



**Going global: entering the UK e-commerce market**  
A report for Facebook

8 February 2019

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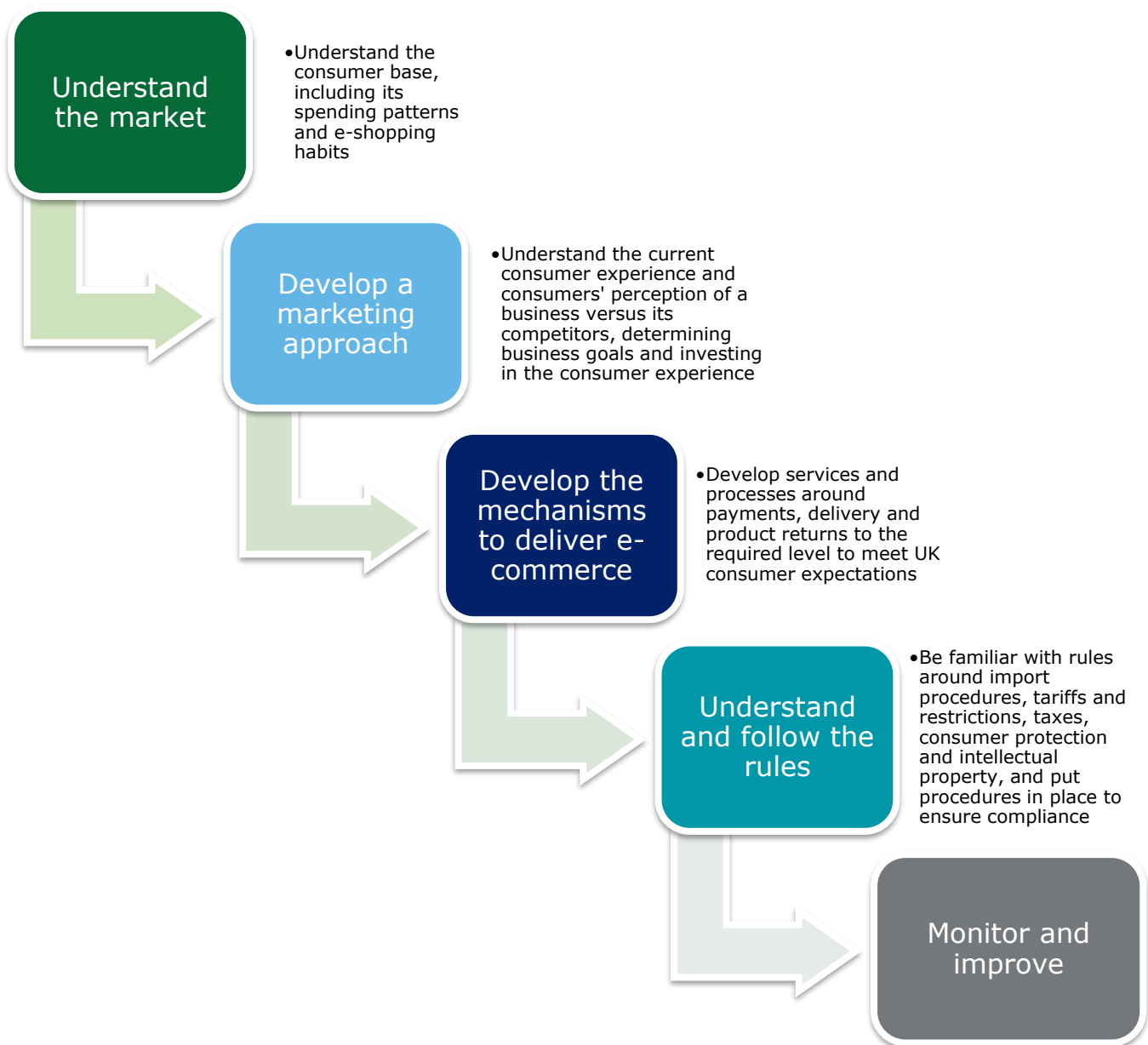
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# 1 Overview

