Local Currency Pricing for eCommerce - Increasing Online Sales by Implementing a Global Pricing Strategy

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Table of Contents

- Executive Summary
- About Cambridge
- Introduction
- Key Findings
- Country by Country Comparisons
  - Canada
  - Australia
  - United Kingdom
  - Germany
- Conclusion
- Supplemental Material
Executive Summary

Global eCommerce continues to experience unprecedented growth throughout the world. According to the e-retail tracking firm IMRG, the USA remains the world’s single largest eCommerce market, followed by the UK and Japan. IMRG also forecasts that the total value of eCommerce will surpass a trillion Euros, or $1.35 trillion, by the end of 2013.1

Given the global nature of online shopping, many top merchants are lagging behind in global pricing strategies, particularly those strategies designed to enhance their local customer’s shopping experience.

This specific area of interest is addressed in a recent survey conducted by Penton Research and commissioned by E4X, a global payments solution provider owned by Cambridge Mercantile Group. The survey demonstrates that US Dollar-only pricing on eCommerce websites commonly results in shoppers abandoning websites and items in their cart, often to never return, or leaving the site to check exchange rates, impacting conversion. While USD pricing is sometimes perceived as more convenient and cost effective for the merchant, it appears to have an overall negative impact on sales and customer experience.

In order to maximize potential revenue from these international shoppers, merchants should be mindful of the global shopper’s aversion to shopping and purchasing in USD only. The clear preference is for pricing in the local currency of the shopper.

This study leads to the conclusion that if online merchants price goods in local currencies or at least provide some kind of online currency conversion calculator, sales and revenue in global markets will increase considerably.
About Cambridge and E4X

To make the most of global opportunities, you need a trusted partner. One with the agility to work at the pace of business. With the ingenuity to help you capitalize on potential quickly. Who can deliver innovative solutions that suit your needs.

We’re Cambridge. We simplify how businesses connect with the global marketplace, freeing you to focus on tomorrow’s opportunities rather than today’s transactions. We make payments smoother, faster and more efficient with industry leading technologies that support how your business operates. And, as one of the largest independent providers globally, we are flexible and responsive anywhere you are, with offices across North America, Europe and Australia that manage more than $20 billion dollars annually.

We have decades of experience and award-winning capabilities as the foundation of our successful long-term strategic plans. But above all else, we’re genuine people who genuinely care. We believe in getting to know you. Your industry. Your business needs. So we can help you be more proactive about opportunities wherever they arise.

More than 14,000 clients worldwide understand the difference Cambridge can make. Contact us to learn more about how we can create the bridge between your vision and the world.

E4X is a leader in multi-currency settlement solutions, working alongside global processors to facilitate foreign exchange and global payments for eCommerce merchants. With E4X’s patented technologies and industry-leading services, merchants can take advantage of local currency pricing, rate guarantees, transparent pricing and enhanced and consistent reporting across multiple currencies, processors and payment types – enabling successful global expansion and profitability. E4X works alongside processors to afford retailers and payment facilitators the ability to offer the broadest possible service to their merchants.
Almost half of the world’s population, 3.5 billion people, will be online by the end of this year, pushing eCommerce sales past the trillion-dollar mark. Recent data suggests that to take advantage of this growth, eCommerce merchants should consider forming a global pricing strategy. This plan of action should include the implementation of local currency pricing to ensure they are meeting the shopping preferences of international consumers.

This recent survey of online shopping habits in four different countries from around the globe provides evidence that international online shoppers are reluctant to purchase at US Dollar (USD) only sites. We are led to the inevitable conclusion that if eCommerce merchants priced products in local currency or, at the minimum, installed currency conversion calculation capability on their websites, they would see a marked increase in transactions and revenue.
Key Findings

Given the increase in global eCommerce in recent years and predictions of high growth in the future, coupled with merchant feedback and questions related to local pricing versus USD, E4X, the global payments solution provider owned by Cambridge Mercantile Group, investigated the impact of different currencies on overall online merchant sales and shopper attitudes. A significant number of mid to large size eCommerce merchants have yet to switch to local currency pricing. They continue to price in US dollars (USD) only and generally cite the back-office ease of working with a single currency and lack of data to support a change as the main reasons. Below are the key findings of our survey:

<table>
<thead>
<tr>
<th>Local Preference</th>
<th>Lost Sales</th>
<th>Conversion Rates</th>
<th>Web Traffic</th>
<th>Increased Revenue Opportunity</th>
<th>Customer Experience</th>
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<tbody>
<tr>
<td>A clear majority prefer to make purchases from local websites: 85% Australian, 84% UK, 82% Canada, and 69% Germany.</td>
<td>86% UK, 80% Germany, 68% Australia, 63% Canada will find products on a USD-only website and then search for them on an alternative, locally priced website to make their purchase.</td>
<td>65% UK, 47% Australia, 43% Germany, 39% Canada will leave USD only website in order to calculate exchange rates before deciding to make the purchase.</td>
<td>57% Germany, 49% UK, 26% Australia, 22% Canada report that they are unlikely to revisit a site known to use USD only pricing.</td>
<td>71% UK, 59% Australia, 53% Canada report they are likely to spend more money on a site that prices in their local currency.</td>
<td>Regardless of nationality, the vast majority of respondents are concerned with how much they will be billed for exchange rates when shopping in USD 88% UK, 76% Australia, 76% Germany, 39% Canada.</td>
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The E4X survey results provide a broader analysis of the factors that need to be considered when deciding on a global pricing strategy.
Online Shopping continues to impress, but there’s still room for improvement

Overall global eCommerce sales are expected to climb by approximately $5 billion in this year alone. While online shopping is becoming commonplace in many parts of the world, it still has much room to grow. For example, 62% of respondents from the UK are very active online shoppers. Australians at 40% and Germans at 38% shop online but have yet to become active, regular shoppers. Surprisingly, despite the fact that Canada is next door to the U.S. and shopping cultures prove to be similar, only 28% of Canadian respondents report shopping online regularly. This could be a result of Canada’s proximity to the US and the influx of American brick-and-mortar stores across the US-Canada border.

Currency impacts consumer confidence, comfort level and website conversion

Currencies are a distinguishing symbol for international buyers in an increasingly homogenized world. While the internet has rendered people in many nations very similar in their actions, outlooks, and shopping habits, it cannot eradicate all distinct features of a nation’s population. So, despite growing local trade and interconnection, for those preferring to shop on the Internet, most of these shoppers at least will retain their patriotism to the extent that they are loyal to their own currency. Consumers dealing with variable, unknown rates of conversion have a fundamental need to clearly understand the end cost of a product. This reasoning leaves little room for argument that an accurate currency translation feature is needed to ensure strong website conversion at each point of sale. 65% of respondents in the UK will leave the site to verify the local currency amount they will pay for an item (see Figure 1). When a consumer leaves the website for any reason during the shopping and checkout flow, this interruption leads to an increased risk of negatively impacting the conversation rate which inhibits the completion of the purchase.
Q: When considering an item offered in USD only, how often do you leave the website to calculate exchange rate, and associated amount of local currency, prior to checking out.

Preferences are an indicator, but actions are a much more precise barometer of human attitudes. In this case, for USD-only eCommerce websites, the barometer is predicting some stormy activity for merchants. The consumers polled have sent a very strong message to merchants that they dislike shopping on US dollar-only websites and avoid sites that only provide a USD option.

More than a third of respondents said they were unlikely to revisit a website once they knew it was priced in USD only. This could lead to permanent abandonment of a USD-only website which would impact, not only website traffic, but also sales and revenue (see Figure 3). Gaining a captive audience and turning that shopper into a repeat customer is critical and should be top of mind as eCommerce merchants think about expanding internationally. Fully one third of international shoppers polled said they were likely to abandon a purchase upon discovering that the website’s pricing is in USD only. Germans were the most likely to leave at 48%, followed by Britons at 44%, and Australians at 26%. Canadians, who are very familiar with USD-only eCommerce sites, were, at 18%, the least likely to abandon a site that priced in USD-only (see Figure 2). US merchants are already capturing potential foreign revenue via foreign shoppers browsing their sites, but are missing out on a large percentage of that revenue if they don’t take the additional step to localize the shopping experience and promote shopping experiences that result in completed purchases.
Local-currency pricing or utilizing a currency translator on their websites creates greater revenue for online merchants

Although it may seem obvious that shoppers are inclined to spend more money on a website they favor, one-third of them find eCommerce sites that feature local currency pricing positively influence their willingness to spend more money (see Figure 4). When it comes to a secondary solution to dollar-only pricing, merchant websites are likely to achieve more sales globally if they feature a currency converter on their website. By pricing in local currency, the shopper is significantly less inclined to leave the merchant website to locate a ‘currency conversion’ website to determine what their costs will be. Shopping cart abandonment increases significantly when a shopper has to leave a merchant’s website for any reason. Pricing in locally currency eliminates the need to leave the site to complete the checkout process.

Q: How likely are you to abandon a purchase if you discover that the pricing is in USD only?

![Chart showing the likelihood of abandoning a purchase in different countries]

Base: respondents shopping online; Australia (n=136); Canada (n=248); Germany (n=240); and UK (n=107).

