, (i.e., whether the vendor takes care of everything on your behalf or handles only the shipping and returns), as this will determine whether the Canadian consumer makes one payment in full to you the retailer or if another payment is required to the vendor for shipping across the border.

Accepting Canadian Payments

There are different processing fees associated with accepting international payments. While continuing with your local acquirer/processing relationship helps to keep operations simple by not having to set up shop in each and every country, it may involve other fees. Your payment services provider can outline these in more detail for you. The potential for obtaining new customers and additional sales ongoing can far outweigh the costs of conducting business internationally.

Fraud Management

Accepting international payments brings new risks. Statistics continue to show that cross-border payments have higher fraud. You can take a few steps to help mitigate these risks to increase your online sales. While explained in more detail in Chapter 10, a good practice is to monitor and adjust your fraud strategies to account for different patterns between domestic and cross-border payments. More information on fraud management and best practices is available from your acquirer/processor, the card brand schemes and industry solution providers.

Related to managing payment fraud are the various card fraud monitoring programs. In addition to the domestic programs, there may also be cross-border programs. Contact your payment services provider for more information about these programs and the various fraud mitigation tools/services from the card brands (e.g., AVS, CVV2 and payer authentication, which comes with liability shift) and vendors in the industry to provide you with a layered security approach.

The processes for chargebacks and returns for accepting payments from Canada should be similar to your domestic practices.

Chargebacks and Returns

You should become familiar with the chargeback representment rights associated when using various payment card fraud tools and services. For example, with Visa's international address validation service (IAVS), it can only be used to confirm addresses if the card Issuer supports this tool, which all Canadian Visa Issuers do. If you submit an address outside the U.S., you will receive the response message "G" for Global. In such cases, you should take further steps to verify the address. You will be liable for any chargebacks if you accept the transaction, even if the card issuer approves it. You can work with your merchant bank to ensure that all supporting evidence for the representment is submitted.

Merchants that use payer authentication services, such as Verified by Visa or MasterCard SecureCode, are protected by their merchant bank from receiving certain fraud-related chargebacks, provided the transaction is processed correctly. If you do not participate at this time, more information is available from your acquirer/processor or at www.visa.com/verified merchants.

Chargeback Monitoring

In addition to the payment card domestic chargeback monitoring programs, there may also be global chargeback monitoring programs. Check with your acquirer/processor for more information.

PCI DSS

All merchants must comply with the current Payment Card Industry Data Security Standards (PCI DSS) requirements regardless of whether the transaction is domestic or international.

Best Practices

- Accept the most widely recognized payment methods used by your international customers
- Be consistent in your pricing if you have separate U.S. and Canadian websites
- Clearly indicate what currency international consumers will be using to pay for their purchases
- Provide the full landed costs (taxes, customs, duties, shipping) as early as possible in the checkout
- Apply the same due diligence and payment management practices to cross-border transactions as you would domestic
- Centrally manage your payment platform, infrastructure and operations

Implications

- **Strategy:** How you present your website to Canadian customers and the level of transparency you provide will impact their shopping experience and ultimately your return on investment when you expand your online business outside the U.S.

- **Financial:** The implications of making minimal changes to accept international payments versus providing a separate Canadian website (e.g., local pricing, transaction currency, fully landed costs) can vary quite significantly. The level of complexity involved will determine which path you undertake (develop in-house or outsource to a third-party), but they must be aligned with your overall strategy and financial goals to be successful.

- **Consumer:** Providing a better shopping experience for Canadians and payment options that they are both familiar and comfortable with will ultimately lead to new customer acquisition and sales.