Businesses selling online (“e-commerce businesses”) in their domestic markets and considering expanding their global reach by entering the UK market need to build a reputation and brand; develop the necessary customer services; and comply with rules and regulations, from taxes and tariffs to consumer protection law. Facebook commissioned Deloitte to produce a practical guide for e-commerce business leaders considering going global by entering the UK market. The five steps to make that a success are summarised below, with more detail on every step in the following chapters:



## 2 Context

### 2.1 Our scope

Facebook asked Deloitte to prepare a report for publication that would help businesses that have to date focused on domestic e-commerce but are considering entering the UK market. The intention is to provide a high-level guide so that business leaders can get a sense of the opportunity and the steps they will need to take in order to enter the UK market. Any decision to invest, conduct business, enter or exit the markets considered in this report should be made solely on independent advice and no information in this report should be relied upon in any way by any party.

For many businesses, going global is a path to additional revenues and profits in new markets. Payvision reports that 81% of respondents to a survey of merchants and related businesses agreed or strongly agreed with the proposition that “cross-border e-commerce has proven to be profitable”.<sup>1</sup> Exporting businesses can also learn from operating in a new environment with new competition. There is an established literature that finds “export growth increases firm productivity as well as other measures of firm performance”<sup>2</sup>. Businesses also find they are better able to compete at home too. Consumers in the markets to which they export also benefit, with more competition for existing products and services and greater variety on offer.

Although there are commercial opportunities for e-commerce businesses going global, it can be challenging to gauge the potential opportunity, and businesses can be concerned about apparent barriers. While the UK market is relatively competitive and there are material barriers for international businesses to overcome in entering it, the opportunity is real with a large and growing e-commerce market, well-developed supporting services and a transparent regulatory environment. This report is intended to help businesses get access to the UK market by providing a broad overview of the issues that businesses should consider and some practical steps they can take to navigate some of the typical barriers they may encounter.

### 2.2 Structure

This report starts with ‘**Introduction to the UK market**’, which provides the facts around UK e-commerce and consumption, helping businesses considering entering the UK to *understand their market*.

It then considers the challenges in establishing reputation with UK consumers in ‘**Marketing in the UK**’, providing information to help them *develop a marketing approach*.

It then moves on to discuss a series of common technical barriers in ‘**Delivering UK e-commerce**’, ensuring that businesses can *develop the mechanism to deliver e-commerce* in the UK.

Finally, the report considers regulatory barriers and tax requirements in ‘**Meeting UK regulatory requirements**’, providing a basic guide with references to further information so that businesses are able to *understand and follow the rules* for e-commerce in the UK.

### 2.3 Limitations

This report aims to provide a high-level overview of the relevant issues and does not intend to provide a detailed or exhaustive exploration of the challenges and how they vary by sector. Instead,

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<sup>1</sup> Payvision, *Key business drivers and opportunities in cross-border ecommerce*, 2017, <https://www.payvision.com/key-business-drivers-2017>

<sup>2</sup> Park, Yang, and Shi, *Exporting and Firm Performance: Chinese Exporters and the Asian Financial Crisis*, 2006, <http://fordschool.umich.edu/rsie/workingpapers/Papers526-550/r549.pdf>

links to further information are provided to ensure that businesses can find detailed guidance on specific issues. In some areas (particularly tax, immigration and sector-specific regulatory requirements), businesses should consider seeking professional advice that will take into account the specific circumstances of your business.

### 2.3.1 Policy, regulatory changes and Brexit

There are a number of potential barriers to cross-border e-commerce businesses entering the UK market that depend on government policy, including domestic regulatory requirements and customs and other requirements at the border.

Those policies are always subject to change, but this may be particularly so in the context of the UK's planned exit from the European Union ("EU"; this process is also known as "Brexit"). This report will examine barriers as of November 2018 and will not speculate as to how policy, regulations, technology or the any other element of the business environment might change over time. Many of the sources recommended elsewhere in this report should provide helpful information when changes take place, alongside professional advice where appropriate.

