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E-COMMERCE GUIDE TO THE UNITED STATES

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Canada

Selling via e-commerce in the United States

A custom report compiled by Euromonitor International for the Canadian Trade Commissioner Service

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CHAPTER #1

Market highlights

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Market highlights

The role of e-commerce in the global retail landscape cannot be understated. Global brick-and-mortar retail sales experienced a decline between 2012 and 2017, while e-commerce more than doubled to reach over US$1.3 trillion in 2017.

The United States is a key driver behind the rise of global e-commerce, with total e-commerce sales in the U.S. exceeding US$360 billion in 2017, second only to China. E-commerce sales in the United States exceed Canada's retailing sales in all channels combined. Despite the size of the U.S. market, there is still room for significant growth: Internet retail sales in the country are expected to nearly double from 2017 to 2022.

The size of the market, ease of entry, and close proximity to Canada make the United States an appealing target for a Canadian business that is looking to expand.

Third-party marketplaces, social networks, and partners throughout the Internet retailing ecosystem help both large and small companies to enter the market with varying levels of commitment.

The purpose of this report is to help identify how Canadian businesses can take advantage of the U.S. e-commerce market. The report will explain the country's e-commerce industry and its drivers as well as analyse opportunities, challenges, and resources for success.

Internet retail sales in the U.S. are expected to grow at a compound annual growth rate (CAGR) of 14.8% per year from 2017 to 2022.

CHAPTER #2

The lifecycle of an e-commerce business

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The lifecycle of an e-commerce business

If your company is interested in selling in the e-commerce market in the U.S., you likely have a product lined up or already being sold via retail or digital channels in Canada and now need to understand how to expose the product to audiences in the United States.

Even if your product fits a consumer need or is "best in class", it will still take a significant amount of effort to succeed in e-commerce channels in the country. There are four general steps involved with entering this market.

The first step is to decide whether to enter the market to begin with. This phase involves researching your product and competitors, identifying and analysing your target audience, and deciding how to reach that audience. You may have already conducted some of this research or even be an expert in your chosen industry. However, it is still important to conduct systematic market analysis specifically for the U.S. in order to decide whether to enter the market and develop a market entry plan accordingly.

The second step involved in entering the U.S. e-commerce market is getting your products in a position to be sold. This phase includes building your inventory and understanding how to store it, cataloguing items on your website or on the Internet marketplace(s) you will be using, arranging for payments to be processed, and building systems through which to fulfil orders and ship products. Particularly for the U.S. market, you should also ensure you have a reliable returns process.

The third step is actually marketing and selling your product to consumers. Understanding how to get consumers' eyes on your products and convert them into customers is particularly challenging today, when consumers are overwhelmed with choices. Developing a strong marketing plan is often an overlooked aspect of launching your business in a new market but is in fact one of most important tasks.

Finally, as your business grows and sells higher volumes, there may be new challenges and opportunities that arise. Understanding how to take advantage of and manage these scaling issues should be an ongoing concern. Business and e-commerce are changing at a faster and faster pace: You should monitor these changes and revisit your strategies regularly to ensure they continue to position your company for success.

This guide will address the entire cycle outlined above. Its goal is to help you understand how to position your business for success in the U.S. e-commerce market should you choose to pursue it.

CHAPTER #3

Why the U.S. market?

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3.1

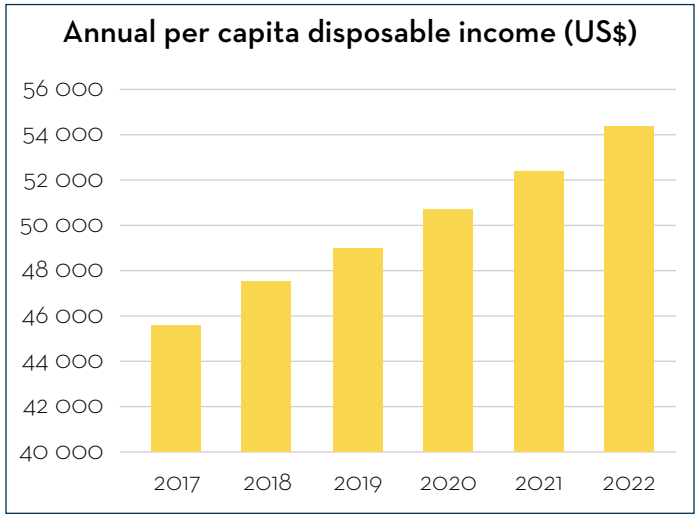
The United States has a strong economy and well-developed technology landscape

The United States is a well-developed market for Internet-oriented businesses. The country has strong economic fundamentals and a generally healthy consumer economy. The U.S. has also been an early and sustained leader in the creation and adoption of technology.

The United States has one of the world's strongest economies, with the largest gross domestic product (GDP) at US$19.4 trillion in 2017. The U.S. is the largest consumer market in the world and the second largest e-commerce market. The country also has the highest levels of disposable income (US$14.8 trillion) and consumer expenditure (US$13.1 trillion) across OECD countries. Furthermore, the U.S. population is increasing and disposable income per capita is expected to grow, suggesting that the United States will generally remain an attractive market in the coming years.

The United States has excellent conditions for e-commerce growth in particular. The U.S. population is highly technology oriented: As of 2017 nearly three out of four U.S. consumers use the Internet daily as part of their personal or professional life. Many savvy companies and brands use this digital immersion as to build a reputation among consumers and create selling opportunities.

The integration of Internet-enabled technology into consumers' lives is only expected to continue as the population increasingly relies on the Internet to access information, make decisions, and, complete daily tasks. Mobile devices (smartphones and tablets) have become especially important facilitators of this integration process.



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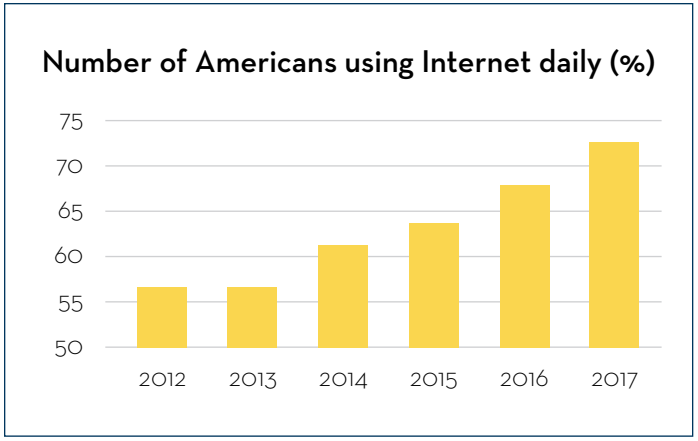
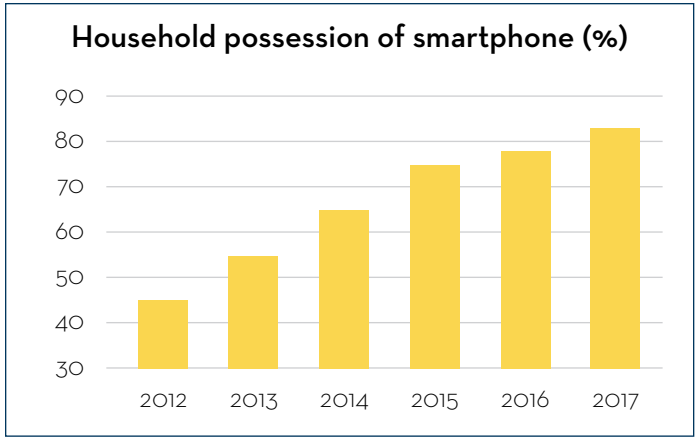




Internet technology has transformed the U.S. retailing industry as well as the shopping behaviour of U.S. consumers. Approximately 80% of U.S. consumers shop online, and 15% of consumers in the U.S. make purchases on a weekly basis.[1] Internet retailing has become a mainstay: The majority of U.S. consumers consider multiple channels when making a purchase, and some consumers visit online stores first.[2] These numbers do not show signs of slowing down, as e-commerce offers consumers benefits such as convenience and a greater variety of products and price points.

Economic prosperity and technology adoption create an excellent opportunity for businesses to start or expand. In the United States, e-commerce enables companies and brands to come to market significantly faster and with lower cost than would have been the case when bringing a product to retail a decade ago. These time and cost savings are partly because e-commerce does not require new products to navigate through the bureaucratic sales processes that are common among brick-and-mortar retailers. In addition, the targeted marketing that is possible online can make it easier to connect directly with your audience while keeping costs low and avoiding middlemen. Companies that would have mass marketed a product in the past can now tailor campaigns to niche audiences, allowing more unique and custom products to come to market.

The combination of shifting consumer habits and an enabling business environment has created room for fast-growing disruptors as well as niche brands that may not have otherwise survived. Understanding what is driving consumers and what tools are available for success is key to a winning e-commerce strategy in the United States.

[1] Pew Research Center, "Online Shopping and E-Commerce," December 19, 2016.
http://www.pewinternet.org/2016/12/19/online-shopping-and-purchasing-preferences

[2] Oracle, "4 Cross Channel Marketing Stats Marketers Need To Know Going Into 2017," December 19, 2016.
blogs.oracle.com/marketingcloud/4-cross-channel-marketing-stats-marketers-need-to-know-going-into-2017

3.2

The United States has a large and unified market

One of the main advantages a Canadian business gains by selling into the U.S. is access to a large single market. After a Canadian company crosses the border into the United States, there is little in terms of additional regulation that it needs to address in order to ship items to any of the 50 states, giving the company access to over 320 million consumers.

Although there is little in terms of regulation companies may have to pay a state-level tax depending on their relation to the state in question. Companies only have to pay a state sales tax when the company has a physical "nexus" with the state to which a good is shipped. A nexus can include a company's storefront, warehouse, sales team, or other physical connection with the state, even if that physical connection was not involved with the specific sale in question. Unfortunately, warehousing with third-party logistics and fulfilment companies in the United States still constitutes a physical nexus.

The physical nexus can be avoided entirely if a company keeps its operations within Canada and ships goods cross-border directly to the consumer. For companies with a physical nexus in the United States, the tax implications will vary by state and should be investigated further. Many online marketplaces offer tools to help calculate the sales tax due on a given purchase, but it is up to the seller to actually remit the tax payment to each individual state as needed.

In terms of physical infrastructure, the United States offers a large and robust logistics system that keeps the entire country within reach. Depending on the size of the package, it can often be cheaper to send an item across the continental United States than it is to send an item across a city in Canada. Logistics options are available for businesses of any size, from the small and medium-sized businesses (SMBs) that pack and ship out of personal homes to large-scale companies that contract third-party logistics (3PL) partners such as FedEx, UPS, or DHL.

3.3

The United States has a diverse population

Even though the logistics of selling products across the United States are relatively straightforward, companies should still conduct research to understand where there is demand.

If your company is selling to a niche audience, then you should try to understand where that audience is located and what the best way to reach it is, including whether your marketing should be purely online or incorporate offline channels as well. Keying into the correct demographics and targeting them is a critical component of building a successful e-commerce business in the United States.

There are three key demographic factors that companies should consider: age, income, and urbanisation. These should be the beginning and not the end of your research; they are starting points that apply to the United States and e-commerce in general.

Age

Consumers' age is an important consideration because the appeal of technology and e-commerce may vary across age groups and because age is related to spending power. In 2016 the "millennial" generation eclipsed the "baby boomer" generation as the largest in the United States. The millennial generation has embraced e-commerce, with 40% of millennials shopping online at least once per week. However, the baby boomer generation still controls about 70% of the nation's disposable income and less than 17% of baby boomers shop online at least once per week.[3] These numbers suggest that online shoppers are more likely to be frequent buyers with lower spending power.

Income

Income also affects the likelihood that consumers will shop online, how often they do so, and how much they spend. Only 20% of low-income earners (under US$30,000 per year) "do a lot or fair amount" of shopping online, down from 24% in 2012. This is in stark contrast to the 62% of high-income earners (over US$100,000 per year) who "do a lot or fair amount" of shopping online, up from 45% in 2012.[4]

"Selling online in the US is 70% research, 20% planning, 10% execution."

