



**KEEP CALM AND E-COMMERCE ON:  
HOW TO SELL IN THE U.K.**

The experts at Flow are committed to helping retailers and brands successfully engage in cross border e-commerce. Each installment of this "How to" series focuses on a different country, providing insights into effectively launching your e-commerce business in that market. The focus of this eBook is one of Europe's powerhouse economies: the United Kingdom (U.K.). The U.K. is made up of four countries: England, Northern Ireland, Scotland and Wales.





# COUNTDOWN TO BREXIT

The U.K.'s relationship with the rest of Europe, and possibly the rest of the world, is about to become significantly more complex as it prepares to leave the European Union in 2019. Although the vote was very close and the outcome surprised many people around the world, the U.K.'s citizens voted to leave the European Union (EU). "Brexit," as it came to be known, is scheduled to go into effect at 11 pm U.K. time on Friday, March 29, 2019.

There is still a great deal of uncertainty about future relations between the U.K., the EU and the rest of the world. To buy more time, the U.K. and EU have agreed to a 21-month "transition" period to smooth the way to post-Brexit relations that will not disrupt the economy.

A great deal of economic uncertainty remains around the U.K.'s departure as they work through many cross border trade deals. In all, the U.K. will need to renegotiate 759 international treaties with 168 countries when it leaves the EU, which raises doubts around the trading relationships between the EU and British businesses.<sup>1</sup>

But this also presents a tremendous opportunity for international businesses to reinvigorate the cross border economy and sell to eager e-commerce customers in the U.K.





# THE U.K. MARKET

The U.K. is right behind the US in frequency of online shopping: 27% of U.K. adults surveyed said they make online purchases "once per week" vs. 32% of US adults.<sup>2</sup>

E-commerce growth is booming in the U.K., increasing in 2017 to 13.7 billion pounds, or 15.6 billion euros. This is a 13.65 percent increase over 2016, and experts are predicting a growth rate of 14.3 percent for 2019.<sup>3</sup>

The U.K. has strong market penetration when it comes to e-commerce. More than half (51%) of U.K. consumers prefer online to in-store shopping.<sup>4</sup> However, cross border e-commerce growth compared to other EU member countries has dipped a bit since the Brexit vote. The U.K. is lagging slightly behind the Netherlands, Czech Republic, Hungary, Portugal, France and Germany in e-commerce growth.<sup>5</sup> This could be a temporary dip as Brexit details continue to be worked out.



# THE CROSS BORDER E-COMMERCE OPPORTUNITY

The U.K. presents a high incidence of cross border shopping: 50% of U.K. online shoppers say they have made a purchase from a non-U.K. website.<sup>6</sup> The dominant countries of origin for international sales are China (40%), the US (24%) and Germany (10%).<sup>7</sup>