### 2.3.2 Sources for further information

| Organisation   | Description  | Link  |
|--|--|---|
| <b>UK Government: Her Majesty's Revenue &amp; Customs ("HMRC")</b> | UK taxes, payments and customs authority.  | <a href="https://www.gov.uk/government/organisations/hm-revenue-customs">https://www.gov.uk/government/organisations/hm-revenue-customs</a>   |
| UK Government: Home Office   | Rules and requirements about UK work visas   | <a href="https://www.gov.uk/browse/visas-immigration/work-visas">https://www.gov.uk/browse/visas-immigration/work-visas</a>   |
| UK Government: HMRC  | Helpline on imports and exports  | <a href="https://www.gov.uk/government/organisations/hm-revenue-customs/contact/customs-international-trade-and-excise-enquiries">https://www.gov.uk/government/organisations/hm-revenue-customs/contact/customs-international-trade-and-excise-enquiries</a> |
| Chartered Institute of Taxation                                    | A resource to find a UK-qualified tax adviser that suits a business's needs  | <a href="https://core.tax.org.uk/">https://core.tax.org.uk/</a>   |
| The Law Society  | The Law Society is the independent professional body for solicitors. The Find a Solicitor tool can be used to find legal advisers in specialised areas, such as regulation and compliance.   | <a href="http://solicitors.lawsociety.org.uk/">http://solicitors.lawsociety.org.uk/</a>   |
| ICO  | General guidance on UK data laws and regulations and how these apply to businesses. Provides self-assessment tools and examples covering different areas.  | <a href="https://ico.org.uk/">https://ico.org.uk/</a>   |
| UK Government: Intellectual Property Office                        | The UK's Intellectual Property Office ("IPO") is the government body responsible for intellectual property rights in the UK and provides information about intellectual property policy and regulations, including updates on any changes. | <a href="https://www.gov.uk/government/organisations/intellectual-property-office">https://www.gov.uk/government/organisations/intellectual-property-office</a>   |
| UK Government  | A UK Government webpage providing guidance in a number of areas for businesses to prepare in the case of a no-deal Brexit  | <a href="https://www.gov.uk/government/collections/how-to-prepare-if-the-uk-leaves-the-eu-with-no-deal">https://www.gov.uk/government/collections/how-to-prepare-if-the-uk-leaves-the-eu-with-no-deal</a>   |
| European Commission  | A European Commission webpage providing guidance for businesses to prepare for Brexit.   | <a href="https://ec.europa.eu/info/brexit/brexit-preparedness_en">https://ec.europa.eu/info/brexit/brexit-preparedness_en</a>   |

# 3 Introduction to the UK market

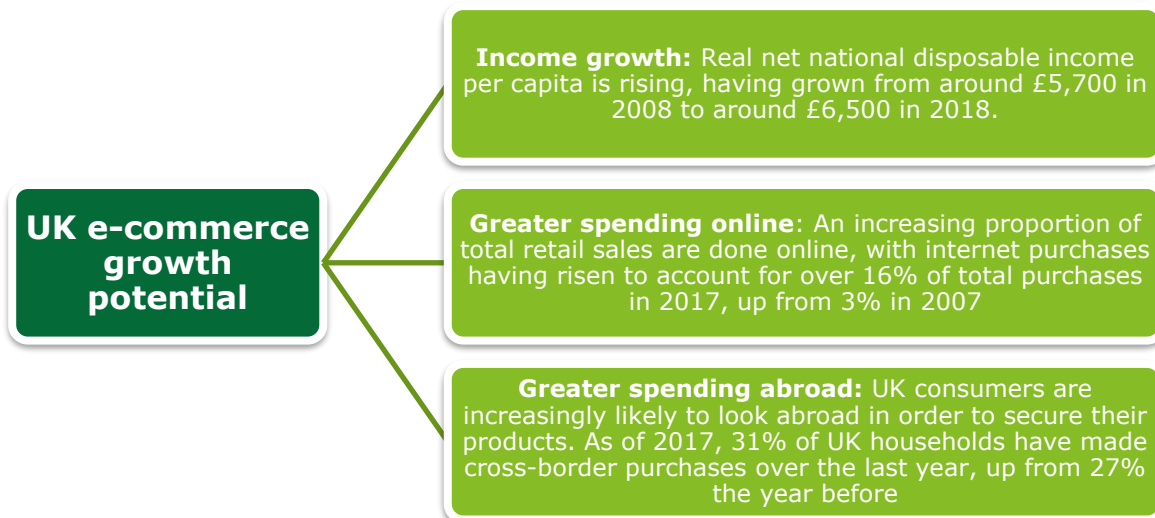
This chapter provides an overview of the UK’s e-commerce market, focusing on the online shopping habits of its consumers. UK consumers are relatively early adopters of new retail trends, such as new payment modes, and e-commerce demand is large and growing. The market is competitive but a well-crafted proposition from abroad can succeed if it meets UK consumer expectations.