Checklist

Table 9.1: Key Elements and Cross-border Checklist

Review of Items	Key Elements	Cross-border Emphasis Required
Payment Methods		
■ Credit and debit cards	■	■
■ Alternative payments	■	
■ Address fields	■	■
Multiple Currencies		
■ Website localization		■
■ Pricing	■	■
Customs, Duties, Taxes		
■ Local customs and duties		■
■ Local taxes	■	■
■ Shipping	■	■
Cross-border Acquiring		
■ International fees		■
Risk Management		
■ Card brand tools	■	■
■ Vendor tools	■	■
■ In-house expertise	■	■
Chargebacks	■	■

Data Sources

- E-Commerce and Social Media Study: A Canadian Perspective: www.visa.ca/en/merchant/pdfs/Visa-Yahoo-JCWG-Ecom-Social-Media-Study-Summary-2007.pdf
- Visa e-Commerce Merchants' Guide to Risk Management: http://usa.visa.com/download/merchants/visa_risk_management_guide_ecommerce.pdf
- Card Acceptance and Chargeback Management Guidelines for Visa Merchants: http://usa.visa.com/download/merchants/card_acceptance_guide.pdf
- Canada Revenue Agency: www.cra-arc.gc.ca/tx/bsnss/tpcs/gst-tps/rts-eng.html
- Canadian Provincial/Territorial Government Sites: www.cra-arc.gc.ca/tx/bsnss/prv-lnks-eng.html?=slnk
- Canada Border Services Agency: www.cbsa-asfc.gc.ca/import/menu-eng.html
- The Nielsen Company: www.ca.nielsen.com

About the Author

Stephanie Wallat is a Business Leader for e-commerce and Authentication at Visa Canada, where she is responsible for market acceptance of e-commerce platform initiatives (including cross border) and online security technologies and authentication programs. Stephanie also oversees the strategy development and implementation of initiatives in support of Visa's global e-commerce and authentication programs and works closely with Issuers, merchants, their acquirers/processors and other service providers in Canada.

Stephanie, who joined Visa Canada in 2006, has an extensive background in the IT industry managing strategic alliances, client and partner programs and marketing at companies such as Hewlett-Packard, Oasis Technology (a payments software solutions provider) and Hummingbird Communications.

Visa e-commerce cross-border handbook *for U.S. retailers*

Chapter 10: fraud management and security

Chapter 10: fraud management and security

Authored by: Paul Brock, CyberSource Corporation

Introduction

To understand how to approach online fraud management for the Canadian market, it is first useful to understand key, end-to-end process metrics. These below are derived from CyberSource Corporation's annual survey of online fraud among U.S. and Canadian merchants. Following that discussion, we'll discuss general best-practice approaches and how the nuances of the Canadian market impact the tuning and application of these practices for Canadian orders.

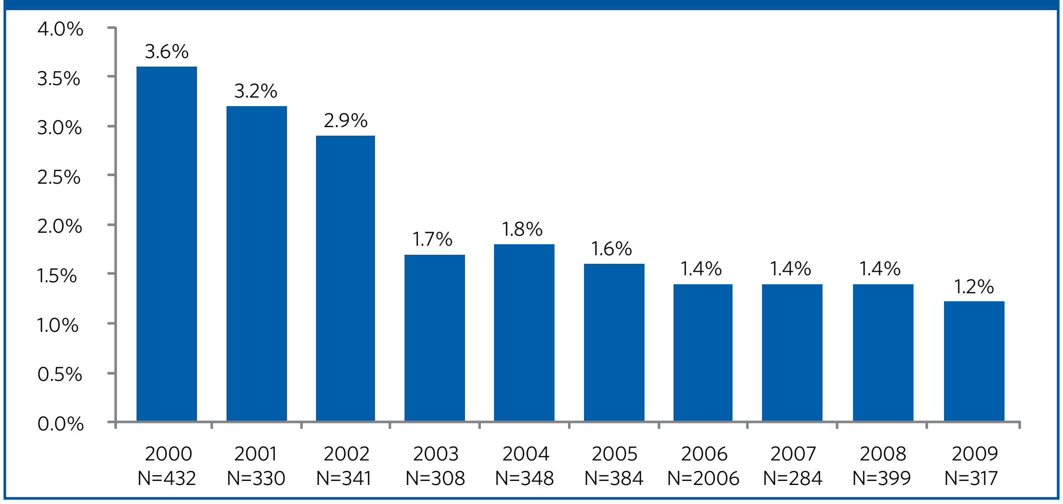
Sub-topics:

- Key metrics
- Validation services
- Canadian market: unique factors and conditions

Overview

Over the past ten years, the percent of online revenues lost to payment fraud has been stable or declining. From 2006–2008, the number was 1.4%. In 2009, it declined to 1.2%.