– CEO of an e-commerce consulting firm

Top cities for online shopping:

1. New York, NY
2. Houston, TX
3. Chicago, IL
4. Los Angeles, CA
5. Austin, TX
6. Miami, FL
7. San Diego, CA
8. San Francisco, CA
9. Las Vegas, NV
10. Dallas, TX

Source: Micro D

[3] Morgan Stanley, "Generations Change How Spending is Trending." August 26, 2016.
https://www.morganstanley.com/ideas/millennial-boomer-spending

[4] CNBC, "There's a wide – and growing – digital divide between high- and low-income shoppers," December 19, 2017.
https://www.cnbc.com/2017/12/19/theres-wide-digital-divide-between-high-and-low-income-shoppers.html

Urbanisation

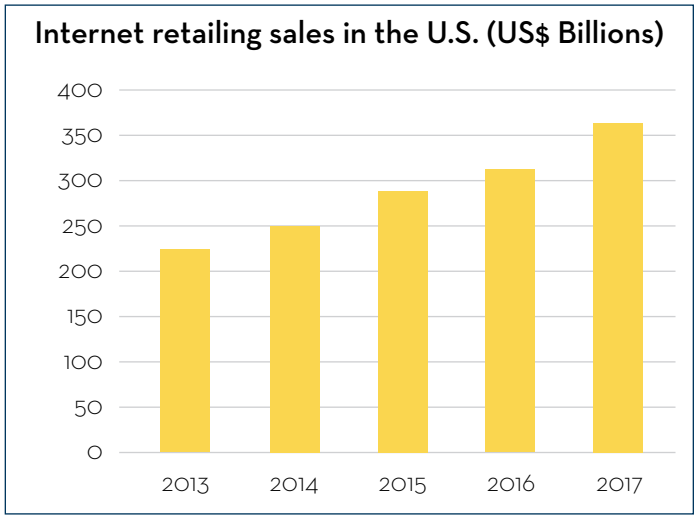
When online spending is analysed by state and city in the United States, it roughly corresponds with population size. Thus, a typical consumer's state or city does not seem to significantly impact how much they spend online. However, the degree of urbanisation does seem to affect online spending levels. According to e-commerce company MicroD, metropolitan consumers spend approximately US$853 online per year compared to US$768 for suburban shoppers and US$684 for rural shoppers.[5] Part of this may be attributed to higher income levels in metropolitan areas, but the difference may also be a result of the ease of access of traditional retail outlets in suburban and rural areas.

The overview of demographic factors above suggests that young, urban, and wealthy consumers are generally the best target audience for online sales. However, companies should still seek to identify the audience that is the best fit for their brand and product.

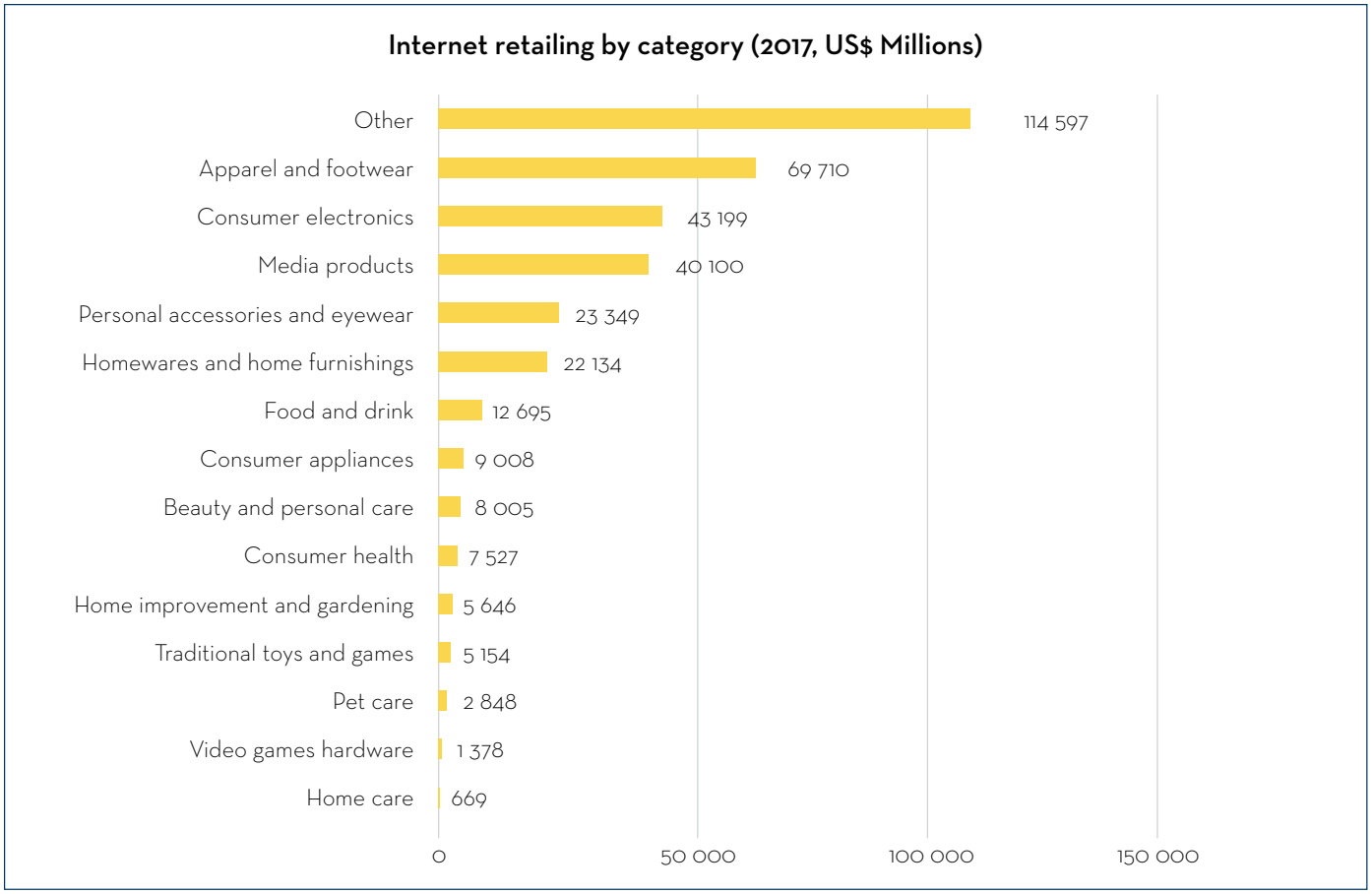
3.4

E-commerce in the United States is expected to continue growing

The U.S. e-commerce market is also attractive because it is expected to keep growing. Internet retail sales experienced the highest growth rate among retailing channels between 2016 and 2017. This was largely driven by the prices, convenience, and large inventory offered by online channels, but growth was also boosted by the push that traditional retailers made to expand their online footprint. The U.S. e-commerce market grew at a CAGR of 13% between 2013 and 2017, and this pace is expected to continue in the future.



[5] MicroD, "The Top 10 Cities for Online Shopping." https://www.microdinc.com/2017/06/28/top-10-popular-cities-online-shopping/



Market analysis: Key takeaways

- Is there demand for your product in the United States?
- What does your target demographic look like?
- Is this population accessible via online channels?

CHAPTER #4

Entering the U.S. market

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4.1

Choosing an online channel

Besides deciding whether to sell online in the United States to begin with, it is also important to analyse the three channels you can use to sell online in this market: selling on a retailer's website, leveraging a retailer's "marketplace" platform, or selling on your own website.

You can select one or a combination of these options for your product(s). Being represented on a marketplace is critical as approximately 67% of consumers' product searches originate within a retailer or marketplace app or website compared to only 15% originating on a search engine.[6] Meanwhile, maintaining an individual website is critical especially for unique products or niche categories so that you can control what consumers find when they do seek your product online.

[6] UPS, "2017 Pulse of the Online Shopper, Volume 1," 2017. https://solutions.ups.com/ups-pulse-of-the-online-shopper-lp.html

Adding your product to a retailer's inventory

The first option is to distribute your product through an e-retailer's website, which is similar to going through a traditional retail company: You need to apply to become one of the retailer's vendors and obtain approval before the retailer will list your product on its physical or digital shelves. Examples of retailers that operate this way are Macy's and Best Buy. Some retailers have more lenient approval processes for their websites than brick-and-mortar counterparts, but these are still more burdensome than the processes involved in selling on online marketplaces.

Selling on an online marketplace

The second option is to sell your product on one or more online marketplaces, also referred to as "third-party merchant marketplaces". Online marketplaces are portals where companies can create profiles and sell their products as suppliers within a broader marketplace. Online marketplaces accounted for 34% of Internet retail sales in the United States in 2017.

Selling through a marketplace has advantages and disadvantages. The companies running online marketplaces try to make it easy for companies to list themselves as sellers on their platforms and run online stores there. They compete against each other by offering potential sellers a smooth application process as well as services to help them sell successfully on the marketplace once they are approved (e.g., systems to track orders and shipping, webinars to learn how to position products online). On a marketplace, you will have more control over the pricing and placement of your product than you would when applying to add your product to a retailer's own inventory. However, even with the services many marketplaces offer their sellers, you will also typically receive less support from a marketplace operator than from a more traditional retailer. On a marketplace, you are largely responsible for your own inventory tracking, marketing, etc., even if the marketplace's platform helps you do this. If you work with a retailer, the retailer takes on many of these responsibilities because your products become part of its own inventory.

There are two categories of marketplaces in the United States. Some marketplaces are operated by retailers that also sell their own inventory. These retailers can be historically brick-and-mortar retailers that have incorporated online channels, with Walmart being the largest example of this kind in the United States. The retailers can also be "pure play" e-retailers (i.e., retailers that are purely or almost entirely focused on online sales) that offer a marketplace as a portion of their service. Amazon is the best example in the United States of an e-retailer with its own product inventory as well as a marketplace platform. The second category of marketplace is where the marketplace represents the operator's entire service, such as with eBay, which only sells marketplace items.

Creating your own online sales portal

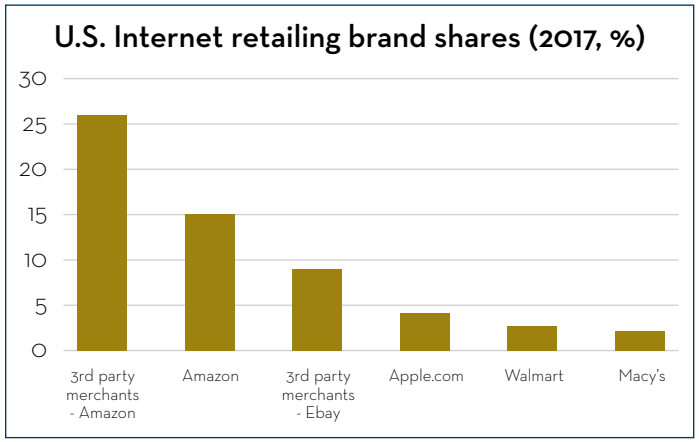
The third and final channel for selling goods online is to create your own website and sales portal. Although creating and running your own online store takes time and money, it is significantly easier than it was just a few years ago. There are service providers that have streamlined or automated many of the website creation and logistics tasks required. Companies like Wix, WordPress, and Squarespace make it easy to create a website; Square, Stripe, and PayPal can handle payment issues; and others like Shopify handle multiple e-commerce business functions.

The main benefits of selling through your own website is that you have complete control over your brand and an exclusive place to showcase and promote your products. You also save money by avoiding the posting fees charged by marketplaces or the cut of the profits that retailers take. The main disadvantages are that you are responsible for the entire business and that your products are not included in a retailer or marketplace's product discovery tools. It may also turn out to be more expensive to operate your own online store than to pay marketplace fees to sharing profits with a retailer, particularly if the marketplace or retailer increases your sales by more than you can alone.

Maintaining an independent website is critical even if you decide not to include a sales portal. Having your own website helps you control what consumers find when they search for your product online, which is especially important for unique products or niche categories. You should also maintain a strong web presence so that you can link to it from social media and track what resonates with consumers online.

Combining online channels

You are not limited to choosing a single online sales channel. Unless a retailer signs an exclusive merchandising deal with you, then you can sell via an online marketplace and/or your own website even if your products have been added to a retailer's inventory. Similarly, sellers often post their products on multiple marketplaces to reach as many consumers as possible. In fact, some of these services and platforms actively help you integrate different sales channels. Examples of service integration include Shopify, which can work as the inventory and fulfilment backend for Amazon and eBay; and Fulfilment by Amazon (FBA), which can be used to fulfil orders from other websites with Amazon's Multi-Channel Fulfilment service.



4.1.1
Channel profile: Amazon Marketplace

Since it was founded in 1994 in the United States, Amazon has grown to be synonymous with e-commerce in the country (and, indeed, in some other parts of the world as well). In 2017, Amazon's total U.S. retail sales were US$168 billion, with marketplace sales by third-party merchants accounting for US$111 billion (or 66%).

This profile focuses on Amazon's marketplace platform, but there are two ways to sell a product via Amazon. The first is to become one of Amazon's vendors, which is similar to selling via a major brick-and-mortar (i.e., "big box") retailer. The second option is to sell as a third-party merchant on the Amazon Marketplace, which launched in 2000. Third-party merchants' products are displayed on Amazon.com along with products sold by Amazon itself (Amazon's own inventory); however, selling on the marketplace involves less commitment from the merchant to Amazon and less support from Amazon to the merchant.