## 3.1 Size and growth of the e-commerce market

The UK is an attractive market for e-commerce businesses. In 2015, it had the fifth largest economy and the third largest business-to-consumer (“B2C”) e-commerce market in the world.<sup>3</sup> E-commerce sales by UK businesses have grown from £335bn in 2008 to £560bn in 2017<sup>4</sup>. These e-commerce sales include two major categories - sales received over websites, typically B2C transactions, and sales received over electronic data interchange (“EDI”), which mainly comprise business-to-business (“B2B”) transactions. The focus of this report is website sales – which in 2017 stood at £300bn.<sup>5</sup>

Macroeconomic risks aside, there is a long-term positive outlook for this B2C e-commerce in the UK - disposable income is currently rising, the proportion of UK retail spend through online channels is rising and there is an increasing propensity for UK consumers to buy from overseas.<sup>6</sup>

Figure 1: Drivers for cross-border UK B2C e-commerce growth



Source: UK Office for National Statistics (“ONS”), Statista, Deloitte analysis

<sup>3</sup> Statista, *Countries with the largest B2C e-commerce markets in 2015 and 2016 (in billion U.S. dollars)*, 2019, <https://www.statista.com/statistics/274493/worldwide-largest-e-commerce-markets-forecast/>

<sup>4</sup> Office for National Statistics, *E-commerce and ICT activity, UK*, 2017, <https://www.ons.gov.uk/businessindustryandtrade/itandinternetindustry/bulletins/e-commerceandictactivity/2017>

<sup>5</sup> Ibid

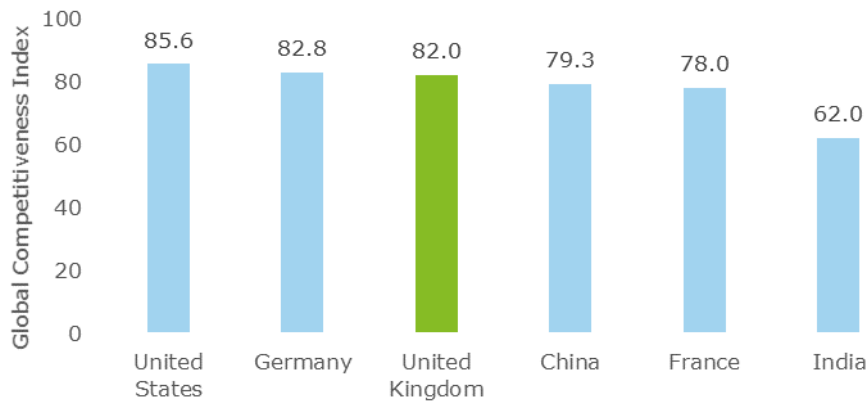
<sup>6</sup> Office for National Statistics and Statista, 2016



### 3.2 General business environment and competition in the retail space

Generally, the UK market is considered to have a strong business environment, comparative with many of the top economies as measured by the World Economic Forum’s (“WEF”) Global Competitiveness Index.<sup>7</sup> This suggests the UK market presents good potential for businesses to enter and compete (see Figure 2).