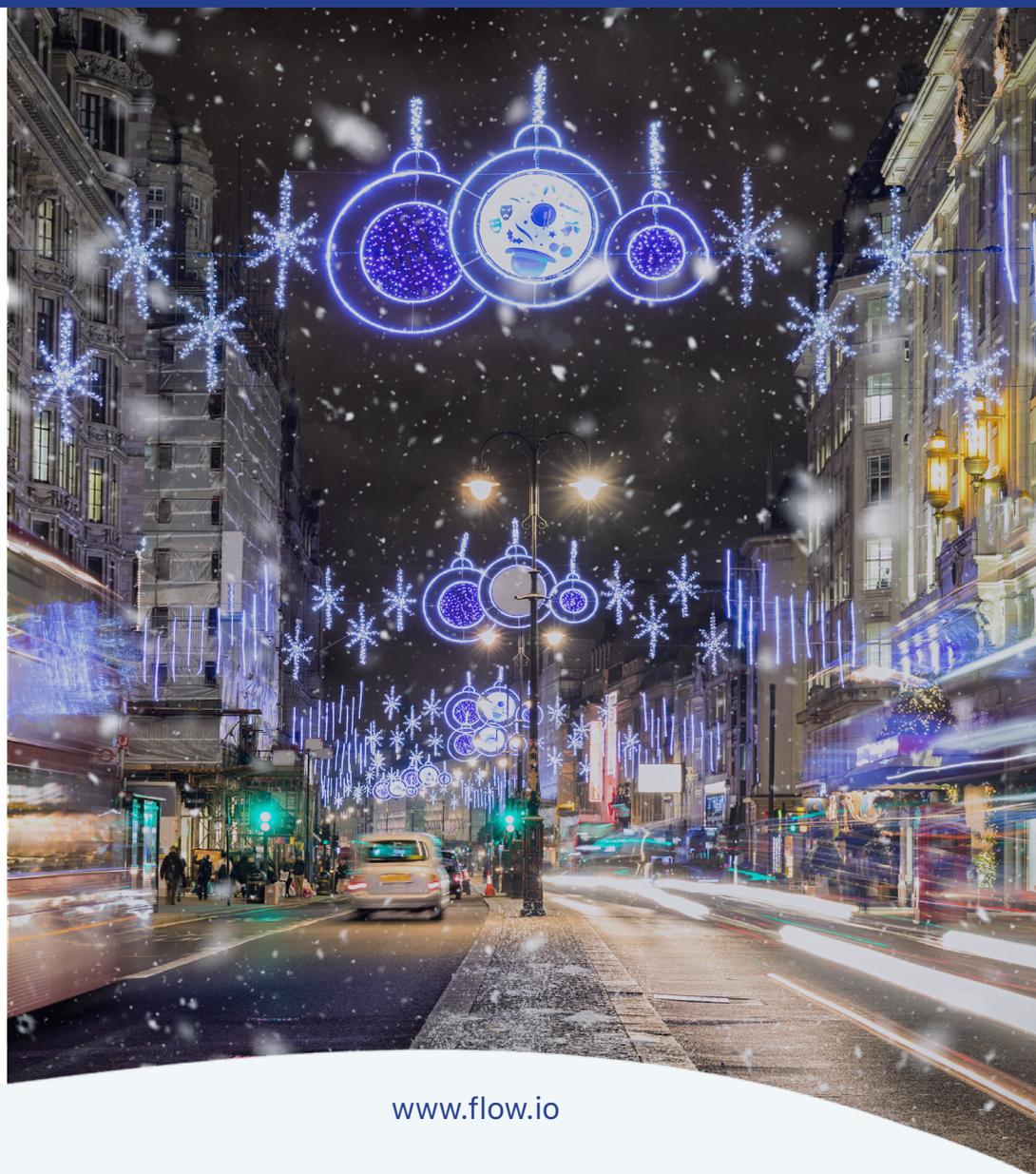
U.K. e-commerce shoppers are “browsers” who don’t always know what they want to buy online.<sup>8</sup> It’s up to brands and retailers to guide them along the customer journey by adding promotions across different product categories, creating special deals that appeal to U.K. shoppers and incentivize purchases. Further, U.K. consumers are increasingly buying online via mobile devices.<sup>9</sup> In just two years’ time, it’s estimated that two-thirds of all U.K. e-commerce purchases will be made on mobile. That’s worth a colossal £43 billion.<sup>10</sup>

This means responsive design of your website will be more important than ever, and your e-commerce site’s search functionality must be as user-friendly for mobile as it is for desktop.

E-commerce shoppers in the U.K. love to make purchases around the holidays. The top online gift-selling holidays in this region are:

**Black Friday and Cyber Monday** (known in the U.K. as “Cyber Weekend”): The holiday season is the biggest for shopping in the U.K. Between one-fifth and one-third of all U.K. retail sales occur in the lead-up to Christmas.<sup>11</sup>

**Mother’s Day:** In the U.K., Mother’s Day, or “Mothering Sunday,” as it was traditionally called, is celebrated on the fourth Sunday of Lent, three weeks before Easter Sunday. “Mums” across the U.K. are showered with flowers, chocolates, and greeting cards on this day.<sup>12</sup>



### SHARE OF ONLINE SHOPPERS WHO SAY THEY PURCHASED THESE GOODS ONLINE, BY PRODUCT CATEGORY, 2017



Source: Ecommerce News<sup>14</sup>

**Sports and cultural events:** Cross border brands and retailers should pay close attention to national events such as music festivals (Glastonbury), the World Cup and royal weddings, as these are peak shopping opportunities. For example, the London Olympic Games in 2012 generated massive e-commerce business for Olympics sponsors. The official London Olympics online store received 1.4 million unique visitors with an order volume well into six figures.<sup>13</sup>