To join the Amazon Marketplace, a company needs to commit to either a Professional or an Individual selling plan. The Professional plan costs US$39.99 per month for an unlimited number of items, while the Individual plan costs US$0.99 per item sold. Merchants also need to decide whether to use Fulfilment by Amazon (FBA), which is a paid service where Amazon takes on the responsibility storing, picking, packing and shipping inventory.

"Our goal with Amazon Prime, make no mistake, is to make sure that if you are not a Prime member, you are being irresponsible."

– Jeff Bezos, CEO, Amazon

Merchants on either plan are also charged a percentage-based "referral fee" per item, and if the item is a media product there is also a percentage-based "variable closing fee". When an item is purchased via the marketplace, Amazon collects the payment from the buyer and withholds the fees owed to Amazon. If the merchant uses FBA, then Amazon withholds shipping charges as well. If the seller has opted to handle delivery themselves, then the buyer's shipping payment is passed through to the seller (sellers must preestablish what the shipping fee will be for every product they sell on the Amazon Marketplace).

Opportunities

Amazon offers optional fulfilment services to make the entire logistics and inventory process as seamless as possible for merchants on its marketplace. To take advantage of FBA, the merchant needs to ship their items to an Amazon Fulfilment Centre, where Amazon will warehouse the items until they are sold. Amazon charges shipping fees on each item that uses FBA (as described above), and there are additional fees depending on how long an item is warehoused. FBA has the added benefit of handling in-country customer service as well as returns, which would eliminate the complexity of returning items across the border to Canada.

Selling on the Amazon Marketplace gives you access to over 197 million U.S. visitors per month;[7] it is the top destination for online retailing in the United States. Many consumers in the U.S. will look at Amazon before considering another retailer, whether brick-and-mortar or online. The company also boasts a strong membership program called Amazon Prime, which incentivizes buyers with free two-day shipping and other benefits.

Challenges

If you decide to sell on the Amazon Marketplace, you will need to pay fees as well as compete with over 120 million other products and the more than 100,000 new sellers joining the marketplace each month. Posting on Amazon also means you have no control over what other advertised or suggested products might be displayed to consumers as they review your product page. Amazon itself may even compete against you with its dozens of private label brands.

4.1.2

Channel profile: eBay

eBay launched in 1995 as a U.S.-based online marketplace for goods. Unlike Amazon, the company has focused on the marketplace model since inception, selling products through both fixed-price and auction processes. eBay originally gained traction as a destination for used items but has grown into a marketplace for new and used items and is often a destination for hard to find and unique products.

eBay has over 113 million U.S. visitors per month[8] and a total of over 164 million "Active Buyers",[9] making it a major destination for online shoppers. eBay brought in nearly US$27 billion in U.S. sales in 2017, up from less than US$16 billion in 2012.

[7] Statista, "Monthly unique visitors to U.S. retail websites 2017," 2018. https://www.statista.com/statistics/271450/monthly-unique-visitors-to-us-retail-web-sites/

[8] Statista, "Monthly unique visitors to U.S. retail websites 2017," 2018. https://www.statista.com/statistics/271450/monthly-unique-visitors-to-us-retail-web-sites/

[9] eBay Inc., "Q2 2016 Company Fast Facts," https://static.ebayinc.com/static/assets/Uploads/PressRoom/eBay-Q22016FactSheet-Investor-Site.pdf

Whether a product is sold through an auction or at a fixed price, eBay charges merchants a variable "insertion fee" for posting the item (even if the item is not sold in the end) and a "final value fee" based on the price at which the item is sold. eBay sellers receive a number of "free" insertion fees per month depending on the type of seller account they have, ranging from the free "No Store" option that includes 50 insertion fees to the "Anchor Store" option that includes 10,000 insertion fees for fixed-price sales (i.e., not for auction products).

Opportunities

eBay gives merchants greater flexibility and control, allowing them to set their own policies regarding shipping, returns, and charges. The platform also offers a simpler backend for sellers to navigate as they post, track, and sell goods.

Consumers often turn to eBay for more unique brands (e.g., handcrafted items), while other major Internet retailers are known for common brands or commoditized items. In general, eBay is considered more accommodating for smaller sellers, partly due to the number of insertion fees that are included even in a free account. Smaller brands are better able to differentiate from major brands on eBay because large brands have not flocked to the eBay marketplace the way they have to Walmart and Amazon, so small brands can stand out more easily. eBay also allows sellers to create individual storefronts, which gives them a more personalised connection with consumers – although this benefits all sellers, it is especially helpful for smaller businesses and those that do not yet have established relationships with U.S. consumers.

Challenges

Because of eBay's history, many consumers equate the eBay marketplace as a destination for used or second-hand goods, even though 81% of products listed on eBay are brand new.[10]

4.1.3
Channel profile: Walmart marketplace

Walmart was founded in 1962 as a brick-and-mortar retailer in the U.S. and is now the world's largest retail chain, with both a physical and digital presence.

Walmart.com's online store was originally an extension of its brick-and-mortar outlets and product offering. However, in 2009 Walmart launched a marketplace feature that brought wider brand variety to its online platform: Walmart stores in the United States carry approximately 125,000 products, while the website carries over 11 million items and has plans to continue expanding product variety. The third-party merchants on Walmart's marketplace accounted for over US$1.6 billion in sales in 2017.

[10] eBay, "Why eBay?". http://pages.ebay.com/why-ebay/

Opportunities

Walmart is attempting to make shopping a seamless experience for customers. For example, the company has established partnerships to provide local delivery from Walmart stores and to use the stores as a pickup location for items sold online. This means that brands selling products via Walmart.com (whether as part of Walmart's own inventory or through the Walmart marketplace) can now offer customers the option of delivering goods to a location other than their home or office. Additionally, Walmart's strategy of multi-channel integration has included adding marketing material in its many brick-and-mortar stores that directs consumers to its online portal, providing another potential lead to your products.

Challenges

Consumer perception of Walmart.com is based largely on the history of its brick-and-mortar retail chain, which has focused on high volumes and low prices. This focus on value means that many consumers do not turn to Walmart's online portal when they are seeking newly introduced or high-value products. Moreover, many consumers in the U.S. associate Walmart with "cheap" (i.e., inexpensive and low-quality) products, though well-established brands with a reputation for quality can avoid this "connection by association" to some extent.

4.1.4
Channel profile: Jet.com

Jet.com is an e-commerce website that was launched in 2014 and acquired by Walmart in 2016. Jet.com still operates as a separate website and has a unique marketplace that rewards buyers with discounts depending on how many items are in their order. This unique method has been particularly attractive for retailers that are seeking a second sales channel and willing to offer discounts to bulk buyers.

Jet.com's primary demographic differs from that of Walmart.com. Jet's shoppers are typically higher-end, younger, and more urban – which is similar to the demographic that most frequently uses Internet retailing in general. Walmart is conscious of this distinction and is looking to add more high-end brands that resonate with this segment of the population.

Even as Jet.com aims to cater to a higher-end clientele, the website still looks to shave as much cost as possible. For example, discounts are offered to consumers who are willing to waive the right to return an item or who use debit cards instead of credit cards.

For sellers, one of the key benefits of Jet.com is that there are no monthly fees that sellers must pay, only monthly commissions.

Perhaps the biggest disadvantage for sellers is that Jet.com's backend management systems are not as user friendly as those offered by Amazon or eBay. For example, sellers are forced to integrate with Jet.com's application programming interface (API). This can inhibit less tech-savvy companies from integrating their services, though companies determined to sell on Jet.com can hire external technology firms to build this integration. Another downside to the platform is that is that it takes several weeks for sellers to receive approval to join the marketplace.

4.1.5
Channel profile: Rakuten

Rakuten is the largest Internet retailer in Japan and entered the U.S. market by purchasing Buy.com in 2010. Since rebranding Buy.com into Rakuten.com, the company has replicated the strategy it used to differentiate itself in the crowded Japanese market: The Rakuten Super Points system is a loyalty system that offers rewards points that can later be redeemed for future purchases on Rakuten. The system has been a favourite in Japan and is similar to many rewards programs offered by credit cards the United States. Sales by merchants on Rakuten's U.S. marketplace totalled US$824 million in 2017.

Sellers that join Rakuten's marketplace are charged an account fee of US$33 per month plus percentage-based sales commissions as well as a flat US$0.99 per item. Additionally, merchants that want to sell in the U.S. must have a checking account, credit card, customer service phone number, and address all in the United States.

Although Rakuten is significantly smaller than Amazon or eBay in the United States, the company seeks to attract sellers by offering greater support and customisation. Sellers that join Rakuten are assigned an account manager and have the ability to build mailing lists by drawing from customers who have previously purchased from your company. Sellers can also customize their online storefronts and create unique URLs to distinguish themselves within the broader Rakuten marketplace.

4.1.6
Channel profile: Independent websites

While most of e-commerce in the United States occurs via large retailers and marketplaces, there is still a significant share of business conducted by independent online stores. In 2017 small retailers (those accounting for less than 0.1% of total Internet sales each) represented over 12% of Internet retail sales in the United States. Some of this came from brands selling on their own websites as well as through online retailers.

There are two ways for your company to create its own online store: using an off-the-shelf e-commerce platform or creating one from scratch. There are several providers (e.g., Shopify) that specialise in creating e-commerce websites and can enable backend functionality such as order placement and inventory management. These providers typically charge a monthly or annual fee and take care of hosting your website and domain name. Instead of using a pre-made e-commerce option, you can make your own. There are open-source products such as OpenCart that can help you start from scratch, but either way you will need technical expertise to program the website, add e-commerce functionality, and ensure the platform is secure. You will also have to manage service providers that offer website and domain hosting.

As it will be consumers' introduction to your brand, it is critical that your website loads quickly and be easy to navigate. This is true if you do not have your own online store but is especially true if your website has an e-commerce component: Online shoppers dislike having to wait for product photos to load and will leave your site altogether if they struggle to find what they are looking for. In addition, if you rely mostly or entirely on your independent online store, you will need to invest heavily in marketing to generate leads because you will not benefit from appearing in product searches on popular online marketplaces. Your marketing tactics may include search engine optimisation, paid advertising, and content creation across your website and others.

4.2

Preparing for business

After selecting which online sales channel(s) to use, the next step your business must tackle is to prepare all necessary logistics to begin selling your product, something that will be an ongoing operational activity, although its scope may change as your sales volume in the U.S. increases.

What this entails will depend on the sales channel(s) you have selected but might include loading items into your sales channel, arranging payment processes, and developing an order fulfilment process.

4.2.1
Website and technology

Having a well-designed and executed website is critical to success on the Internet. The industry standard is that a website should load in approximately two seconds or less, as anything higher than that risks losing customers. There are many providers that can help your company build a website and/or online store that meets consumer expectations (remember that even if you decide not to operate an independent online store, you should still have a strong website that represents your brand).

WordPress, Wix, and Squarespace are three providers that allow users to quickly build websites and that offer extensions for building online stores. Others, such as Shopify and BigCommerce, specialise in making websites and providing services for e-commerce platforms. As previously mentioned, you can also use one of the extremely flexible open-source platforms available for building e-commerce platforms from scratch (e.g., OpenCart and WooCommerce), though this would require greater technical expertise. All these providers and platforms also offer a wide range of tools that can make it easier to manage or market your business on the Internet.

There are two distinct but related parts of managing an online store: the customer-oriented front-end, for which you can often find off-the-shelf solutions; and the backend that customers do not see, where you manage your information and technology (IT) infrastructure. It can be easy to focus so much on the front-end aspects your customers will see that you neglect the backend processes that are critical to your ability to offer customers a smooth purchasing experience. Indeed, the backend can be significantly more challenging to develop: Whether it is coordinating marketing content across multiple platforms or connecting your storefront with real-time inventory data, there are significant hurdles in building out a robust online store.

4.2.2
Payment

When online commerce first started in the 1990s, many consumers were hesitant to share their payment information over the Internet, even with familiar companies. This is still true in many parts of the world, but in the U.S. this consumer hesitation towards online payments has decreased significantly.

Starting with PayPal in the late 1990s, there are now dozens of online payment options in the United States, including Square, Stripe, and Apple Pay as well as peer-to-peer payment platforms like Venmo. Major consumer finance companies like Visa and MasterCard have also released online payment platforms, aiming to decrease consumers' dependence on cash and capture as much of consumer spending as possible.

If you decide to use an online marketplace, then payment processing will likely be handled by the marketplace operator, which will transfer payments from the buyer to your company's account. In order to protect consumers from fraud, some operators only complete payment transfers after confirming that the buyers have received the products. Certain marketplaces such as Amazon require sellers to have bank accounts, while others allow sellers to use platforms like PayPal.