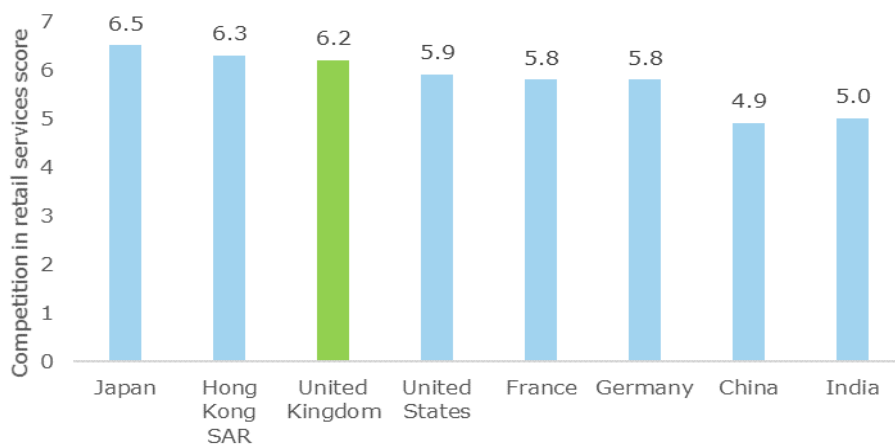
Figure 2: Global Competitiveness Index for selected countries, 2017-2018



Out of 100, with 100 indicating the best overall score. Source: WEF<sup>8</sup>

Similarly, the level of competition in the retail space is considered to be high by global standards. According to the WEF’s Global Competitiveness Report in 2018, the UK ranked third place (tied) in this area, with Japan in first place and Hong Kong in second.<sup>9</sup>

Figure 3: Level of competition in retail services for selected countries, 2017-2018



Out of 7, with 7 indicating the best overall score. Source: WEF<sup>10</sup>

<sup>7</sup> This measures the “microeconomic and macroeconomic foundations of national competitiveness, which is defined as the set of institutions, policies, and factors that determine the level of productivity of a country” (WEF, *Global Competitiveness Report: Global Competitiveness Index 4.0, 2017-2018*, <http://reports.weforum.org/global-competitiveness-report-2018/competitiveness-rankings/>).

<sup>8</sup> Ibid

<sup>9</sup> The UK tied for third in the level of competition in retail services with Lesotho and the Netherlands.

<sup>10</sup> WEF, *Global Competitiveness Report: Competition in retail services, 2017-2018*, <http://reports.weforum.org/global-competitiveness-report-2018/competitiveness-rankings/#series=EOSQ490>

The size of the UK e-commerce sector does however mean that major businesses with established brands exist in most sectors, from groceries to household appliances. The largest real term growth in e-commerce sales has been in companies with 1,000 or more employees, where online sales grew from £60bn in 2009, to £161bn in 2017. Nevertheless, the growth in online sales is not limited to large businesses. Website sales by businesses with 10 to 49 employees are growing at a much faster rate, increasing from £7.8bn in 2009 to £34.2bn in 2017.

This suggests that while the UK market is generally open to new business entrants, it is highly competitive in the e-commerce space. It is therefore essential for businesses to consider how they can establish their brand strongly in order to effectively compete. Success in entering the UK market can also then position businesses for further global expansion given the UK market conditions. Chapter 4 considers how businesses may look to develop their marketing approach in more detail.

### 3.3 Consumer characteristics

In 2018, 90% of UK households had access to the internet.<sup>11</sup> The internet is now the most popular platform among 16-24 year olds (82%) for accessing news.<sup>12</sup> It is also increasingly used 'on the go' - the UK the average adult spends 2.5 hours online on their phones per day, rising to 3.5 hr for those aged 18-24, and with women in this age group dedicating almost four hours a day<sup>13</sup>.

The following section provides an overview of the UK e-commerce consumer. Businesses should do further research on the segments relevant for their business. There are some common characteristics in consumer behaviours across sectors, including a relative openness to purchasing online and seasonal peaks in demand and payment norms, but also some important disparities between markets such as routes to purchase.