Figure 10.1: % Revenue Lost to Online Fraud



Key Metrics

The percent of accepted orders that are later determined to be fraudulent has also been relatively stable or declining. Over the past six years, the average has hovered around 1.0. In 2009, the rate was 0.9%, the first time this rate has dropped below the 1% threshold.

Put more simply, merchants are accepting a higher percentage of orders. In 2008, the overall order rejection rate due to suspicion of fraud dropped to 2.9% compared to 4.2% in 2007. By 2009, that number had dropped to 2.4%.

As the growth rate of online sales has slowed during 2008 and 2009, it appears merchants are now focusing even more attention on sales conversion and reducing their fraud-related, order-rejection rates. The survey results indicate most merchants have successfully increased their order acceptance rate with little or no increase in fraud rates. It remains to be seen if online merchants can continue to control fraud rates while increasing order acceptance in 2010.

Chargebacks Understate Fraud Loss by as much as 50%

Overall, merchants continue to report that chargebacks accounted for less than half of fraud losses. The remainder occurred when merchants issued credit to reverse a charge in response to a consumer's claim of fraudulent account use.

International Order Risk 3½ Times Higher than Domestic Orders

On average, merchants say orders from outside Canada are twice as likely to be fraudulent than domestic orders. While that may seem huge, it represents a considerable improvement over the year before where fraud rates associated with international orders were three-and-one-half times their domestic counterparts. To mitigate losses, merchants reject international orders at a rate three times higher than domestic orders.

Manual Review Rates

Over the past five years, the overall percent of online orders that enter manual fraud review has fluctuated between 20% and 27%; about 1 out of 4, on average. In some segments, fraud risk is low enough for merchants to rely entirely on automated review, which lowers the aggregate review ratio. But most merchants do manually review orders for fraud risk. Over the past five years, these merchants review, on average, 1 out of every 3 orders.

Over the past five years, merchants who engage in manual order review have maintained this average review rate. Large online merchants, who typically employ more automation, continue to have much lower manual review rates. Over the past three years, large merchants ($25M+ in online sales) performing manual order review have, on average, reviewed approximately 15% of orders. Looking back over the past several years of survey data, we conclude that most merchants have made little progress in reducing their reliance on manual review and are likely reviewing far more orders today than they were just a few years ago.