If you decide to sell via your own website, your online payment portal will consist of a payment gateway, a payment processor, and a merchant account. You may decide to use separate methods or providers for these components, but many service providers (e.g., BluePay) offer complete solutions that integrate all three with both off-the-shelf and open-source e-commerce platforms.

Payment gateways are akin to digital point-of-sale terminals. Your payment gateway will act as an intermediary, receiving credit and debit card information entered onto your website and offering customers some degree of security regarding the privacy and security of their information. Gateways are then responsible for passing this payment information onto the payment processor. Typically, payment processing companies such as PayPal include a gateway as part of their service, meaning you would have a single provider for both the payment gateway and payment processing.

Payment processors are responsible for connecting the payment gateway with the merchant account (i.e., with your account) and for passing information back and forth. Some processors also offer merchant services.

Merchant accounts are financial accounts that are authorized to accept online payments. These are often called "merchant IDs" (MIDs) and can be opened with online payment companies, some large banks, and other independent organisations.

When selecting service providers for your payment gateway, payment processing, and merchant account, the two main factors to consider are the technology the providers use and how much their service will cost. It is important to make sure that all three services are integrated with your website's front-end and backend technology systems to ensure a seamless experience for customers and keep your business's operations running smoothly. When evaluating cost, be careful to take into account all of the fees that the provider will charge and how they might change as your business grows.

When selecting a payment processor in particular, it is recommended to use one based in the United States. The U.S. has been slow to adopt foreign payment platforms like Alipay, but there are many U.S. payment platforms have been successful and are well-known among and trusted by online shoppers. Examples of payment processors in the United States include PayPal, Stripe, Authorize.net, Amazon Payments, and Braintree.

Lastly, your business should also pay attention to the currency in which transactions will be charged. There would be an exchange rate risk if your product prices were to be fixed in U.S. dollars while the cost of goods sold and cost of shipping were set in Canadian dollars.

4.2.3
Legal concerns

Your company is not legally required to incorporate a business in the United States in order to sell via e-commerce channels in the country. However, certain marketplaces, vendors, and partners may require that you set up a U.S. bank account or incorporate in the U.S. even though it is not a legal requirement. Additionally, if you have recently launched your venture and are looking to expand into the U.S. as a first step, then it may make sense to seek a partner in the United States and incorporate with them. If you do choose to incorporate in the United States, then keep in mind that the process is done at the state (not federal) level. Consult with an attorney about what would be best for your business.

Regardless of incorporation status, all businesses selling online in the U.S. should be aware of the U.S. anti-spam law (CAN-SPAM). This federal law makes email "spam" (unsolicited email) illegal, though it recognises email marketing as a legitimate tactic used by businesses. To avoid sending email messages that would be considered spam under this law, businesses must include instructions on how to unsubscribe to emails in every message they send, clearly label email messages as advertising, and avoid misleading subject lines.

4.2.4
Supply chain options

Changes in supply chain practices and technology over the past 20 years have enabled the emergence of new e-commerce companies by eliminating the need for upfront investments in logistics. When many Internet retailers launched in the 1990s, they replicated what they knew: the logistics systems of brick-and-mortar retailers, including having company-owned warehouses and vehicles. These large upfront capital requirements created impractically high revenue expectations and caused many early e-retail ventures to collapse.

In contrast, e-commerce companies today use a variety of logistics systems, depending on what works best for their business. For example, many small and medium-sized businesses (SMBs) manage their own packing and ship primarily through Canada Post, while many large companies are underpinned by third-party logistics companies (3PL). Even some of the largest and oldest companies today use third parties instead of owning their own warehouses and/or trucks the way they would have in the past.

The ability to avoid infrastructure costs has given companies of all sizes access to consumers around the United States and worldwide.

The dominant method for shipping e-commerce goods within Canada is Canada Post: Approximately 70% of goods sold via the Internet in Canada are shipped by Canada Post. Additionally, for a small or medium sized business (SMB) it is likely that most orders are fulfilled in-house rather than through a 3PL company. At sales volumes where it is practical and cost-effective to have in-house order fulfilment, Canada Post will likely offer the best shipping rates because many 3PL companies are only cost competitive when there are high shipping volumes.

If your company handles order fulfilment in-house, you and your staff are responsible for the entire process from when a customer places an order to when the product is delivered: keeping track of and restocking inventory, organizing customers' orders, picking the right item(s) from the shelves when an order comes in, packing the item(s) appropriately, printing a shipping label, and delivering the package to Canada Post or another courier. This process is particularly complex if your product portfolio covers a wide range of categories and SKUs. However, a smooth order fulfilment process is critical to competing in online retail, particularly the ability to ship an order the same day the customer makes the purchase.

If your company begins selling enough volume, it may become impractical to continue fulfilling orders in-house. In this case, a 3PL provider would be able to manage all or part of your logistics and inventory process, sometimes even integrating with your purchasing system to automate the full process. Some 3PL companies specialise in providing services for specific industries and may be a particularly ideal fit for your company.

The last major decision related to supply chain that you need to make is whether to keep inventory in the United States or Canada. Shipping goods in bulk to a warehouse in the United States will likely require a freight forwarder and customs broker. In addition, although it may expose your business to tax liabilities, warehousing in the United States enables you to handle returns in the same country. Warehousing in Canada requires you to manage cross-border returns, which could increase expenses and complicate the process for your U.S. customers.

4.2.5
Customs processes

Importing into the United States is relatively easy due to the North American Free Trade Agreement (NAFTA). Canadian businesses have two options: informal entry into the U.S. or formal entry.

Informal entry requires (a) that the goods be valued under US$2,500 and (b) that the exporter accompany the goods or the co-signee pick up the goods at the port of entry. Informal entry also allows for door-to-door or postal deliveries, making it a potentially enticing option for goods warehoused in Canada and shipped across the border.

Formal entry is required for unaccompanied goods or goods valued over US$2,500 and requires the use of a customs broker. Customs brokers are responsible for staying up to date with customs regulations, preparing documentation, and arranging necessary bonds. Customs brokerage services are often offered by 3PL companies and can be incorporated into their other services.

After deciding whether to use formal or informal entry to move your products across the border, be sure to calculate the cost and time involved so that you can pass costs onto customers if needed as well as set customers' expectations regarding estimated delivery times.

4.2.6
Returns

The complexity of a return is greatly affected by whether the product needs to be shipped across a national border. If you work with a 3PL company that warehouses in the United States, it may be able to receive returns and restock items for you. If returned items need to be sent back to Canada, it can be a complicated process.

Whether returned products will go to a warehouse in the U.S. or back to Canada, you first need to decide who will pay for the return shipping and other associated costs: your company or the customer. Customers in the U.S. have increasingly become accustomed to free returns and this trend is expected to continue. Although customers do not necessarily have the same expectations for products coming from outside the United States, it does mean that your products will be competing with any similar products that benefit from free return shipping.

If your company will be paying for return shipping within the U.S., it can take advantage of services like the United States Postal Service (USPS) Print and Deliver Label Service. This USPS service allows a company to order a return shipping label to be sent to the customer and then charges the company for the label once the package is delivered.

If returned products are going to be sent back to Canada, your company (or your 3PL provider) will have to prepare return orders for Canadian customs. USPS offers a tool for generating a customs form, which needs to be printed and attached to the package in a separate envelope. The sender (either your company or the customer, depending on who will be responsible) must also write "returns/repairs" on the customs form. If this is not included on the form, the package will be counted as an import and your company will have to pay any associated duties or taxes upon arrival in Canada.

Due to the complexity and cost of returning items cross border, it may be more cost-effective to refund the cost of the goods and let the customer keep them. This is a decision your company will have to make after weighing the various issues summarized above.

It is also important to note that some online marketplaces may mandate specific return policies. You should confirm whether this is the case before you begin selling on a platform that exposes your business to a costly or otherwise impractical return policy.

Key takeaways on entering the U.S. market

- Identify one or more sales channels to use
- Create a website to market your product
- If you have decided to manage an online store on your website:
  - Set up a payment gateway
  - Partner with a payment processor
  - Establish a merchant account
- Obtain inventory of your product and understand how to:
  - Store it
  - Pick it
  - Pack it
  - Ship it

Case study: Echo Verde

Echo Verde is an ecologically friendly and organic clothing line based in Vancouver, Canada, that has been in operation since 2009. The company has historically sold its products wholesale. Echo Verde launched an online store on its website, echoverde.com, in 2017.

Since launching its online store, Echo Verde has tackled problems ranging from uploading products onto the website, navigating the payment process in the U.S., and shipping across the border using Canada Post.

Echo Verde has sought to attract consumers by using social media and offering coupons for bloggers to use while promoting the brand. The company's website has also attracted customers who had previously purchased Echo Verde's products through retailers. In addition, Echo Verde has been able to take advantage of its website to sell excess supply and recoup sales lost from last year's line-up while selling at higher margins than would have been possible if they had been sold through a retailer.

In total, the company has brought in approximately C$10,000 in e-commerce sales since launching its online store.

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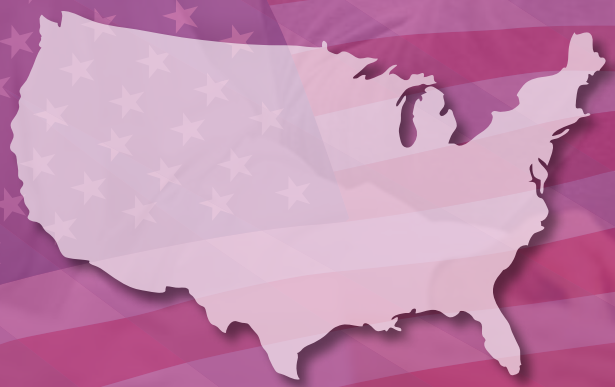
CHAPTER #5

Understanding the U.S. market



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Understanding the U.S. market

Decisions regarding whether to enter the U.S. e-commerce market as well as how to market and sell your product in the U.S. should be guided by an in-depth understanding of the market.

You should analyse what is driving e-commerce in the country, any relevant changes in Internet-enabled technology, and how U.S. consumers are reacting to these changes. Businesses today, particularly those linked to technology, are under intense pressure to stay abreast (ideally ahead) of market trends, adapting as needed.

Changes in the digital landscape have pushed consumers to demand speed, convenience, and rapid access across all aspects of their lives. Smartphones in particular perpetuate this demand for immediacy: Global consumers use smartphones for at least six types of activity per day on average,[11] and this is likely to increase in the future. The ability to access content "on demand" has increasingly led consumers to have similar expectations regarding physical products and the purchasing experience. Retailers in the U.S. have responded by offering faster and faster delivery times at lower cost, with many (if not most) offering at least one free shipping option and some even offering same-day delivery for select items at an additional cost.

[11] Euromonitor, "Connected Consumers: 'Can do' Versus 'Should do' Thinking," December 4, 2017. www.euromonitor.com

The Internet has also given consumers a greater voice in business exchanges. If a consumer has a negative experience with a brand or product, it is easy for them to broadcast their discontent to an extensive group of people on an online forum. Although "word of mouth" has always been an important way to build a brand's reputation, in the age of the Internet a positive reputation still takes time to build, while a negative one can spread like wildfire. With the Internet and especially social media, consumers can easily equip themselves with a wealth of information about a product and brand before making a purchase. Some of this information is not hard to monitor, such as the consumer reviews left on an online store carrying your product. However, much of it can be hard to find: individuals reviewing your product on their blog or niche online publications; posts on Twitter, Facebook and the plethora of other social media sites; even videos on YouTube and other channels where consumers open and test the product on camera. Because of this heightened consumer influence, brands need to work even harder to cater to consumers and make good impressions.

The rise of the digital consumer has also shifted how companies develop products and brands. Companies have traditionally relied on a "push" model in which they make assumptions about what consumers want and then push products onto consumers. In the digital age, this has shifted to a "pull" model in which consumers are better able to advocate for what they want, making companies follow their lead when shaping products and brands. The result is that your company needs to constantly assess consumers' needs and ensure your products are responding appropriately.

5.1 Market drivers

5.1.1 Technology

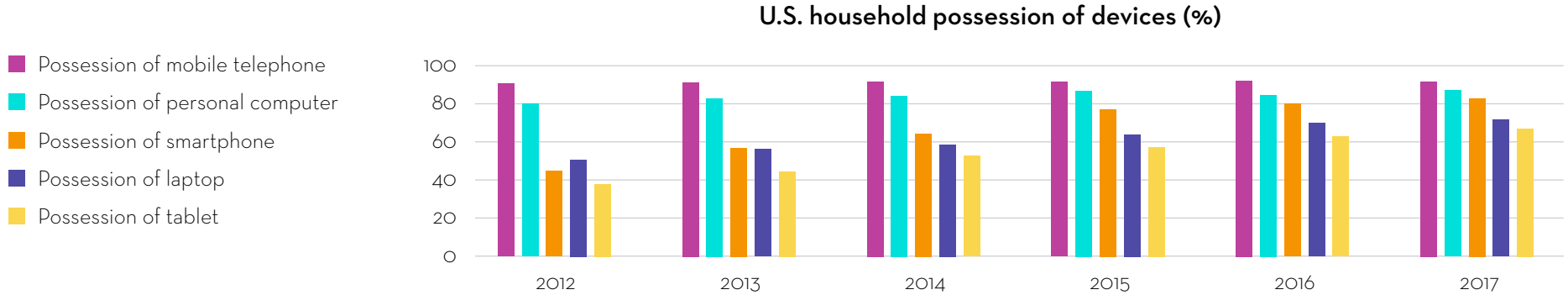
Technological changes have revolutionised how consumers connect to the Internet and what they do online. These changes have made the Internet, including online shopping, a major part of consumers' lives, particularly in developed markets with high Internet penetration rates like the United States.