#### 3.3.1 Priorities

The normal factors which might be expected to shift consumer behaviour appear to be relevant for UK consumers. The Direct Marketing Association ("DMA") reports that over 70% of consumers would consider switching to a new brand if it offered cheaper regular prices, better quality or a discount. However, if a new brand did not demonstrably offer these, consumer inertia may be common. In general, only 24% of people often consider retailers they have not used before.<sup>14</sup>

There are some distinctive features in the UK consumer mindset. For example, research for Waggener Edstrom Communications with YouGov finds UK customers are, relative to the global average, pessimistic around technology, less likely to expect a range of benefits (e.g. companies will be able to provide more for less money) to materialise and more likely to expect a range of harms (e.g. companies will make mistakes).<sup>15</sup>

In many other regards, UK consumers share characteristics with those in economies with similar macroeconomic profiles. The same source found that around two thirds of UK consumers expect brands to take a stand on important issues. This is less than in some major developing economies (e.g. India, China) but more than in the United States and around the same as in Germany.<sup>16</sup> The UN Global Compact-Accenture CEO Study on Sustainability found that 15% of consumers consider sustainability in their purchasing decisions, less than but similar to the 21% in Germany and the

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<sup>11</sup> Office for National Statistics, *Internet access – households and individuals, Great Britain, 2018*, <https://www.ons.gov.uk/peoplepopulationandcommunity/householdcharacteristics/homeinternetandsocialmediausage/bulletins/internetaccesshouseholdsandindividuals/2018>

<sup>12</sup> Ofcom, *News Consumption in the UK, 2018*, [https://www.ofcom.org.uk/data/assets/pdf\\_file/0024/116529/news-consumption-2018.pdf](https://www.ofcom.org.uk/data/assets/pdf_file/0024/116529/news-consumption-2018.pdf)

<sup>13</sup> Deloitte, *Global Mobile Consumer Survey: The UK Cut, 2018*, <http://www.deloitte.co.uk/mobileuk/#smartphones-and-media>

<sup>14</sup> DMA, *Acquisition and the consumer mindset, 2018*, [https://dma.org.uk/uploads/misc/5b604a51f135a-customer-engagment---acquisition\\_5b604a51f12a7.pdf](https://dma.org.uk/uploads/misc/5b604a51f135a-customer-engagment---acquisition_5b604a51f12a7.pdf)

<sup>15</sup> WE, *Brands in Motion, 2018*, <https://www.we-worldwide.com/media/444255/bim2018-uk-final.pdf>

<sup>16</sup> WE, *Brands in Motion, 2018*, <https://www.we-worldwide.com/media/444255/bim2018-uk-final.pdf>

United States, versus 45% in China and 48% in India. Similar disparities were found in the numbers who reported actively looking for such information and those expecting to consider sustainability more in the next 12 months.

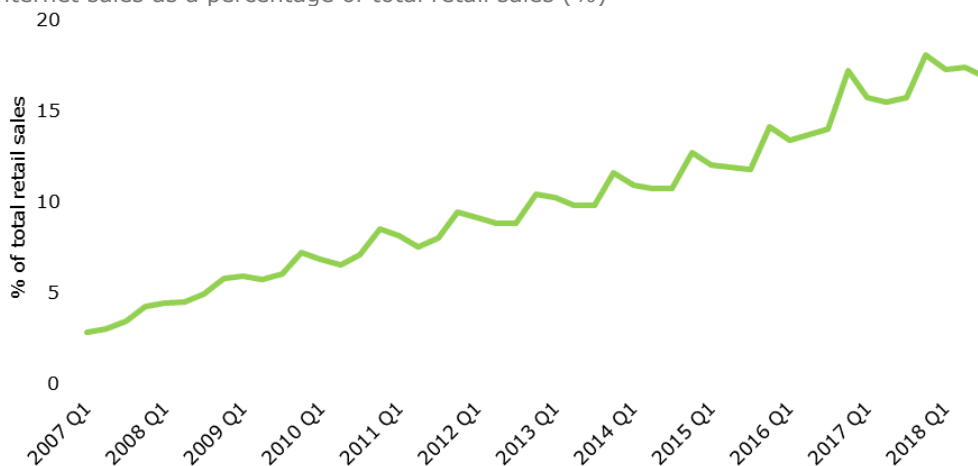
This may mean that there are distinctive challenges for a business entering a market with quite different macroeconomic characteristics (e.g. a significantly higher or lower GDP per capita), which are then diminished when entering further such markets. Once a business has entered the UK, for example, it might be easier to form an effective strategy for entering Germany or the US.