Efficiency Gains Required

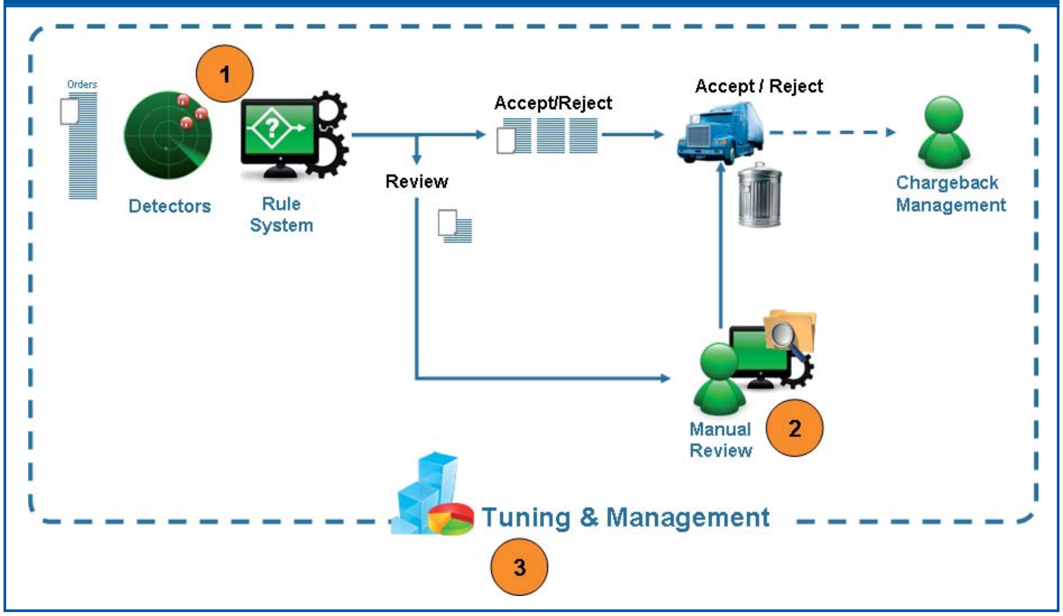
As e-commerce sales continue to grow and budgets and resources remain relatively fixed, merchants face the challenge of screening more online orders while keeping order rejection and fraud rates as low as possible to maximize sales and profits. Continued reliance on manual review presents a serious challenge to scalability. Can merchants grow their review staffing sufficiently to keep pace with fraud? Similar to 2008, in 2009 only 13% of online merchants expect to increase manual review staff in the coming year and 9% anticipate decreasing staff levels. These are the lowest levels of planned staff increases we have seen in the 11-year history of the survey. At the same time, merchants report that improving their automated detection and sorting capability is a key area of focus for 2010.

Managing Fraud Effectively in the Canadian Market

Similar to the U.S. market, a multi-layered, full-process approach to fraud management is recommended as a best practice for the Canadian market. This approach advocates that you adopt an automated screening and validation stage, including:

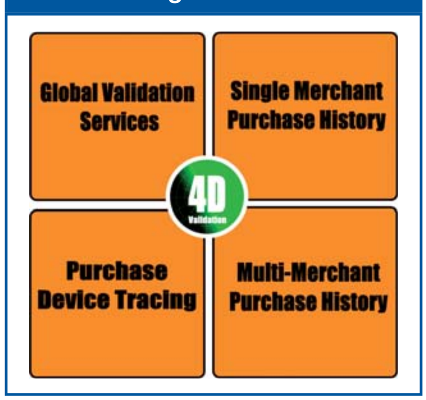
1. Multiple detectors and a rules engine to interpret the results;
2. A case-management system that supports queuing cases based on product category, shipping method or other attribute and consolidates order and validation data for efficient review and validation by manual reviewers; and
3. An adequate set of analytics that permits an understanding of critical metrics (e.g., fraud rate, rejected orders, rule results, etc.) throughout the process.

Figure 10.2



The area deserving the most attention when transitioning between the U.S. market and the Canadian market is Stage 1 – the application of detectors/validation tests and the interpretation of those results by your rules system. Before discussing the granular differences, it is important to understand that the best practice is to deploy a detection strategy based on four dimensions of detection. Studies have shown that merchants who derive the best results from their fraud management processes (lowest fraud, lowest review rate, lowest rejection rates) are twice as likely to deploy a four-dimensional detection approach.

Figure 10.3



By using these four dimensions, merchants are better able to uncover the abnormality in the fraudster's identity—the fraudster may be able to mask one or more attributes of an identity, but likely not all. The following is a brief summary of detectors typically utilized within these categories.

Validation Services

1. Global Validation Services

This category includes tests and services that validate the purchaser based on demographic or account enrolment data, including the following:

- Telephone Number Validation

- Delivery Address Verification: Validates address format and deliverability. Often used at time of order placement to detect “fat fingering” and eliminate the risk of invalid order rejection or mis-shipment.

- U.S. Export Compliance/DPL Lists: Real-time check of denied parties and persons of question across multiple lists maintained by U.S. government agencies.