The first wave of e-commerce in the United States came in the 1990s, when consumers were first exposed to the "World Wide Web". During that decade, entrepreneurs and even some well-established businesses rushed to join the "Internet revolution". Amidst the hype surrounding online business, the stock exchange greatly overvalued so-called "dot com" companies, leading to an economic bubble that eventually burst. Many of the companies that collapsed at that time were involved in e-commerce, though some of the early e-commerce players remain in operation, such as Amazon, eBay, and Peapod.

Since the 1990s, online shopping has become commonplace in U.S. households, driven largely by the rapid increase in access to the Internet. When online commerce began in the 1990s, its target audience was limited to consumers that had a desktop computer hooked up to the Internet, which was only available via dial-up connections at the time. A proliferation of Internet-enabled devices followed, with computing devices going from being either office items or household goods (one desktop computer for the entire family) to being individual and increasingly mobile devices. In many U.S. families today, each parent and even child has their own laptop and smartphone. Tablets have also rapidly expanded in the United States. As Internet-enabled devices have penetrated the market, technology improvements have enabled Internet providers to offer faster and faster connection speeds, further increasing the types and frequency of activities that consumers choose to do online.

As a result of these changes, consumers in the U.S. are generally deeply immersed in their online worlds. Consumers in the country are so "connected" that habits like "second-screen viewing" (browsing the Internet on one device while screening videos on a second one) are becoming common.

Consumers' attachment to (and even dependence on) the Internet has also grown as use cases have increased. New platforms bring more and more of consumers' daily activities online. The most visible platforms in the U.S. have been Facebook and other social networks, as well as streaming media companies like Netflix. Companies are also building entirely new experiences using the Internet, such as voice-operated interfaces like Google Home and Amazon Echo that connect various Internet-enabled devices. Platforms like these are gateways for consumers and push them further into the digital world for their daily interactions, be they shopping or socialising. As these technologies and platforms have become more ubiquitous in the U.S., it has prompted technology analysts to predict that the country will become a "digital first" society driven by the "Internet of things" (the term IoT is increasingly being used to refer to the network of electronics, home appliances, vehicles, and other objects that exchange information or "talk to each other" by connecting online).



5.1.2

Consumer demand

E-commerce is shaped as much by consumer demand as it is by the availability and proliferation of technology. Although many consumers in the U.S. still prefer to see products in person before buying them, retailers have adopted strategies to make the online shopping experience as attractive as possible, targeting consumer demand for good prices, convenience, and variety. Indeed, the strongest market trends in e-commerce have been driven by consumer demand for these three attributes.

Price

Online retailers often use price discounts as part of their strategy to attract customers and encourage them to purchase online. According to a recent study by Pew Research, over 65% of online shoppers in the U.S. prefer to purchase from a physical store but are ultimately driven by price. Pew also found that 86% of consumers in the U.S. said that comparing prices from different sellers is either extremely or somewhat important when buying a product for the first time.[12] Shopping online enables consumers to compare prices across a wide variety of brands and retailers much more easily and in less time than if they depended solely on brick-and-mortar stores.

Internet retailers have capitalised on consumers' price-consciousness in several ways. First, they have lowered prices by shaving costs, especially by reducing investments in store rooms and streamlining their supply chains. Second, many online retailers use dynamic pricing to try to estimate how much a consumer is willing to pay. Third, online retailers can rapidly launch flash sales or other price-related marketing tactics to nudge consumers in the right direction. A notable example of this is Amazon, which has been said to 'not care about turning a profit' as the company focuses on razor-thin margins and continuous expansion.

Attracting consumers to online channels by offering lower prices has put downward pressure on prices. This carries the risk of products becoming commoditized and buyers rushing for the lowest price possible, without focusing on differentiation through quality and other characteristics. Major players like Amazon might survive this type of competition, but many businesses may not fare well, particularly SMBs and those without strong brand recognition among U.S. consumers. This practice of undercutting prices is exemplified by Amazon, which sells dozens of private label brands on its website – in 2017 it had 12 brands in fashion alone.

Reasons consumers buy products online:

1)	Free shipping	46.13%
2)	Best price	43.87%
3)	Ability to order at any time, from anywhere	35.22%
4)	Time saving	34.03%
5)	Variety of brands	29.00%

Euromonitor Global Consumer Trends Survey, 2017

[12] Pew Research Center, "Online Shopping and E-Commerce," December 19, 2016. http://www.pewinternet.org/2016/12/19/online-shopping-and-purchasing-preferences/

Convenience

The quest for convenience is another consumer trend driving e-commerce in the United States. In response, companies have made a clear push to make consumer experiences easier across services like travel websites, transportation (e.g., ridesharing apps), and online shopping. Whether they are industry disruptors or established players, the most successful companies in e-commerce strive to simplify the entire customer experience from product research and discovery to purchase finalization and delivery. If your product is not easy for consumers to research and purchase, then your company risks losing them during their path to purchase.

Companies seek to make the online shopping experience feel "seamless" while also engaging with consumers in more ways. Streamlining the actual purchase process (adding products to a cart, entering payment information, and submitting the purchase order) has been a key part of this effort. One of the earliest examples was Amazon's patented "One-Click" feature, which allowed consumers to bypass the normal online checkout process, streamlining online purchasing significantly (Amazon held this patent in the U.S. from 1999 to 2017). More recently, Amazon introduced a device that exemplifies how U.S. homes are becoming increasingly "connected": Amazon's Dash Buttons are devices about the size of a stick of chewing gum that can be stuck to nearly any surface in the home. Dash Buttons use the home's Wi-Fi network to allow consumers to instantly order household items "with the press of a button". The devices are also co-branded (e.g., you can place a Tide Dash Button near your laundry machines to reorder your preferred Tide detergent).

Several companies have innovated to address consumers' desire to "try before buying", which is a key obstacle to making a purchase online even in the United States. Some retailers initially responded to this by offering free deliveries and even free return shipping. A consumer wanting to buy a pair of shoes could, for instance, order three different pairs of shoes on Zappos.com (with free delivery), wait for them to arrive, try them all on, and return the two pairs they did not want to buy (with free return shipping). Although convenient for consumers able to wait to receive the products, this has been a significant cost for retailers like Zappos.

More recently, several companies have tried to improve the "try before buying" process to increase the likelihood of consumers purchasing the correct product, model, or size. For example, Nordstrom-owned Trunk Club assigns each customer a fashion specialist to help in selecting clothing that is then shipped to the customer, who can purchase the clothes outright or send them back to Trunk Club. The service can be completed virtually or in person at one of the company's seven locations. MTailor offers similar but entirely virtual services, sizing customers using their smartphone cameras. Similarly, Modsy, Hutch, and Houzz help consumers size and fit furniture for their homes.

Variety

Besides price and convenience, the variety of the product selection online has been a major driver pushing consumers to online channels. With the Internet, a consumer in a small city in Tennessee can purchase items that are not available in their local stores, including items from outside the state or even country. Walmart, for example, has approximately 125,000 items in one of its stores but over 11 million on its website, while Amazon has over 200 million items online, earning it the nickname "The Everything Store".

Many consumers use the wide product selection online to find the lowest prices, but for many the Internet allows them to find special products or ones ideally suited to their needs – they might even be willing to pay more for this. Some e-commerce players have responded by offering consumers the ability to customize products online. For example, NIKEiD allows consumers to design their own shoes and accessories, delivering the final product in three to five weeks. According to a recent study by Deloitte, over 50% of U.S. consumers expressed interest in buying a customized item in certain categories.[13]

The breadth of the product selection online has allowed niche industries and products to blossom by facilitating the connection between vendors and their target consumers. Vendors are able to use online tools to identify and market to their target customer base, while interested consumers are able to use online search engines, large or specialised e-retailers, and online marketplaces to look for niche products. Subscription box companies have also emerged to facilitate the discovery process for consumers. These companies send consumers a regular package (usually monthly) with samples of a variety of products. Whether it is Birch Box for beauty products or BarkBox for pets, consumers interested in trying new products without having to do the research themselves are willing to pay for curation.

Social media has also given many U.S. consumers a broader view of what is (or will be) available, exposing them to products and brands they may not have otherwise learned about. It has even helped finance entirely new businesses or products: Platforms like Kickstarter and IndieGoGo have made it easier to launch a product by identifying demand and preselling inventory before product launch.

5.1.3
The competition

The United States has one of the most competitive e-commerce markets in the world. Although the online retail landscape is relatively concentrated, with Amazon accounting for approximately 45% of Internet retail sales in the U.S. in 2017, the market is so large that there are still many retail competitors with which to contend. For product manufacturers, the competition is even higher.

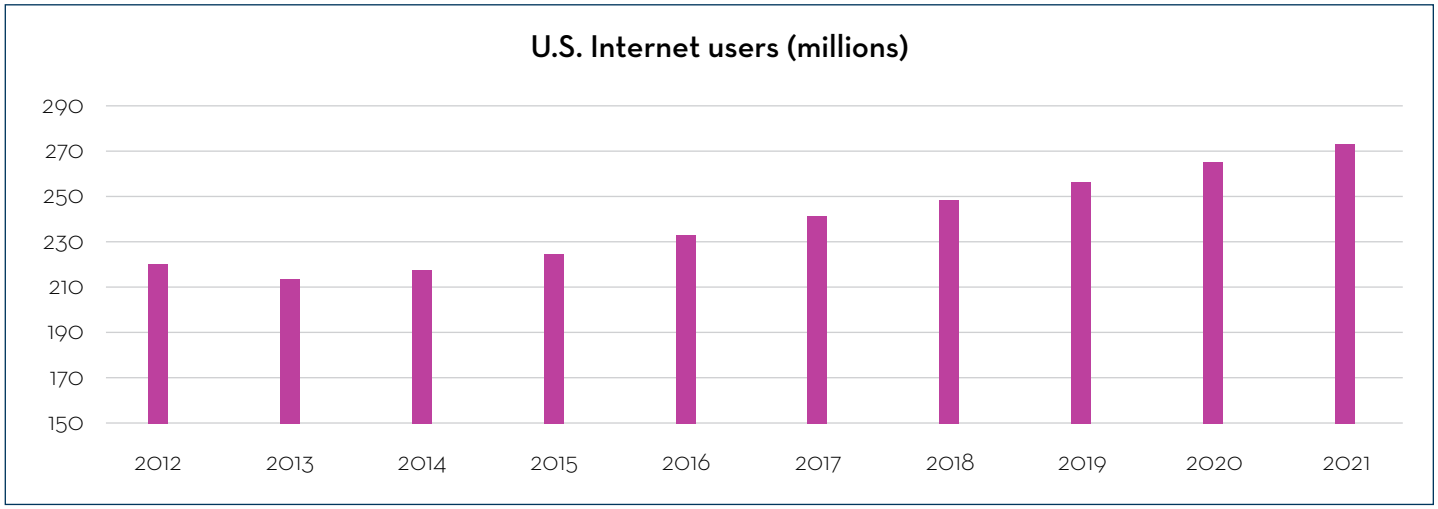
Continued corporate investment in online shopping options has helped propel e-commerce growth in the United States, as companies push to be recognised for having the best prices and product selection as well as the most convenient platform. The investment has two main driving forces: competition for brands and competition for baskets.

Large companies have adopted acquisition strategies to add brands that help them stand out in the flooded e-commerce market in the United States. Walmart's acquisition of Bonobos, a moderately upscale online men's fashion brand, demonstrates the value of brands as a means to remain relevant online. The online only brand was founded in 2007 and purchased by Walmart in 2017 for $310 million USD. Traditionally Walmart has focused on low value, high volume sales and its private label brands reflected that attitude. The purchase of Bonobos was in stark contrast to this traditional philosophy and many observers speculate that the value of a brand like Bonobos is primarily because of the rise of internet retailing which made many of Walmart's traditional clothing items a simple commodity. Owning sought after brands can be seen as an effort to stick out in a flooded market and it is telling that even the world's largest retailer sees the value of a name.