These and other high-level findings are based on self-reporting and reflect the general population. They may not reflect actual consumer behaviour in your sector and for your target consumers. Dedicated market research and/or experimentation with different propositions and marketing approaches may yield better results.

### 3.3.2 E-commerce spending in the UK

78% of UK adults bought goods or services online in 2018, up one percentage point from 2017 and 25 percentage points from 2008. Even the older generation are embracing e-commerce, with 48% of adults over 65 years old shopping online – a trebling on 2008 (16%).

Figure 4: Internet sales as a percentage of total retail sales (%)



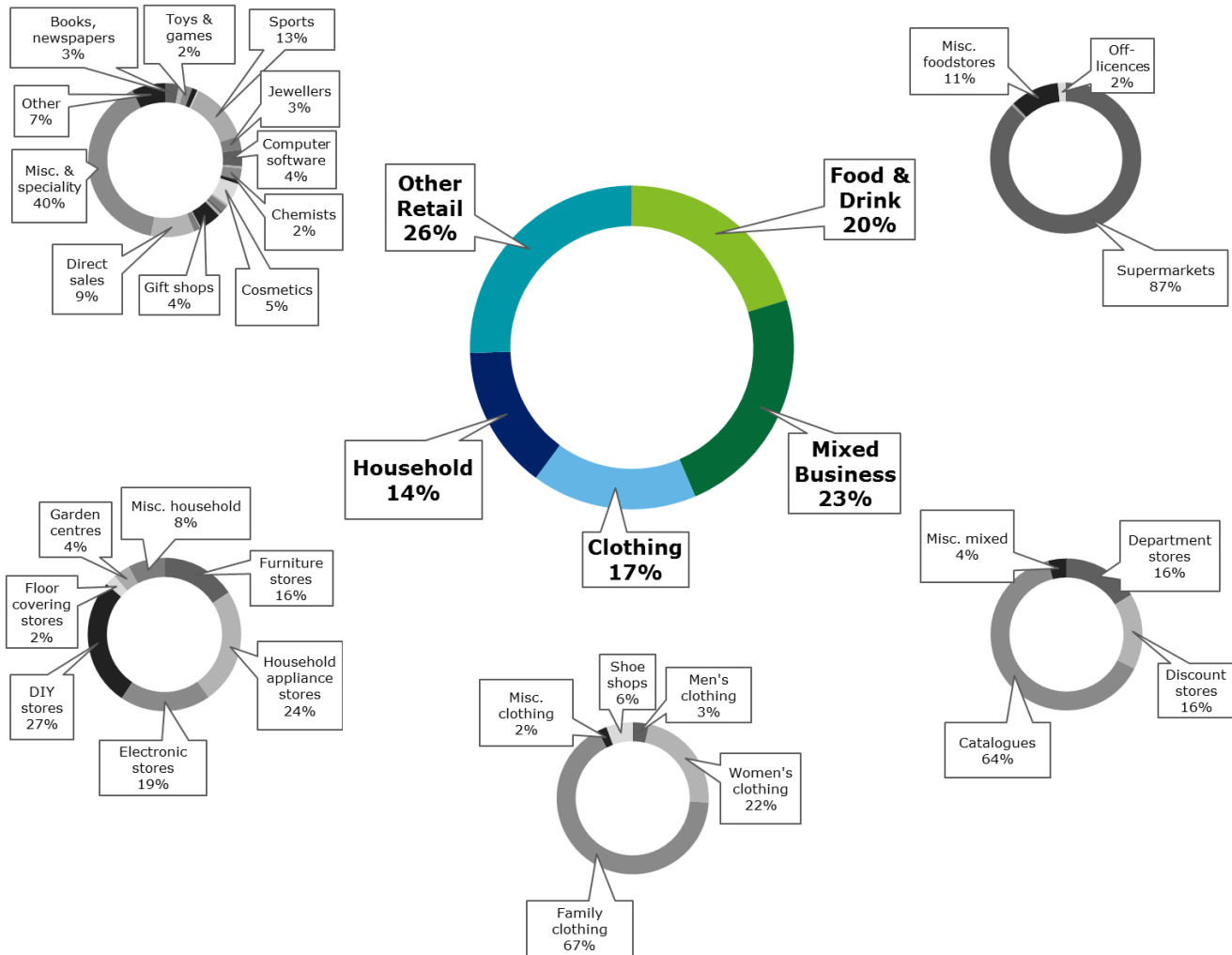
Source: Office for National Statistics<sup>17</sup>

