

Harnessing an unstoppable force

The internet brings huge selling power – but can make it very easy to overlook the plethora of problems out there in the real world. Sara Norton looks at how some of the most successful internet trading companies keep control of their business

The internet is a seductive force which gives companies instant access to a tremendous variety and number of locations to potentially source from, manufacture in, sell to, partner and trade with. It simplifies communication, connects geographically disparate communities and businesses in seconds, and has unquestionably speeded the pace of economic development over the past 30 years.

However, the digital world is a very different environment from the physical reality of importing and exporting. Companies that choose virtual collaboration instead of face-to-face interaction to forge new trading relationships still need to be aware of the trade controls and regulations in dealing with new and unfamiliar destinations. This information is often hard to find, but increasingly risky to overlook.

Technology can help, by providing a central repository of trade content (such as business, governmental and legislative rules and regulations, taxes, tariffs, duties, licences and documentation for worldwide commerce). Companies can screen prospective trading partners against sanctioned or denied party lists, classify products globally, and check current import and export controls to gauge the cost-benefit and potential risk of doing business internationally.

One of the most successful exam-

ples of international trading via the internet is Amazon.com. A worldwide e-commerce leader with revenues of over \$9bn in 2005, Amazon provides an online marketplace for customers to buy and sell across the globe. Its mission is to facilitate the ultimate 'self-service customer' whereby the purchaser has complete control at all times, as well as the confidence that the price quoted onscreen is the price they will pay at the end of the transaction.

Complex costing

However, with thousands of products on the website at any one time, Amazon faced a significant challenge in accurately costing all the products for shipment to a rapidly growing audience of consumers in some of the world's most remote destinations.

The key to this problem was classification. Products are classified using the Harmonized System (HS) – a global numeric code adopted by 85% of trading nations to standardise commodity descriptions, on which duty and Customs charges are based and on which retailers such as Amazon rely to promote and sell their merchandise effectively. Clearly, such charges differ across the world, and national definitions of commodities also vary. All this means that the total shipment cost (including duties, excise, VAT and other governmental charges) for a DVD in one country may be significantly greater than in another.

The issue for Amazon was twofold. Firstly, unless the checkout process could accurately calculate the relevant tariff and duty payable for each commodity, according to the country it was to be shipped to, either the customer or Amazon would be out of pocket. Secondly, and more importantly, by not providing accurate pricing information onscreen, Amazon recognised it would be seriously jeopardising customer satisfaction, increasing the rate of returns and compromising its wider strategy to expand into new markets.

It was often days or weeks before the buyer discovered how much those charges had added to the total landed cost and it could come as an unwelcome surprise when a Customs broker collected the duty from the buyer. This represented a setback to global e-commerce, according to Jim Preuninger, chief executive at Management Dynamics, a provider of global trade management solutions. "Some buyers say, 'The duty is too high, I won't pay.' Some buyers opt to pay the duties, but are unlikely to buy from that site again."

To resolve the issue, Amazon chose Management Dynamics' Landed Cost Engine for E-Commerce, which provides Amazon customers in over 40 countries with the full cost of their orders, including country-specific duties, taxes, tariffs and licences, at the time of checkout. For the first time, the company knew what those Customs charges would be, and could consequently collect them from the customer, "way before the Customs brokers pay the duty" in the foreign country, states Mr Preuninger. Moreover, automation means "fewer



risks of making miscalculations that could generate costly fines for foreign Customs brokers”, he adds.

The tool is seamlessly integrated within the online ‘shopping cart’ process. As a consequence of using the system, Amazon has registered lower purchase returns as well as 90% cost savings in automating the process of product classification versus the previously time-consuming manual input of HS codes and tariffs.

“We chose the Management Dynamics global trade technology solution because it allows us to offer customers in more countries the best possible experience ... We look forward to using it to help grow our business internationally through these services,” declares Michael McKenna, Amazon’s vice-president worldwide transportation.

Another company whose entire business model rests on the successful operation of internet trading is Digital River.

Founded in the US in 1994, Digital River builds and manages online trading platforms and retailing websites for 34,000 companies worldwide. Its products help companies of all sizes to maximise online revenues as well as cut the costs and

risks associated with running an e-commerce operation.

Of prime importance in reducing the risk of internet trading is the ability to guard against fraudulent or illegal transactions and shipments to destinations that may be considered a security risk. Since 9/11 and 7/7, export controls have become increasingly stringent and the ability to demonstrate proof of reasonable care and intent to comply is fast becoming an imperative for all parties involved in e-commerce trading.

Software options

Digital River needed to ensure its clients’ websites were not falling foul of these requirements, but knew that a manual or individual approach to checking orders and shipments would be uneconomic and hugely time consuming. After reviewing various alternatives in the market, the company chose Management Dynamics’ Restricted Party Screening (RPS) Engine to provide automated export compliance services for all its e-commerce platforms.

Now, when visitors to any online store managed by Digital River click “submit”, information about the buyer and seller will be checked

against 30 US, EU and other international lists of restricted parties, using regulatory data continually updated by a network of over 100 trade analysts worldwide.

The service puts holds on shipments by suspected parties, such as specially designated individuals, known terrorists, drugs traffickers and blocked persons and vessels. This reduces the risk that the shipment will fall into the wrong hands, and expose the site to fines or penalties. But the system still allows the user to override “false-positive” hits that are known to be legitimate.

“Management Dynamics’ RPS Engine has allowed us to enhance our e-commerce offering with a value-added service,” says Jay Kerutis, Digital River’s president of digital commerce services. “The integration of up-to-date, real-time trade content within our offering is critical for managing the global e-commerce operations of thousands of our clients.

“As a result of this newly automated service, our clients can focus on growing their businesses while we help ensure that their shipments are destined for friendly end-use.”

So, is the internet a sustainable channel for growth in international trade? It is certainly true that the attitude towards online trading is now one of general acceptance rather than occasional purchase. Despite well-publicised threats to global e-commerce such as the rapid growth in identity theft and online banking fraud, the drive to buy and sell almost anything via the internet seems unstoppable.

To support this, companies need to apply the same level of care and attention to their online trading operations as they would in the traditional face-to-face business environment. There is no compliance dispensation for internet trading as import and export controls view on- and off-line businesses in precisely the same terms. Indeed, for pure-play e-commerce companies such as Amazon, mistakes can have a far more serious impact because of their immense visibility. What is surprising perhaps, is that investment in relevant technologies to address global trade challenges like these is still comparatively new. ■