# CONSIDERATIONS AND RISKS

## DID YOU KNOW?

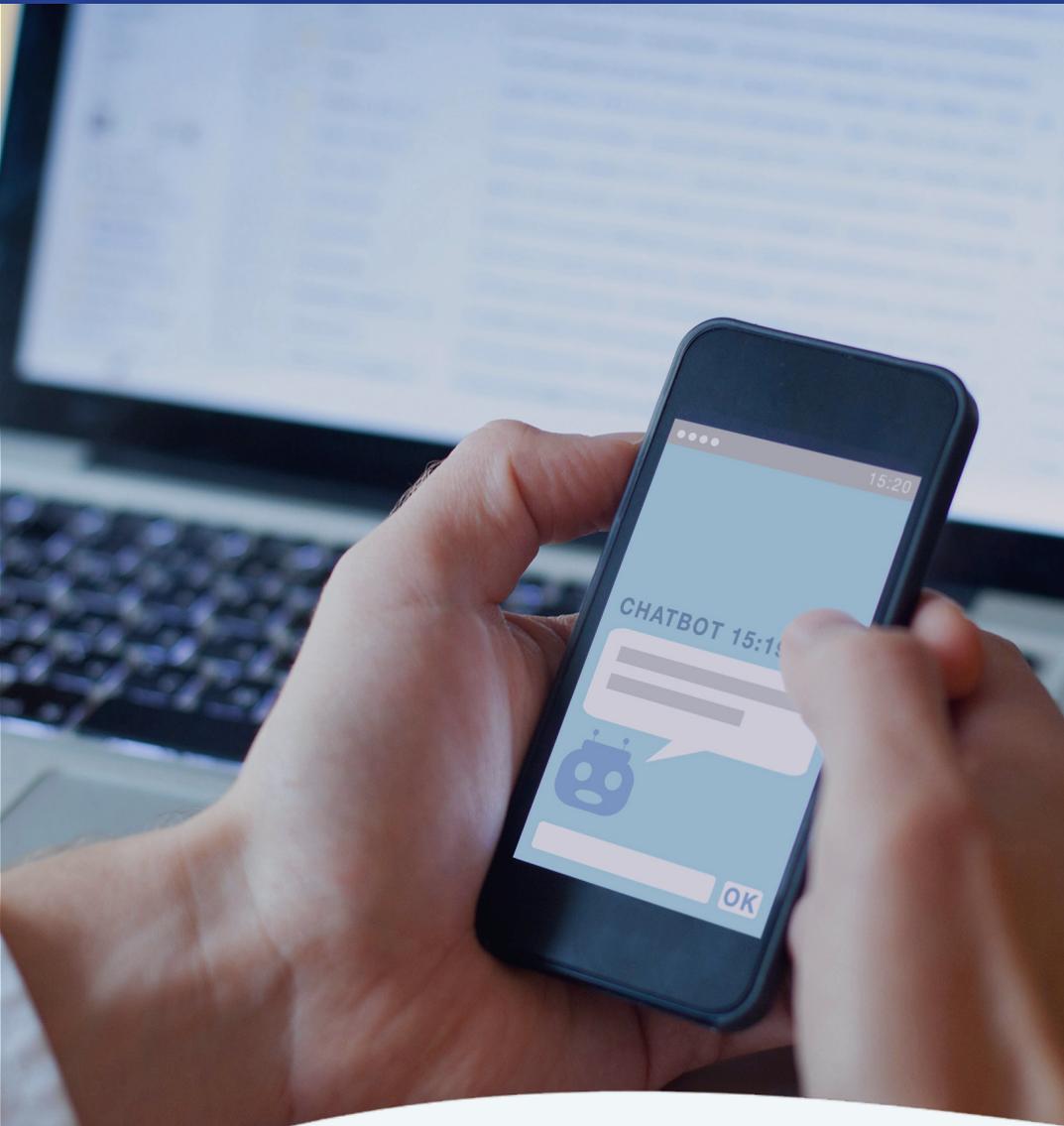
"One of the most harshly fought battlegrounds is that of providing a seamless omnichannel experience to avoid losing customers to competitors in-country who offer a better customer experience. In the digital age, consumers expect top-notch customer service, and the ability to buy what they want, anywhere, and anytime, through various channels, offline and online."

