Tips For Merchants On Expanding To International Markets

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Currency risk is amid the most consequential challenges businesses face when going global. International payment processing is complex, with legal requirements and fee structures varying by geographic region and country. Many businesses need to accept foreign currencies both to expand their presence in other countries and increase sales potential. But as we know already, the foreign exchange market, by nature, fluctuates and provides some exposure for losses. It is important then to both know and understand the international processing options available today.

According to a collaborative study conducted by Deloitte and the Financial Executives Research Foundation (FERF), a group of privately-owned company executives cited the following as some of the principal motivators for international expansion: Access to new customers and markets; ability to better service domestic customers with global operations; the capability to develop and sell new products or services; better access to supplier or materials; and labor cost savings.

The same study also revealed the following as the top challenges in taking your business global: Currency risk (32 percent), cultural differences (27 percent), difficulty complying with local laws and regulations (25 percent), bureaucracy (23 percent), managing income tax implications (22 percent), lack of local skills/talent (22 percent), managing logistics, customer, and import duties (21 percent), political or social risks (20 percent), inadequate legal protections (20 percent), and poor infrastructure (19 percent).

European Expansion
A European location gives merchants the option to present prices and process transactions in their customers' currency (e.g., Euro) and to receive settlement funds in one of several different settlement currencies. Benefits to this option include:

- Pricing goods and services in the cardholder's native currency.
- Ability to receive payment in the local currency to support international divisions, affiliates, and operations with limited currency exchange concerns.
- Reduced foreign exchange risk, as the transaction can be authorized and funded in the same currency without any conversion.
- Simplified reconciliation by matching revenues and expenses in the same currency.

U.S.-based merchants without a European location have the option to present their prices and process transactions in their customers' currency (e.g., Euro) and receive

settlement funds in U.S. dollars. Benefits to this option include:
Ability to use an acquirer with established in-country processing relationships in every market.

- Ability to accept multiple currencies without the need for physical operations in each country.
- Streamlined financial operations with the ability to accept a single currency to support business operations.
- Ability for merchants to appear as a global organization, thereby appealing to international cardholders.

While the initial steps of international expansion can appear intimidating at first, it is often one of the key tools for growth – especially for e-commerce merchants looking to expand their global reach. The European market specifically, while often unpredictable, also houses the one of the world’s largest economic structures with high levels of gross domestic product per capita and Internet access. This has resulted in a considerable increase in e-commerce growth. JPMorgan predicts this trend will continue with an estimated value of $317 billion online transactions being processed by 2012 – this being significantly larger than the U.S. forecast of $202 billion. Thus, while the European market is not the only option to explore when it comes to global expansion strategies, it can certainly be one of the most profitable ones.

According to the same JPMorgan study, European online retail sales have grown by 19.4 percent year-over-year, with Internet shopping accounting for 5.9 percent of the total European retail spending in 2010. And from a market perspective, the same study revealed that while Europe has many separate territories, over 70 percent of all e-commerce activity is concentrated within only three countries: U.K. (30 percent), Germany (23 percent), and France (18 percent). Consequently, this concentration enables majority access to the European e-commerce opportunity with relatively small effort. Additionally, the UK market shares beneficial commonalities with the U.S. market with regards to language, culture, and payment methods.

Another favorable factor for the European influence is the shift towards an increasingly simplified payments landscape. In response to consumer demand, the Single Euro Payments Area (SEPA) has initiated a movement away from the traditional domestic-only card preference. What was once domestic-only is now being co-branded with the international card brands (Visa® and MasterCard®). International Maestro® is also gaining ground in Europe, where an increasing amount of consumers now carry the MasterCard sub-brand. As a result, it is often advisable to deploy a localized website in one of the world’s leading markets, that has the capability to present prices in local currency. This requires minimal investment and is a common first step for businesses embarking on an international strategy.

Beyond Europe: Asia and Latin America
For merchants who are considering further global sales expansion, Asia is

commonly the next step after Europe, though the value of e-commerce in Asia is lower than Europe due to its less developed economies and telecommunications infrastructure. As a result, most e-commerce activity is focused in Japan, South Korea, and China at this stage, but a greater spread of e-commerce is predicted, with growth already evident in countries such as India and Malaysia.

Following Asia, Latin America offers merchants additional room for lucrative expansion efforts. Brazil, Mexico, and Argentina have the highest population of Internet users, though the top three countries for online sales volume are Brazil, Mexico, and Venezuela. Online sales in Latin America are forecasted at over $20 billion by 2014.

Concluding Thoughts

When it comes to the motivation for international expansion, there are three common catalysts that can influence your international strategy: cost, revenue, and talent. From a costs-reduction perspective, Deloitte reveals that most labor-driven initiatives often gravitate toward locations in Asia, Eastern Europe, Mexico, and Central America.

Alternatively, more revenue-focused expansion will tend toward locations that enable maximum sales growth opportunities and minimal bottom line costs such as customs, transportation, and real estate. North America and Western Europe continue to be attractive destinations for those talent-seeking initiatives. This is due primarily to the availability these particular cultures have to renowned educational and research facilities, as well as a quality of life that is highly attractive to such well-sought-after talent prospects.

Ultimately, businesses seeking to expand their operations globally – whatever the catalyst may be – face certain risks and challenges specific to the landscape of the economic climate and culture they choose. However, the potential benefits that often come from international expansion efforts can justify time, effort, and monetary expenditure. And as consumer payment preferences and behaviors and local payment regulations vary around the globe, a synergistic approach to your payments program will only continue to grow in importance and necessity.

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