- Payer Authentication Services: Validates cardholder identity based on enrollment in Verified by Visa and related card brand authentication programs.

- AVS/CVV Services: Real-time check of Address Verification Service (AVS) and card verification number services provided by card brands.

2. Single Merchant Purchase History

This category includes tests to evaluate and correlate the purchase behavior evidenced at the merchant site, including the following:

- Single Merchant Purchase Velocity : Monitors the frequency of orders placed at this merchant, the purchases of a particular SKU in a given timeframe, and the value of accumulated purchases, or a combination of these conditions. This helps identify abnormal purchase behavior such as the purchase of 10 flatscreen TVs, etc.

- Negative & Positive Lists: Lists maintained by merchant to denote customers they do not wish to sell to (based on prior fraudulent or related purchase history) or conversely, a list of loyal customers for whom they wish to always ensure order approval.

- Other Customer Data: Other data from customer purchase histories that may be useful to the merchant in determining fraud risk.

3. Multi-Merchant Purchase History

This category includes tests to assess purchase behavior across multiple merchants, including the following:

- Identity Morphing Detection: Tests to detect whether personal identifiers, such as email or name, have been used with other identities or credit cards and thus raise questions regarding order integrity.

- Neural Net Risk Detection Model/Risk Score: Commercial models that utilize statistical modeling to assess purchase patterns and behaviors to deliver a risk score.

- Global Purchase Velocity : Measures the frequency of purchase activity across multiple merchants.

4. Purchase Device Tracing

This category of detectors assesses whether the attributes of the purchasing device are consistent with that of a "good" or "fraudulent" purchaser, including the following:

- Device Fingerprinting & Profiling: Derives a "digital fingerprint" of the device used for order placement. This fingerprint can then be used in conjunction with other order attributes to detect abnormalities (same device, different identities, etc.). Some technologies can also determine the nature of activity arising from that device, such as firewall scanning, SPAM distribution, etc., all of which would be consistent with botnet behavior and thus carry a higher suspicion of fraud.

- IP Geolocation: Assesses the consistency between the geographic location of the IP address and address/billing information provided with the order. This includes the ability to detect anonymizers.

While many of these detectors can be applied similarly for the U.S. and Canadian markets, some must be interpreted differently, or applied with more or less weight. The following discusses notable differences in application.

Canadian Market: Unique Factors and Conditions

Tuning your practices for the Canadian market

Up to now, we have been discussing best practices that more or less hold true in many places around the world – further proof that fraud knows no borders. Let us now look at some factors and conditions unique to Canada, that influence how you apply and tune these practices. First, two detectors that deserve your attention.

- Delivery Address Verification: The Canadian postal code system offers even greater reliability when testing for address consistency (9-digit number/letter code). If postal code referencing is not among your current tests, you should apply this element as a part of your screening profile when assessing Canadian orders.

  CyberSource's "Online Fraud Report" indicates 78% of merchants in the U.S. and Canada employ a delivery address verification check for inbound orders to confirm the deliverability of the address provided. The check can also be used effectively in conjunction with IP Geolocation tests to validate purchaser device and address location consistency.

- Payer Authentication: This general term incorporates cardholder verification programs such as Verified by Visa®. These programs enjoy broad acceptance in Canada (considerably higher than in the U.S.), deliver greater fraud protection for your customers, and can bring you significant chargeback protection. Because the programs enjoy strong support in Canada, Canadian consumers are accustomed to seeing this step during the checkout process. We strongly recommend you employ these programs as a part of your fraud management toolkit.

Differences in Interpreting Detector Results

- IP Inconsistencies can mean Different Things in Canada than they do in the U.S.: Seeing an IP address from a different country than the delivery address on the order can raise a red flag in the U.S.; not necessarily so in Canada. One of the country's largest Internet service providers frequently resolves to a Chicago-based IP address. Canadian consumers can, in fact, be purchasing from Canada, but display an out-of-country IP address, so a greater tolerance for cross-border ordering is advised to avoid wrongly turning away good orders. That can also be true for orders originating in rural, isolated environments. The common connection strategy in those areas is via satellite. Satellite connections are typically viewed with suspicion south of the border because they are harder to trace (and thus a vehicle used by fraudsters). Denying satellite-based orders from some areas in Canada can mean you are turning away a significant percentage of your likely shoppers.