*United Kingdom Ecommerce Report 2018, Ecommerce Foundation*

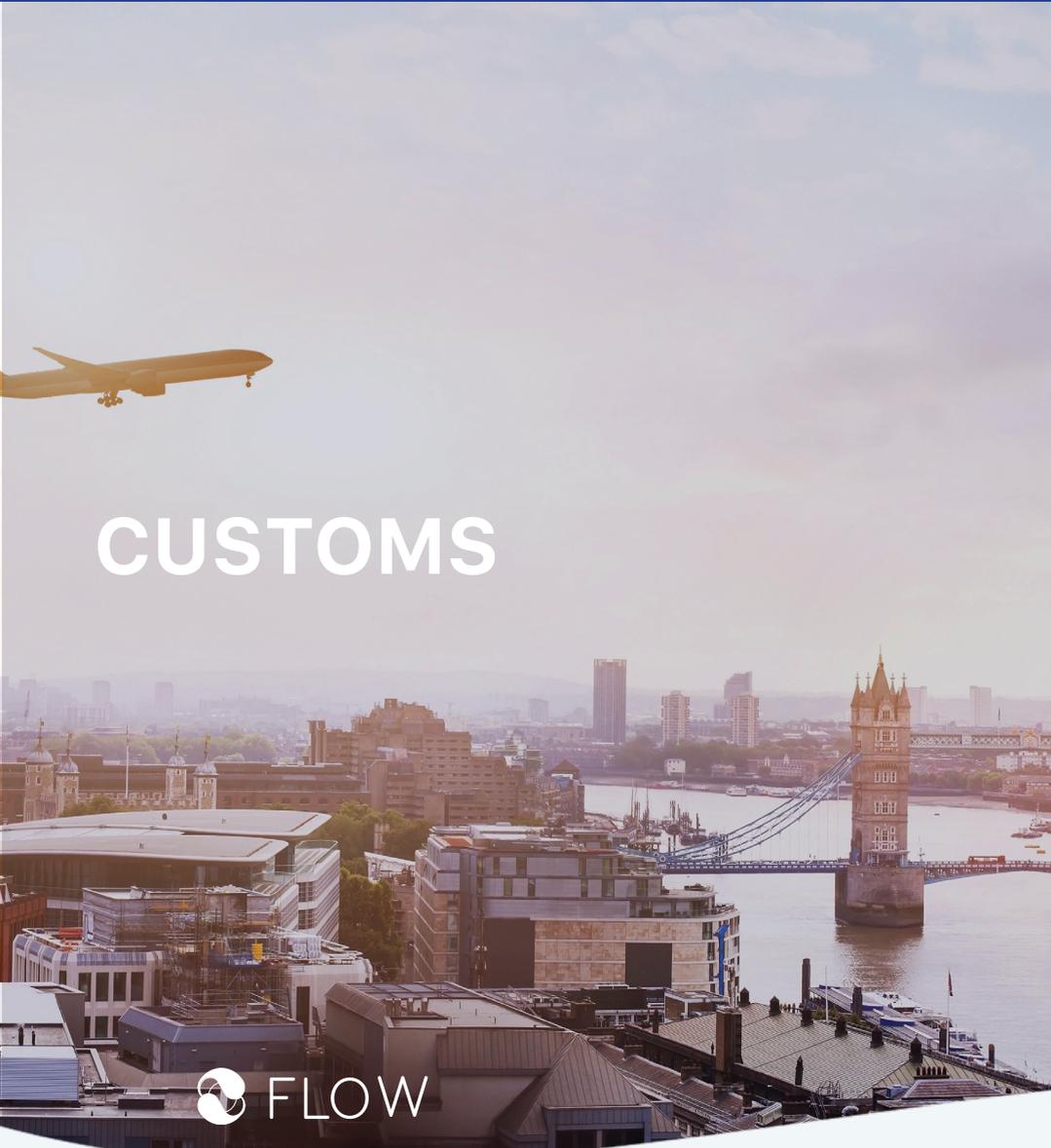


As with any new market, the U.K. has some risks and considerations that are unique to this geographic and cultural location. The top barrier for brands and retailers entering the U.K. market is **delivering a localized experience**.