[13] Deloitte, "The Deloitte Consumer Review, Made-to-order: The rise of mass personalization," 2015. https://www2.deloitte.com/content/dam/Deloitte/ch/Documents/consumer-business/ch-en-consumer-business-made-to-order-consumer-review.pdf

While companies are pushing to offer brands that stand out, they are also trying to capture as much of consumers' online spending as possible. There has been a movement to integrate in-store and online experiences as well as adress a wide range of consumer needs. For example, Target is a brick-and-mortar retail chain with a robust offering on Target.com and recently acquired a grocery delivery start-up for US$550 million. Online retailer Amazon, which has been trying to push grocery categories in its online store, recently acquired Whole Foods, a premium brick-and-mortar grocery retailer, for $14 billion.

The fierce competition over brands and baskets means that companies must continuously struggle to stand out in a crowded market, with creative tactics often being those most likely to achieve this.

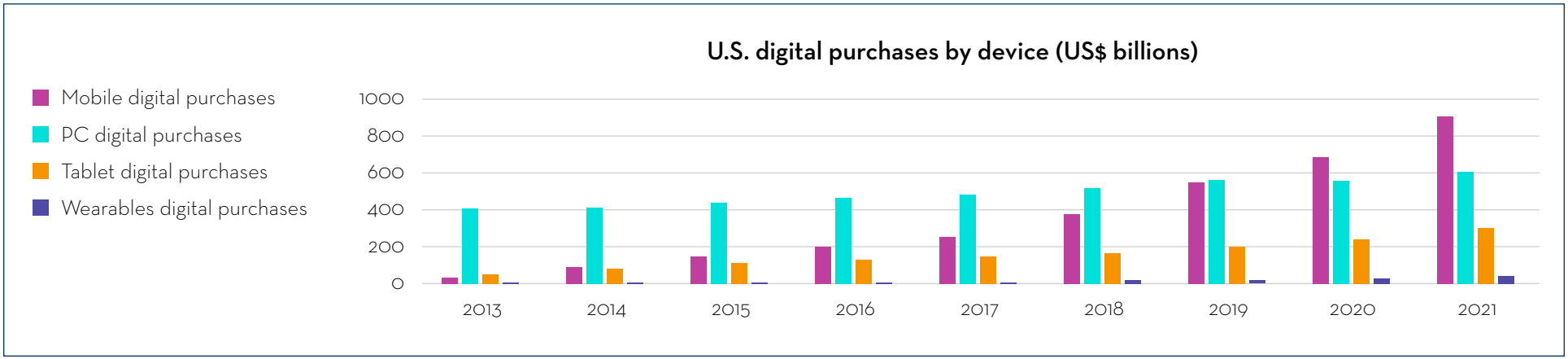


5.2

The evolution of digital consumers

Consumers in the United States have for the most part integrated their digital lives into their daily existence, no longer distinguishing between their online activities and their in-person ones – it is far less common today to hear about "virtual life" versus "real life". People in the U.S. collectively look at their phones over 8 billion times per day, or approximately 46 times per person per day.[14]

They use computers at work or school, use mobile phones during breaks, and browse the Internet or stream videos online when they get home. Digital consumption of information, products, and services has become a daily constant, even for many people in the youngest and oldest consumer groups.



[14] Deloitte "Global mobile consumer survey: US Edition.
https://www2.deloitte.com/us/en/pages/technology-media-and-telecommunications/articles/global-mobile-consumer-survey-us-edition.html

Connectivity has impacted nearly all aspects of U.S. society, including entertainment, education, news, socialising, and shopping. When it comes to shopping, using the Internet during some or all or the purchasing process has become second nature, especially for younger generations. For example, consumers might do product research online even if they plan on buying the item in person – in fact, they might do product research on their smartphone when standing in the store. According to a recent study by the Pew Research Centre, nearly half of adults under 50 routinely check online reviews before buying an item, while 67% of people who shop online at least once a week say they nearly always read customer reviews.[15] Some consumers even express greater levels of trust in online reviews than in government regulations for some products.[16]

Understanding how the integration of the Internet into daily activities impacts consumers' lives and expectations is important if you want to successfully enter the e-commerce market in the United States. On one hand, the Internet has given consumers greater convenience and access to knowledge, which can benefit market entrants trying to reach a new customer base. However, companies must also realize that U.S. consumers are more impatient, demanding, and informed than ever before.

5.2.1
Digital consumers and your brand

The key to successfully building your brand in the United States is to understand your target audience and maintain a relationship with it. This was true before the Internet, but it is now critical to understand how to build relationships specifically through online channels. Your company should analyse how your target U.S. consumers discover products online, which channels they prefer, and what influences their research and purchase decisions. By gaining a comprehensive view of your target consumers' path to purchase, you will be better able to develop a successful online marketing strategy. In fact, it could be wise to consider adopting omnichannel strategies that reinforce your marketing message across various channels, integrating the offline and online experiences that U.S. consumers have with your company, brand, and product.

Building strong relationship with consumers in the U.S. requires proactive and reactive outreach. Your brand must actively sell itself on your website, across social media, and through other channels, while also responding to consumer feedback. One common practice for e-commerce players in the United States is to identify relevant online communities and "influencers" and leverage them in spreading awareness. Influencers are individuals with the power to affect the purchasing decisions of others because of their authority, knowledge, position, or relationship with their followers. Influencers tend to have followers in a specific niche with whom they engage on a regular basis. It is common for businesses to offer free samples to influential websites or online personalities in the U.S. to encourage them to try a product and share a review with their followers.

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[15] Pew Research Center, "Online Shopping and E-Commerce," December 19, 2016.
http://www.pewinternet.org/2016/12/19/online-shopping-and-purchasing-preferences/

[16] Pew Research Center, "Online Shopping and E-Commerce," December 19, 2016.
http://www.pewinternet.org/2016/12/19/online-reviews/

However, it is important to be careful when marketing your product and in leveraging influencers to do so. In this age of near-instant access to information, it is easy for consumers to discover whether your company is being dishonest in its marketing. Misleading marketing or misusing influencers can backfire if consumers discover what you have done. Not only do today's consumers demand much more information about companies and products, but they also have higher expectations regarding the veracity of product claims and integrity of marketing methods. Influencers and other online marketing platforms should be viewed as social relationship assets with which to collaborate, not just as one-way marketing tools.

For example, YouTube and Facebook are the most popular social networks in the United States, with 244 million and 240 million monthly users, respectively. These platforms offer opportunities to engage with consumers on a more intimate level. However, working with online platforms like these or partnering with influencers who use the platforms also exposes your brand to risk. Social networks have recently been criticized for the type of content they allow and promote on their platforms, while high-profile influencers can fall into public relations crises that could damage brands they have promoted.

Partnerships away from the public eye also come with opportunities and risks. Companies today are able to track what consumers are doing online, and those that anticipate consumers' needs have experienced the strongest growth in the digital economy. Companies use cookies to track consumer activity online and use social networks to intervene in consumers' lives, trying to make product recommendations at just the right time. These and other online tools increasingly give companies the ability to tailor marketing to specific individuals and groups. However, your company may need to rely on external partnerships to obtain much of the data that enables this type of consumer targeting. Platforms like Amazon and Facebook are potential opportunities for marketing and sales, but they also limit access to their data and may require a formal partnership before sharing it – if they share it at all. Even if the platforms are willing to share or sell consumer data to your company, receiving it may expose your company to reputational risk, as consumers are increasingly sensitive about the security and privacy of their data.

Key takeaways: Understanding the U.S. market

- Is your product discoverable on the Internet-enabled devices and platforms that your target consumers use most?
- Is your product easy to find and purchase?
- Does your product stand out? Does it offer a value proposition that will attract consumers in a crowded market (or encourage consumers to try a new product)?
- Is your product appropriately priced considering what competitors' prices are?
- How do you plan to connect with consumers online?
- How will you integrate online and offline experiences that consumers have with your brand and product?

"Working with companies that have experience with re-targeting is key. You have to understand how to reach someone again after they have visited. Nobody buys on first impression."

– CEO, Home Décor Company

CHAPTER #6

Ongoing concerns

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6.1

Scaling concerns

As you develop your business strategy for entering the U.S. e-commerce market, consider how willing company is to commit to this strategy over the next one to five years. This will likely entail planning for volume growth and building expansion plans into your strategy, even if they are not implemented until later.

Three of the areas that would be most affected by your business scaling up would be how much you do in-house versus outsource, how you handle order fulfilment as volumes increase, and how you manage customer service.

When launching an e-commerce business, it is generally recommended that your company keep any upfront infrastructure costs either low or non-existent. If your company is small enough, this can often be done by keeping functions such as marketing and order fulfilment in-house. However, as your company grows it may become impractical to keep all functions in-house, and you may need to consider outsourcing specific functions.

To decide which functions to outsource (if any), consider the importance of each individual aspect of your business and the level of company-specific information that required. It may be unwise to outsource certain aspects of a business, such as marketing and communications. Consumers in the U.S. seek authentic connections with brands, and cultivating relationships with consumers is key to growth. Building these relationships requires honest communications about your product, and it can be hard to demonstrate this level of honesty if you have outsourced communications, especially early on in your venture. For other functions, such as information technology (IT), it may seem expensive to hire an external vendor when you are first entering the market. However, you may want to hire a consultancy early on to avoid spending money later to redo work that was either done incorrectly the first time or did not leave your business room to scale.

Besides IT, two other business functions that can be hard to scale are order fulfilment and customer service. It is important for you to ensure that you have systems in place to handle future growth, as well as contingency plans in case growth happens unexpectedly. For example, if your brand currently has a low sales volume, it is possible for an event like a holiday or a viral surge in popularity to make you run out of stock or encounter into problems with fulfilment. These situations often create bad publicity and solicit negative reviews from customers who do receive the orders late or not at all.

Fiscal restraints may prevent you from keeping enough supply in stock for a sudden surge in sales, but the order management side of fulfilment is more controllable. These services can be outsourced to a specialised third-party

fulfilment or logistics provider that is able to handle rapid scaling. It is recommended to use a specialised provider earlier rather than later if you can afford it: It is usually too late to switch at the moment when demand is so high it requires third-party logistics services.

As for customer service, most customer complaints are not about the original problem but are about how the problem was handled.[17] In fact, even a customer that has a problem with your product may leave a customer service interaction with a positive perception of your company. Customer service issues can be challenging enough when selling low volumes, but as your business scales this function may occupy a significant amount of corporate resources. It is important to anticipate how customers will prefer to reach out to your company when they have problems with your website or product, as well as plan the IT and human resources you will need to respond.

[17] Entrepreneur.com, "3 Things You Must Do to Scale Your E-commerce Business," December 8, 2016. https://www.entrepreneur.com/article/285621

6.2

Customer service

Good customer service is more important than ever in distinguishing your business in the United States, especially in the e-commerce market, which has such low cost of entry. Microsoft found that 60% of U.S. consumers have decided not to make a purchase based on a poor customer service experience and 66% are willing to spend more money with a company that provides them with excellent customer service.[18] The Internet has only made consumers more demanding, increasing their expectations regarding the number of ways they should be able to get information about and communicate with your company.

In the United States, consumers often try to find information themselves online before asking a question. It is therefore important for your website to be detailed and easy to navigate, especially regarding how customers should make returns. An informative and user-friendly website may also reduce the time and money you spend answering customer service inquiries. If relevant for your target consumer group, you may even consider allowing customers to answer each other's questions on your website.

Many U.S. consumers still prefer making customer service inquiries through phone calls or do not mind the time it takes to get responses to emails or online inquiry forms. However, consumers increasingly expect to be able to communicate with e-commerce businesses in other ways as well. Some of these communication channels are ones you can set up and/or monitor fairly easily: online chats on your website (e-commerce platforms with "24/7 chat" are especially attractive), messages sent to or "tagging" your corporate social media accounts, and the product review section of the online stores you use. Other online communication channels are much more challenging to monitor due to the sheer amount of content online, such as independent websites, blogs, social media posts that do not "tag" your corporate account, and specialised online forums or communities (e.g., Reddit).

6.3

Alternative business models

The Internet has led to the proliferation of alternative business models and exchanges, including trial periods, subscription boxes, recurring subscriptions, short-term leases, and affiliate marketing. While these may not become your primary sales model, it is worth analysing whether one or more could be leveraged to boost sales profitably.

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[18] Business Insider, "The Customer Service Report: Why great customer service matters even more in the age of e-commerce and the channels that perform best." June 11, 2016.
http://www.businessinsider.com/customer-service-experiences-are-more-important-than-ever-in-the-age-of-e-commerce-2016-3

Subscription boxes

As described in section 6.1.2., subscription boxes are regularly delivered product packages containing a variety of related items. Monthly surprise boxes have become particularly common recently and span categories such as healthy foods, pet products, beauty products, and clothing. A box typically offers sample-sized products or items that can be tried and then either returned or automatically purchased if not mailed back to the company. The boxes allow consumers to explore new brands and products, helping brands increase their exposure to potential new customers. Before applying to add your product to one of these boxes, keep in mind that many of the subscription box companies ask suppliers for discounts to justify including their products.