- "Foreign" Cards Aren't Necessarily So: It is not uncommon for Canadians to use payment cards issued outside of Canada, whether those cards are from France, the U.K., or the Caribbean. Wholesale rejection of orders made on foreign-issued cards can seriously impede legitimate business opportunities.

- Address Challenges May Cause False Positives: Canada is a prosperous country that happens to occupy a northerly spot on the globe. It is not uncommon for residents to have more than one address—at least one located in a warmer environment. Indiscriminate rejection of cards because the ship-to address is outside of Canada can cause unnecessary loss of online revenue and insults to customers.

E-commerce Fraud in Canada – A-Two Rule Summary

- Rule #1: Understand that linguistic and cultural similarities aside, Canada and the U.S. are not the same country. Many Canadian payment practices, including address verification, reliance on payer authentication programs, IP addresses, use of foreign-issued cards, etc., are radically different than practices in the U.S. Doing business in Canada and using U.S.-based rules can set your e-commerce sales back significantly.

- Rule #2: Learn your way into Canadian e-commerce through pre-production testing. It is important to work with a fraud management system that will allow you to passively analyze the impact of fraud screening rules on sales activity before you impact real orders. Review more than you have done in past environments to learn, all over again, what a good order looks like…then automate.

Implications

- **Financial:** Failure to efficiently manage fraud can cause loss of revenue opportunity (rejecting valid orders), unnecessary revenue loss, and unnecessary sales overhead (manual order review). All of these concerns can be mitigated with proper fraud-management tools.

- **Strategic:** Management may view international order acceptance as carrying an unacceptable level of fraud risk, and thus choose not to enter (or pull out after a short period of time). With the proper tools, this need not be an issue.

- **Consumer:** The inability to manage fraud effectively can result in higher prices (passing on the cost of loss to consumers). It also results in poor customer experience (i.e., delayed shipment of goods due to unnecessary order review, or cumbersome checkout processes that create extra navigation or checkout steps). Proper tools and rules can maximize fraud management transparency and thus improve customer experience.

Checklist

Some of the elements your company will need to consider as it establishes the fraud management and security systems include the following:

Table 10.1: Key Elements and Cross-border Checklist

Review of Items	Key Elements	Cross-border Emphasis Required
Global Validation Services		
■ Telephone Number Validation	■	■
■ Delivery Address Verification	■	■
■ U.S. Export Compliance/DPL Lists	■	■
■ Payer Authentication Services	■	■
■ AVS/CVV Services	■	■
Single Merchant Purchase History		
■ Single Merchant Purchase Velocity	■	■
■ Negative and Positive Lists	■	■
■ Other Customer data	■	■
Multiple Merchant Purchase History		
■ Identity Morphing Detection	■	■
■ Neutral Net Risk Detection Model/ Risk Score	■	■
■ Global Purchase Velocity	■	■
Purchasing Device Tracing		
■ Device Fingerprinting and Profiling	■	■
■ IP Geolocation	■	■
Canadian Specific Practices		
■ Delivery Address Verification	■	■
■ Payer Authentication	■	■

About the Author

Paul Brock is a Senior Fraud Analyst at CyberSource Corporation. He has more than 20 years of technology consulting experience, delivering improved risk management performance to the online operations of Fortune 1000 companies across a variety of industries. Paul provides extended best practices consulting and education to large-scale online merchants and leads consulting teams in the delivery of innovative credit card and electronic payment processing solutions.

Prior to joining CyberSource, Paul led business intelligence teams and implementation projects at SGI, Compaq, IBM Global Services, and EDS. Paul earned his BBA in Accounting from the University of Texas in Austin in 1989.