Adding to this challenge, U.K. shoppers are loyal to their local brands. They will often visit the websites of their favorite U.K. brands to look for deals before heading to Google and other search engines.<sup>15</sup> Trust is a major factor: only 25% of U.K. shoppers surveyed said, "I trust online stores from other countries as much as stores from the country I live in."<sup>16</sup> "Click and Collect," also known as Buy Online and Pick-up In-store, is a popular trend in the U.K. which may present competition to purely online stores.<sup>17</sup>



U.K. shoppers are some of the most technologically advanced in the world, and as such, they want as many customer support options as possible such as phone, email, text and live-chat agents on a website. Speed of your e-commerce website is also a factor. An estimated 54% of e-commerce websites were rated “poor” by U.K. customers due to slow load times (more than 9 seconds to load).<sup>18</sup>



# CUSTOMS

Cross-border transactions may be impacted heavily as the U.K. leaves the EU. The move will automatically withdraw the U.K. from the common EU VAT area, as well as the Customs Union. These two elements mean that in the event of a cross-border transaction, VAT will be charged based on the country of supply, which may lead consumers to pay more for a product than they would have in the past. Customers may also have to pay for customs clearing duties.<sup>19</sup>

Brands and retailers who have sold goods in the EU may be familiar with the region's distance selling rules. The distance selling rules were implemented to ease the burden of VAT on companies and to encourage more cross-border trade in Europe.



Distance selling occurs once a company is registered for VAT in one EU country, allowing them more flexibility to supply and deliver goods to customers in another EU country who is not registered for VAT.<sup>20</sup>

EU based e-commerce sellers can sell to private consumers in other EU member states under their local VAT number and VAT rate until they hit the annual sales threshold of the respective member state.<sup>21</sup> Once a retailer crosses the thresholds of another European member state within a calendar year, they must register as a non-resident for VAT in that country and apply the local rate of VAT.<sup>22</sup>

For example, for a retailer registered for VAT in Germany and selling into the U.K., the distance selling rules threshold for the U.K. is £70,000.<sup>23</sup> Retailers account for the VAT in Germany until annual sales hit this threshold. Once over the £70,000 in annual sales, retailers need to also register for VAT in the U.K. Retailers should add the correct VAT country rate to their on-line goods or risk losing money from their margins.<sup>24</sup>

However, with Brexit, these EU distance selling rules may be called into question when it comes to selling into the U.K. Re-negotiating with EU supply chain partners is still ongoing. Until this is sorted out, many EU companies are holding back on using British firms in their supply chains since this could result in goods criss-crossing borders several times, as well as the potential for costly delivery delays.<sup>25</sup>

It's wise for global brands and retailers to work closely with a partner with experience and knowledge of details like the U.K.'s VAT and distance selling rules and how to handle these challenges post-Brexit. Depending on a brand's country of origin, there may be drastic differences, or none at all. But it will be up to the brands and retailers entering the U.K. to be aware of these changes to price items and shipping costs accordingly.





# REGULATIONS

Brexit and the accompanying regulatory uncertainties will bring international sales challenges in the next two years. Over half of the retailers in the U.K. think cross-border trading will become “more complex” when the country leaves the European Union.<sup>26</sup> However, 44 percent of retailers who sell abroad say they will continue with their existing cross-border e-commerce operations in the U.K., while 23 percent plan to invest more in growing their business outside the region.<sup>27</sup>

Brexit brings up uncertainty around another major regulatory change, the General Data Protection Regulation (GDPR). Currently, the U.K. is upholding the new data protection law that delivers strict guidelines about the use of the private data of EU citizens. Brands and marketers must follow mandates about the collection, storage, sharing and disposal of the personal data belonging to EU citizens – or pay hefty fines for non-compliance.<sup>28</sup> The one silver lining with this regulation is that most retailers who are already doing business in the EU are either complying or working towards compliance with GDPR, so regardless of whether the U.K. will be considered part of the EU's "Economic Area" where the law applies, they will be prepared.



A cardboard tag with a red stamp that says "FREE SHIPPING" and the word "LOGISTICS" overlaid in white text.