Recurring subscriptions

Subscription boxes offer consumers variety, while recurring subscriptions automate repeat purchases of the same product, typically items that need regular replenishment (e.g., perishable food, diapers, menstrual products, or even dental floss). Because the subscription is for the same product, it is not an opportunity to showcase new products. However, recurring subscriptions do incentivise repeat purchases and customer loyalty even if at discounted prices. For example, Cocofloss began with recurring subscriptions of premium dental floss and is now featured on the brick-and-mortar and online shelves of Sephora, a popular beauty and personal care chain in the United States. Regular-sized floss is US$8 through Sephora and US$7 if part of a recurring subscription.

Short-term leases

Some retailers have started or expanded product rental services. Getting your items in a rental line-up not only adds a sales channel but also gets your product into customers' hands with less upfront commitment on their part. For instance, Home Depot, a well-known hardware chain in the U.S., has started expanding tool rental services. Rent the Runway offers consumers the ability to rent high-end clothing for short periods of time at rates as low as 10% of the retail sales price. The company provides customers with a pre-paid, pre-addressed package to return the clothing items and handles dry cleaning between customers.

6.4

Intellectual property: Trademarks and copyrights

Trademarks are legally registered symbols or expressions that are used to protect brands and other entities from competitors capitalising on their reputations.

Trademarks are legally registered symbols or expressions that are used to protect brands and other entities from competitors capitalising on their reputations. Before applying for a trademark in the United States, it is important to do a trademark search and ensure that you will not infringe on existing trademarks. Canadian companies seeking to register a trademark in the U.S. must currently hire an attorney in the U.S. to file an application with the United States Patent and Trademark Office. Canada has joined into the Madrid Protocol, which will make it easier to apply for international trademarks in dozens of countries, but this treaty is only expected to enter into force in Canada in 2018.

Besides registering trademarks, it is important for your company to actively monitor websites and marketplaces for knock-off products or companies that are trying to infringe on your intellectual property. It is possible to outsource this routine and time-consuming process to third-party providers of trademark and brand monitoring services.

Lastly, content that your company generates, such as photographs and text, may be protected by copyright laws in the United States. Both the United States and Canada are parties to the Berne Convention and the Universal Copyright Convention, which give foreign intellectual property owners the same copyright protections as a domestic intellectual property owner would receive. If your company believes that your copyrights are being violated on a website, then you can file a Digital Millennium Copyright Act (DMCA) Takedown Notice. To file a Takedown Notice, you must identify a website's Internet service provider (ISP) and then locate the ISP's DMCA agent. This information is typically available on the ISP's corporate website, and many ISPs even provide standard forms for sending DMCA Takedown Notices. More information on how to create standard DMCA Takedown Notices can be found online; you can also contact an attorney in the United States if you have more questions.

CHAPTER #7

Relevant e-commerce service providers and partners

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7.1

Digital brand marketing services

7.1.1

Explanation of services

Providers of digital brand marketing services help companies manage their online relationship with potential and existing customers. Although hiring one is not required in order to be successful selling online in the United States, a good provider can help you optimise your web presence and thus increase sales. The services provided can include website design, advertising, search engine optimisation, reputation management, social media and email marketing, and analytics. Some providers may have specialised experience working with certain platforms such as Shopify or Amazon, and many providers also offer consulting services to help you shape your online strategy.

Sample services

Website design: Given the limited attention span of the average Internet user, especially in the United States, it is critical to make a good impression quickly. Websites that take longer than two seconds to load are significantly more likely to lose visitors than those with load times under two seconds. Working with an experienced partner can help ensure that your website is responsive and easy to navigate, with content that resonates with consumers in terms of style and purpose.

"One of the benefits of social media is that it's a way to build sweat equity in your business. Once you build a following, you own it."

– Chief Operating Officer, Online Packaged Food Company

Pay-per-click (PPC) advertising: One of the most commonly used online advertising methods is to post ads on websites or search engines and pay the host each time a user clicks on the ad. There are several ad exchanges that can place your advertisements "in the right place and at the right time" to appeal to consumers. Providers of brand marketing services can help perfect the content of the ad and navigate the ad exchanges to ensure that your company gets the best return on investment possible.

Search engine optimisation (SEO): Besides paying to have your ads placed next to search results, you can also anticipate consumer searches and develop content that will "naturally" appear at the top of search results. Marketing firms can help your company understand how to create and place content that will display at the top of relevant search results, and some even specialise in raising your product to the top of specialty searches like Amazon's search bar. Search engine optimisation is an important part of standing out online today, as Internet users are overwhelmed by choices and have short attention spans, meaning they typically do not look past the first several results.

Online reputation management: Marketing firms can help you keep abreast of information published about your company and products online. Knowing when product reviews, comments, and news are posted online and understanding how to respond in a timely fashion is crucial. If you are unable to stay ahead of negative reviews in particular, your business may suffer as people reading those reviews begin to form opinions even before directly interacting with your brand. If people post positive information about your brand or product without you realizing it, you may miss out on opportunities to develop collaborative with key influencers.

Social media: Marketing providers can also be used to develop a strategy to reach your target audience via social media and to create content tailored to specific social media platforms. It is highly recommended to post social media content regularly, with time intervals depending on the platform, as this will help develop consumer interest and keep followers engaged with your brand. Marketing service providers can help you maintain a robust pipeline of content and track how it performs.

Email marketing: Marketing firms can help manage email lists and distribute relevant email content. Email is more than a tool for tracking customers and purchases; it is also a way to maintain frequent contact with your customers and boost awareness of your brand. Marketing firms can help your company maintain a pipeline of content to keep consumers engaged via email.

Analytics: Analytics can span all of the areas mentioned above and provide your company with useful information about what is (and is not) succeeding so that you can adjust your online strategy accordingly. There are many analytics firms and consultants in the U.S., including ones with industry specialisations. Marketing service providers often have a division focused on analytics.

7.1.2
Five sample digital marketing services

- Blue Fountain Media: www.bluefountainmedia.com
- Go Fish Digital: www.gofishdigital.com
- ROI Revolution: www.roirevolution.com
- Stryde: www.stryde.com
- Inflow: www.goinflow.com

7.2

Third-party logistics (3PL) providers

7.2.1
Explanation of services

As explained earlier, if your business is large enough, it may make sense to use an external company to handle your logistics and order fulfilment. Third-party logistics, freight forwarding, and fulfilment are similar and overlapping services. Third-party logistics (3PL) is the most encompassing of these terms, covering the outsourcing of some or all of a company's supply chain needs, which can include transportation, freight management, warehousing, and distribution (including picking and packing products). Fulfilment service providers are typically full-service 3PL companies that can warehouse a company's inventory and integrate into its sales systems. Freight companies and freight forwarders have a more limited scope: Freight companies physically move cargo from one point to another, while freight forwarders act as brokers organising the steps and actors involved when cargo is moved. With a freight or freight forwarding company, you are unable to outsource distribution tasks such as picking and packing products for buyers' orders.

Third-party logistics companies often offer transaction-by-transaction shipping options like UPS and FedEx in addition to more complex and large-scale offerings. E-commerce websites typically seek a higher level of integration than transaction-by-transaction options in order to fulfil orders faster. In addition, if a company has a large enough contract with a logistics provider, it may be able to negotiate a discount on shipping or warehousing prices.

There are four types of fees that most third-party fulfilment and logistics companies will charge for basic services: Receiving and storage fees are typically charged per pallet (or the equivalent of a pallet), while pick-and-pack and shipping fees are typically charged per item.

After deciding to outsource these services, there are multiple considerations you should make when picking a logistics company. You should first analyse how well the company will be able to work with your industry and business type. Some 3PL companies may focus on particular types of products that are not relevant to you, while others may focus on business-to-business fulfilment and may therefore lack the consumer-oriented reverse logistics you would need for returns. In addition, you should make sure that the provider's pricing system is a good fit for you. For example, a business with cyclical sales may want to avoid a logistics partner with high fixed monthly costs.

7.2.2
Five sample third-party logistics providers

- UPS: www.ups.com
- FedEx: www.fedex.com
- ShipBob: www.shipbob.com
- Red Stag Fulfillment: www.redstagfulfillment.com
- Fulfillment by Amazon: www.services.amazon.com/fulfillment-by-amazon

7.3

Affiliate networks

7.3.1
Explanation of services

Affiliate networks are large exchanges of affiliated websites that aim to place the most relevant ads next to content online. These networks reward affiliates (the websites in their networks) for hosting advertisements by paying website owners a sales commission each time a visitor clicks on an ad and then makes a purchase. Affiliate ads function by placing a cookie in a web user's browser to track whether the user clicks on the ad and makes a purchase within a given amount of time. Some businesses prefer affiliate ads over pay-per-click advertising because affiliate ads reward actual purchases instead of just ad clicks.

In addition to affiliate ad exchanges, it also is possible for content creators to use affiliate links that are associated with specific products. These specialised URLs are beneficial because they can be used by content creators and online influencers who are promoting your product on their websites or social media accounts and want a financial return on this promotion.

Large retailers like Amazon, eBay, and Walmart already have affiliate networks for their products and the ability to create custom URLs. If an affiliate link is used by a customer on one of these retailers' online marketplaces, then it is the retailer and not the seller or merchant that pays the affiliate commission. This benefits sellers on these marketplaces by giving them access to large and robust affiliate networks, but it also means that they are unable to create more lucrative or customised affiliate promotions.

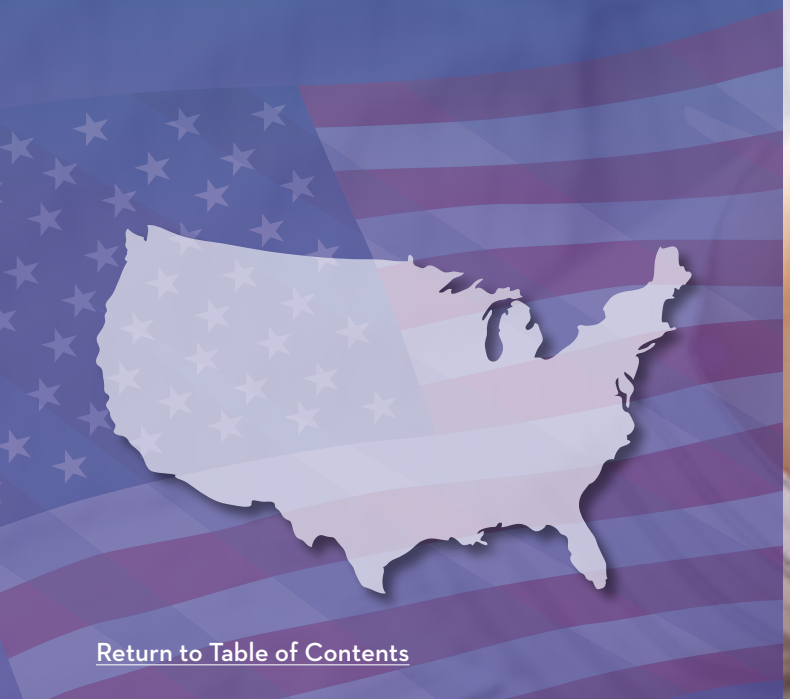
It is also possible for businesses to hire third-party companies to create affiliate links for their own independent websites and sales portals. Many of these third-party companies also offer software packages that integrate with common e-commerce platforms to streamline the process of using an affiliate link, placing an order, and paying out the referrer.