Figure 2 - Almost half of German (48%) and British (44%) respondents are likely to abandon a purchase upon discovery of USD-only pricing. One in four Australian (26%) and 18% of Canadian respondents are likely to abandon purchase. Further, at least one in five respondents from each nation is neutral on the question, which means purchase abandonment remains a distinct possibility.
Q: How likely are you to revisit a website once you know it prices in USD only?

![Graph showing the likelihood of revisiting a website that prices in USD only.]

Base: respondents shopping online; Australia (n=136); Canada (n=248); Germany (n=240); and UK (n=107).

Figure 3 - Pricing exclusively in USD negatively impacts repeat web traffic. Over half of German respondents (57%) are unlikely to revisit a website known to price in USD only. A similar reluctance is reported by respondents from the UK (49%), Australia (26%) and Canada (22%).

Q: Would you be likely to spend more money with online merchants who price in your local currency?

![Graph showing the likelihood of spending more money with online merchants who price in local currency.]

Base: respondents shopping online; Australia (n=136); Canada (n=248); Germany (n=240); and UK (n=107).

Figure 4 - Pricing in local currency could translate into greater revenue for online merchants. More than half of respondents in the UK (71%), Australia (59%) and Canada (53%) are likely to spend more money with online merchants who price in their local currency (indicating "yes, definitely" or "yes, probably").
Country by Country Comparisons

While the majority of respondents in all four countries were in general agreement on preferring to purchase in local currency, there were some marked differences.

Canada

Canadians were the least likely of the four nationalities to respond negatively to USD-only pricing, in all likelihood because, as the next-door neighbor of the USA, they are the most familiar with American currency and pricing regimes. Also, for the past few years, the USD and CAD have been very close to even in their dollar to dollar value. A large majority of Canadians live within 100 miles (160 kilometers) of the US-Canadian border and thus shopping in the US is a common activity. Because their economy is so dependent on the USA, it is very common for Canadians to know at most times almost exactly what the exchange rate is between the two countries’ currencies.

This is probably why Canadians registered the highest numbers to questions about commonality of USD pricing (see Figure 5). They were the most likely to make a purchase from a website that priced in USD only and also the most likely to revisit a website they knew to price in USD only (see Figure 6). Also, Canadians were the least likely to abandon a site with USD-only pricing.

However, there were far fewer Canadian online shoppers in comparison to Australia, Britain, Germany and the UK. This demonstrates a great potential for growth in the Canadian market. There were also a large number of Canadians who prefer to buy from local companies.

Q: In your experience, how common is it for websites to offer pricing in USD only?

![Figure 5 - Canadian respondents find pricing in USD most common (88%), followed by those in Australia (60%). Just under a third of German respondents and 25% of British respondents commonly encounter websites that price in USD only.](image-url)

Base: respondents shopping online; Australia (n=136); Canada (n=248); Germany (n=240); and UK (n=107).
Australia

Residents of a nation positioned between the Europe/Asia and North American continents, Australians took a middle position on most issues concerning USD-only pricing. In many ways they resembled Canadians, in that they seemed more accustomed to American dollar-only websites, and were perhaps more resigned to the prevalence of USD-only pricing. To almost all questions in the survey, they paralleled Canadian responses, with slight changes that drew them closer to the Europeans. A third of respondents in Australia will either not purchase, or prefer not to purchase from websites pricing in USD only.

Perhaps because of their isolation, they have formed a more individual view of their American cousins. For example, Australians scored quite high, although lower than Canadians, on the commonality of USD-pricing on websites, probably as a result of shopping primarily on American websites when they venture to international eCommerce (See Figure 6). Australia also tracked Canada in its willingness to make a purchase from a website that priced in USD only and their likelihood of abandoning a purchase after discovering it priced in USD. But most actually prefer to buy local products and plan to change their online shopping habits the most within the next year (See Figure 7).

Q: Would you consider making a purchase from a website that offers pricing in USD only?

![Figure 6](image)

Figure 6 - With the exception of Canada (who has the most exposure to USD only pricing), at least one third of respondents from each country surveyed will either not purchase, or prefer not to purchase, from websites pricing in USD only (Australia 35%; UK 42%; Germany 51%).
Q: How do you expect the amount of shopping you do online to change within the next 12 months?

Figure 7 - The majority of respondents from Australia (70%), the UK (63%), and Canada (57%) expect to do more online shopping within the next 12 months. A third of German respondents expect their online shopping to increase as well (35%).

In their own words

Q: What concerns do you have when making online purchases from websites priced in USD only?