# LOGISTICS

The top items sought by online shoppers in the U.K. are small, inexpensive goods that weigh less than 200g.<sup>29</sup> Transit to the UK can be bumpy and unpredictable, particularly in its more remote areas, so make sure to protect these small goods with robust packaging. Further, e-commerce retailers must be prepared to present clear language on shipping costs and policies to remote regions such as the Isle of Wight and Northern Ireland, as U.K. advertising watchdogs have filed formal complaints about misleading “free shipping offers” that end up costing consumers.<sup>30</sup> Brands and retailers should work with trusted carriers to ensure smooth last-mile delivery. Retailers must strike a balance between cost of the item, shipping to hard-to-reach areas, and low damage rates.<sup>31</sup>



Brands and retailers selling into the U.K. cannot underestimate the importance of engaging millennials. This generation is 12 million strong in the U.K. - only outnumbered by Baby Boomers.<sup>32</sup> And millennials are five times more likely to make a purchase based on social media recommendations.<sup>33</sup>

Search advertising is still dominant in the U.K., with 46% of retailers still seeing revenue from this form of marketing, followed by social media advertising and banner advertising.<sup>34</sup> Additionally, direct mail as a form of engagement is still effective: 51% of U.K. consumers said they made an online purchase after receiving a flyer or catalog in the mail.<sup>35</sup>

A hand with red nail polish holds a tablet displaying a promotional offer. The offer is presented as a stack of three overlapping banners on a light green background. The top banner is white with the text 'SPECIAL OFFER'. The middle banner is maroon with 'BEST OFFER' in white. The bottom banner is maroon with 'UP TO 20%' in white. Below the banners is a white box with 'LIMITED TIME ONLY' in black. The background of the image shows a wooden surface with some plants and a US dollar bill.

# PRICING

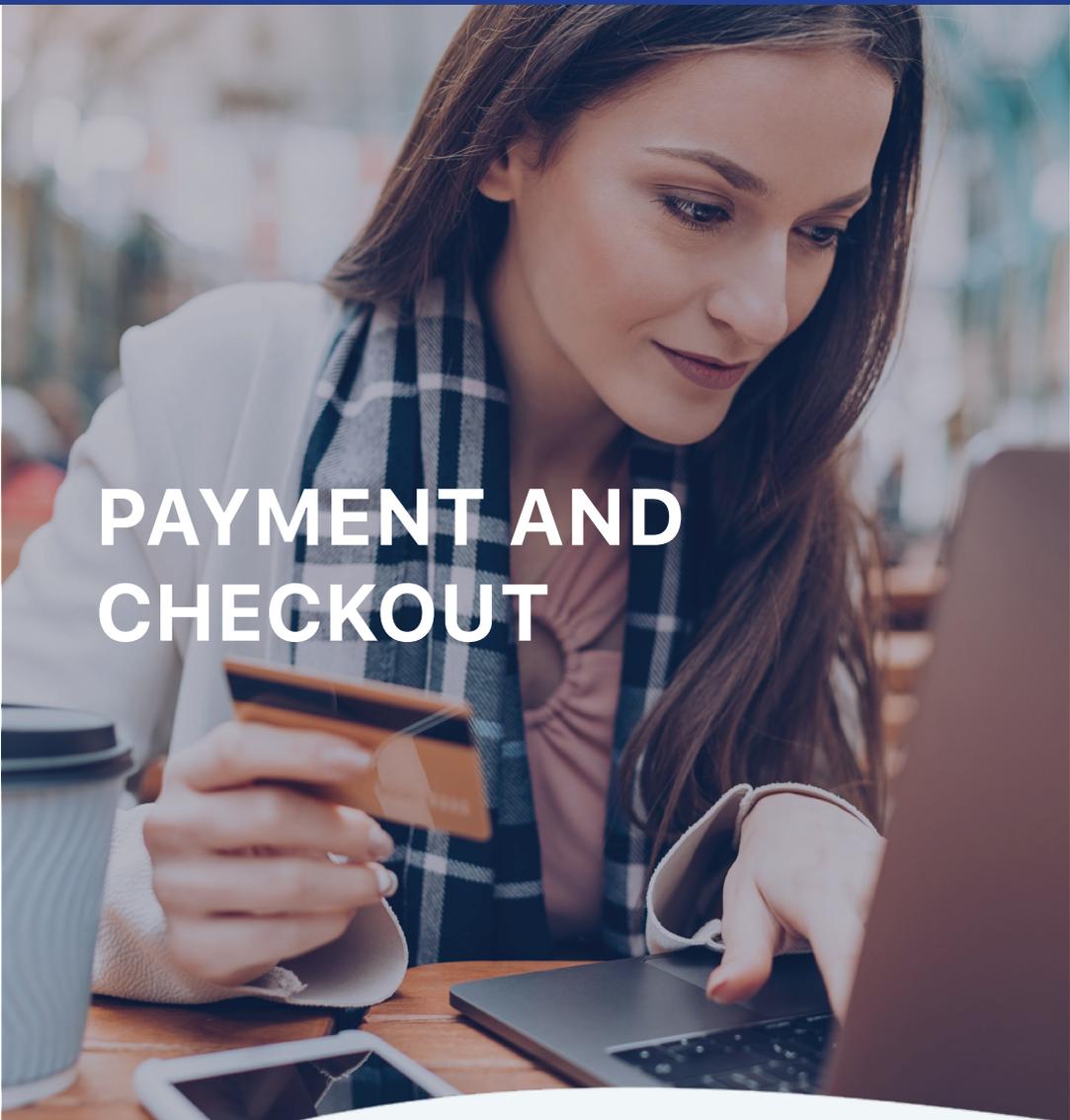
After decades of being part of the EU, shoppers in the U.K. are savvy to exchange rates and sensitive to any price inflation from cross border retailers. Currency instability has had a detrimental impact on costs since the Brexit vote, with these increases now being passed from businesses to consumers.<sup>36</sup> In fact, 53% of U.K. consumers surveyed said price is a top consideration for going online to shop instead of a physical store.<sup>37</sup>