7.3.2
Five sample affiliate networks

- Clickbank: www.clickbank.com
- Refersion: www.refersion.com
- LeadDyno: www.leaddyno.com
- Enlistly: www.enlistly.com
- Affiliatly: www.affiliatly.com

CHAPTER #8

E-commerce checklist



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E-commerce checklist

Deciding to enter the market

- ✓ Identify your target audience and understand its demographics
- ✓ Research whether your specific industry is growing via online channels
- ✓ Make sure that the value proposition of your product or brand will be competitive in the U.S. e-commerce market
- ✓ Choose which online sales platform(s) or channel(s) you will use
- ✓ Consider any tax implications if you have or plan on having a physical "nexus" in a U.S. state

Positioning for sales

- ✓ Create a website to showcase your company and make sure information on shipping and returns for U.S. buyers is easy to find
- ✓ Pick a payment processor and set up a U.S. bank account if necessary
- ✓ Organise your inventory and create a plan for picking, packing, and shipping products
- ✓ Consider contracting with a third-party logistics partner if your sales volume is high enough
- ✓ Decide whether to warehouse in Canada or the United States
- ✓ Develop processes for handling customer returns from the United States
- ✓ File trademarks with the United States Patent and Trademark office
- ✓ Create customer service systems, including at minimum email, phone, and self-help sections on your brand's website
- ✓ Develop a marketing strategy, including social media and email, and consider using an omnichannel strategy

Selling your product

- ✓ Make sure your product is easy to find on the multiple device types and online platforms that U.S. consumers use
- ✓ Evaluate your product pricing to ensure it is competitive
- ✓ Ensure that the product discovery, research, and purchase experience are convenient for consumers
- ✓ Identify relevant online communities and work to build relationships with key influencers in those communities
- ✓ Consider pay-per-click advertising to get consumers to your website
- ✓ Optimise your online content for search engine parameters
- ✓ Monitor your online reputation constantly, both good and bad
- ✓ Manage your social media and email outreach
- ✓ Leverage data and analytics where possible to target consumers

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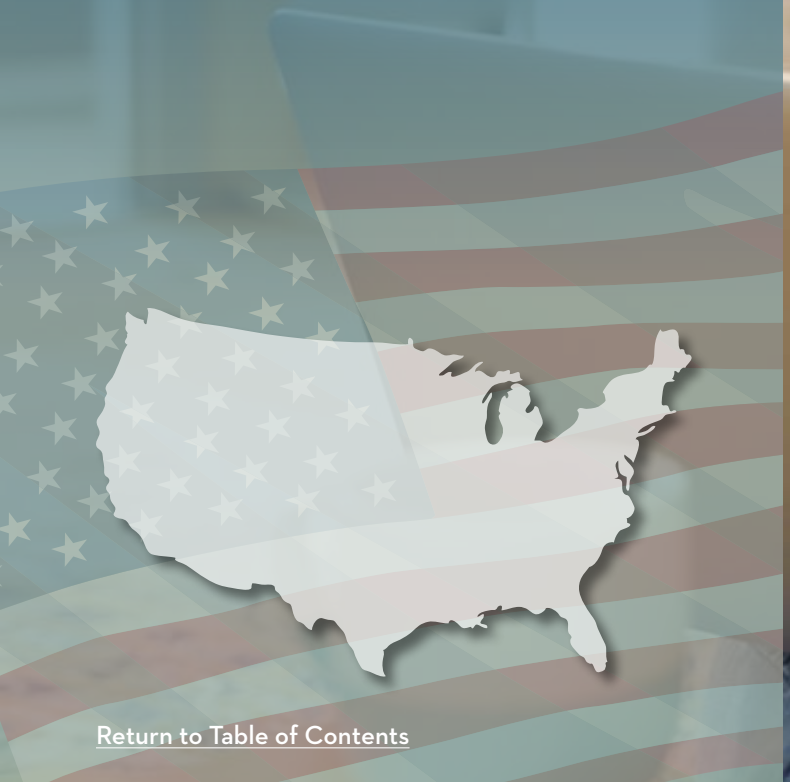
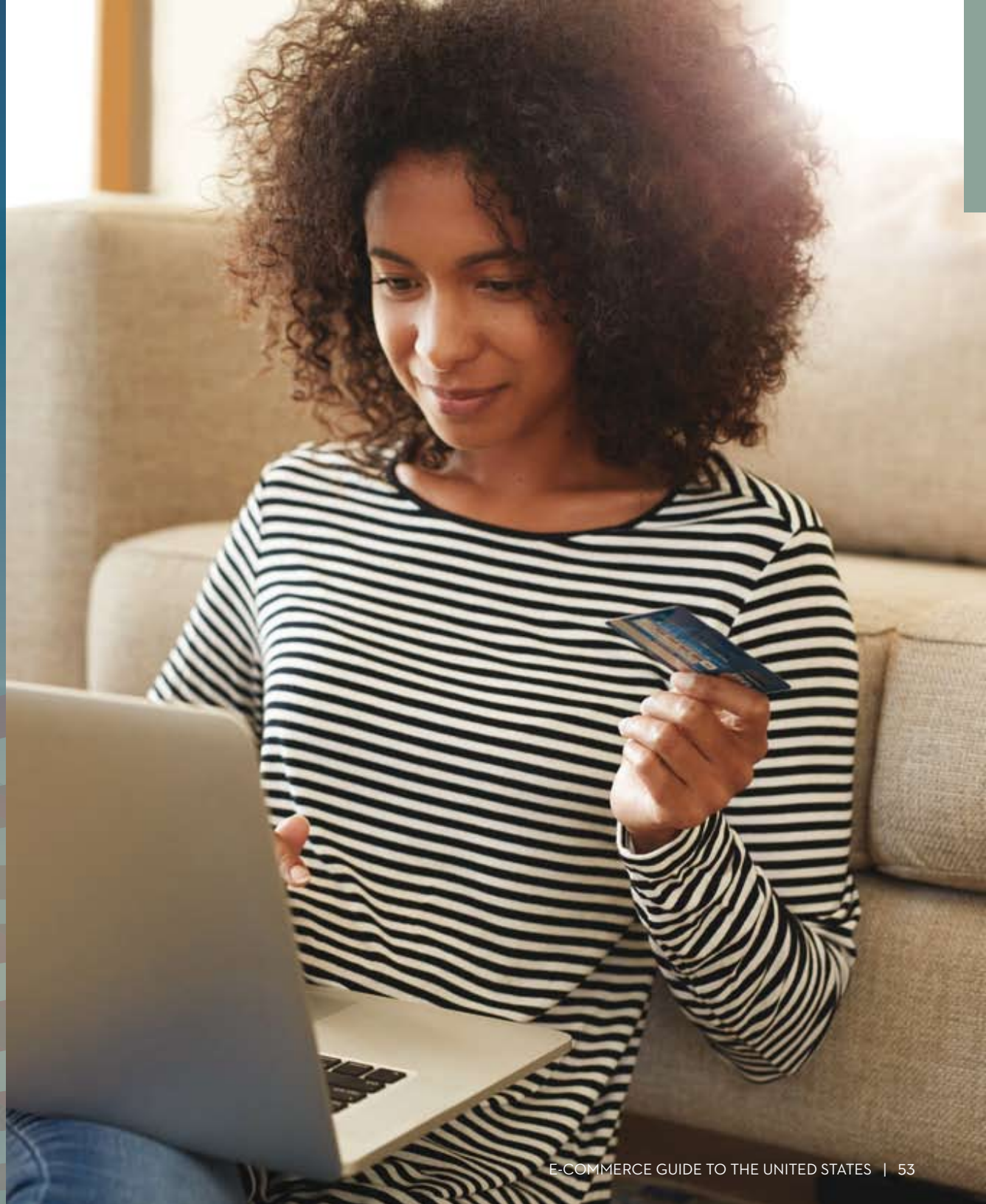
CHAPTER #9

Helpful e-commerce definitions





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Helpful e-commerce definitions

Third-party logistics (3PL) providers: Companies that provide outsourced logistics services for part or all of customers' supply chain management functions, usually specialising in warehousing and transportation services.

Search engine optimisation (SEO): The process of creating content with the aim of securing a top posting in specific queries on an online search engines.

Online reputation management: The practice of proactively monitoring a company's brand online for positive or negative mentions.

Multi-channel fulfilment: Using the same logistics or fulfilment systems to fulfil orders from multiple websites or channels.

CHAPTER #10

Trade commissioner service (TCS) resources

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FACT:

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The **Trade Commissioner Service (TCS)** helps Canadian companies navigate the complexities of international markets. If you want your business to grow internationally, tap into our expertise.

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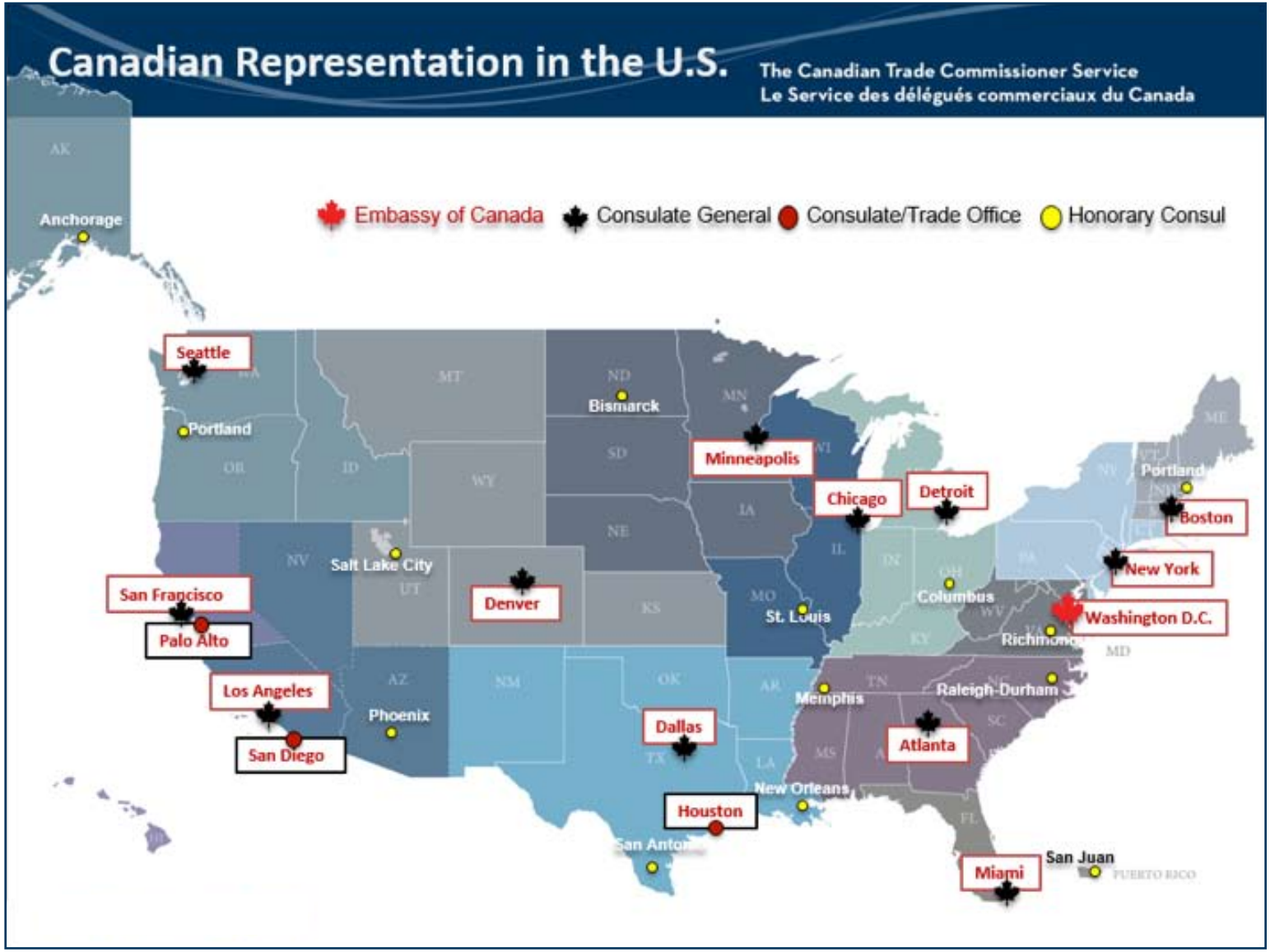
Each year, we help thousands of Canadian small and medium-sized enterprises tackle concrete problems and uncover export opportunities. We make exporting easier for companies.

With offices across Canada, we can help companies prepare for international markets, right here at home. We can assist with export advice and guidance to help you achieve your international business goals.


Canadian Representation in the U.S.
The Canadian Trade Commissioner Service
Le Service des délégués commerciaux du Canada
Embassy of Canada
Consulate General
Consulate/Trade Office
Honorary Consul
Anchorage
Seattle
Portland
Bismarck
Minneapolis
Chicago
Detroit
Portland
Boston
New York
Salt Lake City
San Francisco
Palo Alto
Denver
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TCS resources:

- Spotlight on e-commerce
- Enter new markets with e-commerce (Webinar)
- E-commerce creates global trade route
- An introduction to e-commerce in China

Access these additional resources:

- E-commerce: Leveling the playing field in global markets (source: EDC)
- Google report on e-commerce (source: EDC)
- E-commerce: A platform primer (source: EDC)

- E-commerce eBook (source: BDC)
- How to cost out your e-business efforts (source: BDC)
- Online exporting: Key steps to get your business ready (source: BDC)

- E-commerce: What to consider when selling online in Canada (source: Canada business network)
- Scaling up for sales – Optimize your online business (source: Canada business network)
- How to turn website visitors into customers (source: Canada business network)

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The Canadian Trade Commissioner Service (TCS) is gaining market intelligence and insight, and uncovering opportunities for Canadian companies.

Our export experts can help your company:

- Prepare for international markets
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