- Converting the correct calculation from AUD to USD
- Additional chargers for currency conversion each step of the way, accuracy of conversion
- Conversion difficulties
- It just means going through the laborious task of converting into GBP (providing there is no facility within the website) This quote doesn’t seem to fit with the rest, just a thought
United Kingdom

British respondents were the most vociferous in their aversion to USD-only websites. This may be due in some measure to a strong national identification but also could result from the fact that the UK features a high number of home-grown and UK-focused eCommerce websites. This might also explain why respondents from the UK shop online the most (see Figure 8). Shoppers in the UK were the least likely to see eCommerce websites that offered pricing in USD only, and showed the highest preference for websites that priced products in their local currency (see Figure 4).

In addition, UK shoppers were the second most likely (after Germany) to abandon a purchase when discovering it was not priced in local currency. This provides further insight in to why they were the second least likely to revisit a website that had prices in USD only, and were the most likely to leave a website to calculate the exchange rate prior to check-out (see Figure 3).

Q: How often do you shop online?

Figure 8 - Respondents from the UK are the heaviest online shoppers (62% do so often), followed by Australia (40%) and Germany (38%). One in four Canadian respondents reports shopping online often (28%).
Germany

As an older and economically strong country with local currency as the Euro, Germany holds many similarities and displays many of the same attitudes to USD-only pricing as the UK. Also, with German as the country’s official language as opposed to the other three countries who speak English, one would expect that residents are more opposed to USD-only pricing. However, although Germany is known to display a nationalistic conscience, it is not quite as resistant as the UK. While Germans are the least likely to make a purchase from a website offering only USD pricing, and led the four countries in their willingness to abandon a purchase priced in USD only (see Figure 2), they were the least likely to spend more money on a product in their own currency and the least concerned with buying local products as well (see Figure 4).

In their own words

Q: Please list the specific American websites/brands you would be more likely to purchase from, if they offered their products online in your own currency.

Amazon, Apple, Costco, Adorama, Samsung, Lenovo, Bose

Amazon, American Eagle, Abercrombie & Fitch, Pottery Barn, Brooks Brothers, Ann Taylor, Forever 21, Hot Topic, LL Bean, Kohl’s, Timberland

Amazon, Carhart, Wal-Mart

Amazon, Tommy Hilfiger, Levis, Nike, Ralph Lauren, Neiman Marcus, GAP
Conclusion

American firms hoping to conduct eCommerce in this market cannot assume they can simply export existing methods of business operation. Among the adjustments required for successful international eCommerce is the recognition of potential customers’ particular preferences and sensitivities, especially surrounding pricing and currencies. For merchants based in the US and other Western countries, international expansion and the presentation of websites to a global market must be part of any forward thinking marketing plan. This includes the careful consideration and planning to ensure global web pages and product catalogs provide a sense of community and localization that engages foreign shoppers. The locality combined with the advantages of purchasing Western brands gives international shoppers a sense of confidence in their buying. They also feel confident in the knowledge that all costs and fees are being fully disclosed – as if they were shopping in their own local mall.

As the recent E4X survey clearly shows, the largest single complaint among those surveyed was that they had difficulty understanding what the real cost of a purchase was because it was priced in US dollars and they had to convert it into their local currency. In summary, this extra step is a nuisance that can be directly correlated to lost sales and under-achieved revenue potential.

When expanding to include global pricing, E4X recommends that Merchant’s should pay particular attention to:

**Extended Rate Guarantee** - Consider Refund and Chargeback FX exposure on global payments.

**Reduce Foreign Exchange Costs** - Look for transparent costs that are easily traceable and auditable.

**Payment types** - Ensure all payments types, including alternative payments are supported by a streamlined reporting and reconciliation process.

**Net New Revenue Generation** - Revenue Sharing that can be earned on foreign exchange is an important factor to consider.

**Split Settlements** - Consider if you will require local payouts and need a % of funds held in local currency (for VAT etc).

Local pricing is clearly a winning strategy and a necessity to ensure conversion rates are strong and customer satisfaction is consistent with a Merchant’s US based websites.
Supplemental Material

Methodology

Between October 16 and November 2, 2012, Penton Research deployed e-mail invitations to self-identified online shoppers residing in Australia (16,086), Canada (17,255), Germany (19,302) and the United Kingdom (17,793).

Between October 30 and November 7, Penton Research deployed e-mail invitations to Penton publication subscribers residing in Australia (6,052), Canada (37,200) and the United Kingdom (38,612).

To encourage prompt response and increase the response rate overall, the following marketing research techniques were used:

• A drawing was held for one of four $100 Visa gift cards – offered in local currency on all survey materials
• Live links were included on the e-mail invitations to route respondents directly to the online surveys
• Follow-up e-mail requests were sent to non-respondents
• All German survey materials were translated into German

Endnotes

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