# LANDED COST

The landed cost is the total cost of purchasing and transporting goods from the country of origin to the country in which it will be sold. A variety of fees make up the landed cost of imports, including purchase price, freight, insurance, and any associated country taxes or duties imposed by the destination country.

Be sure to compare the effective cost of an item to a locally purchased product to ensure the offering is price competitive. For example, the average standard shipping rate of a four-pound parcel from the US to the U.K. is \$8 USD or 6 GBP; the express rate is \$18 USD or 14 GBP. Compare this to an in-country shipping rate of the same four-pound parcel of 4 GBP standard and 7 GBP express.

Understanding the various components contributing to the landed cost can have a material impact on decisions for your product assortments, shipping tiers, and competitive pricing strategy in the U.K. market.



# PAYMENT AND CHECKOUT

U.K. consumers expect transparency and communication at every step of the transaction. For example, 81% of U.K. shoppers want to receive proof from retailers that a purchase has been shipped, and 73% want to track the status of the purchase.<sup>38</sup> And 32% of U.K. shoppers surveyed indicated that “being able to get money back if an item does not arrive or is not as described” is a key decision influencer, according to PayPal.<sup>39</sup>

U.K. consumers are wary of fraud and chargeback risks: 33% of U.K. shoppers polled by Paysafe said that they have experienced a payment fraud in the past year.<sup>40</sup> That’s up by 6% from last year.<sup>41</sup> With fraud weighing so heavily on the minds of U.K. shoppers, cross border e-commerce brands and retailers must demonstrate that they can be trusted with payment data.

## PAYMENT METHODS IN THE U.K.

While debit cards are still the most popular way to pay for online purchases, alternative payments are on the rise.



Source: Flow, "Payment Preferences for the 12 Largest Global E-Commerce Markets"

## HIGH EXPECTATIONS

**24%** of U.K. shoppers say they return an item because it "wasn't what I expected,"

**23%** return because the "item is faulty,"

**16%** return because the item "arrived damaged."

Source: Ecommerce Foundation<sup>46</sup>

Customers' expectations around delivery are becoming ever more demanding – and the questions of how, when, and how much for delivery have become an important part of the buying decision in this country. 49% of U.K. shoppers say free delivery is the number one shipping feature that influences their purchasing decisions; 17% say same-day delivery; 14% say "fast delivery."<sup>42</sup>

The most common problems U.K. shoppers say kept them from repeat purchases from a brand or retailer were slower than expected delivery (29%) and technical website failures during ordering and payment (27%).<sup>43</sup>

Return expectations are also high for this market. U.K. shoppers return 7 billion pounds of e-commerce merchandise per year.<sup>44</sup> Almost half (47%) of online shoppers said they would be "unlikely to shop with a retailer again" if they were charged for returns.<sup>45</sup>

Brexit brings uncertainty to the U.K. e-commerce market, but there is still a considerable cross border opportunity in this region. Brands and retailers must work to build trust with shoppers, making sure they offer localized experiences with clear checkout and return policies. Don't go it alone; partner with a trusted international e-commerce expert like Flow for seamless market entry.

**Visit us at [Flow.io](https://www.flow.io) to request a demo**

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