E-commerce retail spending in the UK is disaggregated in Figure 5. This shows for example that around 20% of retail spending online is food and drink (mainly in supermarkets) and 17% is on clothing (mainly family and women’s clothing).<sup>18</sup>

<sup>17</sup> Office for National Statistics, *Internet sales as a percentage of total retail sales (ratio) (%)*, 2018, <https://www.ons.gov.uk/businessindustryandtrade/retailindustry/timeseries/j4mc/drsi>

<sup>18</sup> UK Cards Association (now UK Finance), *Card expenditure statistics: Detailed sector breakdown*, 2017, <http://www.theukcardsassociation.org.uk/2017-facts-figures/>

Figure 5: Retail e-commerce spending breakdown (credit and debit cards only, 2016/17)



Source: UK Cards Association (now UK Finance) <sup>19</sup>

UK consumers tend to concentrate their online spending in certain periods over the year. This means that e-commerce businesses need to be prepared for periods of peak demand, in terms of being able to offer websites and apps that can manage this traffic, and logistics to handle fulfillment.

The period between 'Black Friday' in November and Christmas has the most significant surge in online retail sales in the UK.<sup>20</sup> More than half of UK consumers (53%) plan to do the majority of their Christmas shopping in November or before, and 37% will do the majority of their shopping in November<sup>21</sup>. Only 12% of UK shoppers expect to do most of their Christmas shopping in the week before Christmas. The UK's major holidays that see noticeable increases in ecommerce activity include:

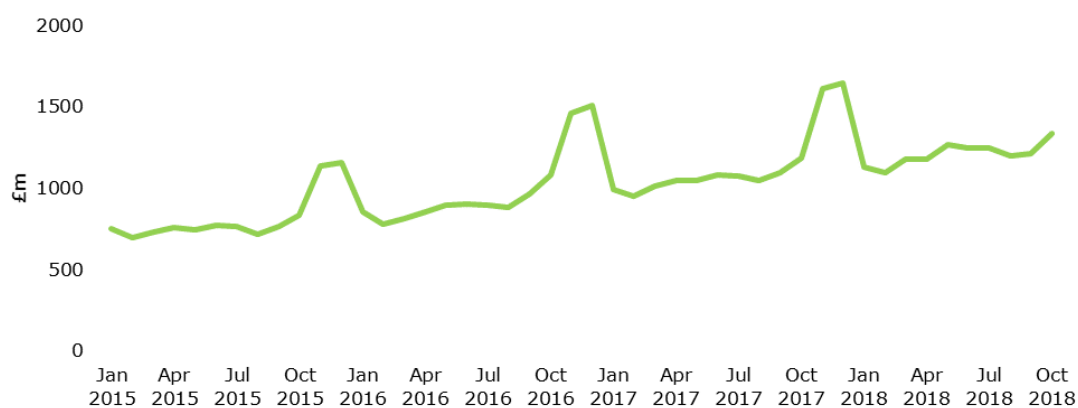
<sup>19</sup> UK Cards Association (now UK Finance), *Card expenditure statistics: Detailed sector breakdown, 2017*, <http://www.theukcardsassociation.org.uk/2017-facts-figures/>

<sup>20</sup> Office for National Statistics, *Internet retail sales, £ millions. All retailing, 2018*, <https://www.ons.gov.uk/businessindustryandtrade/retailindustry/timeseries/je2j>

<sup>21</sup> Deloitte, *UK retailers brace for fiercely competitive Christmas amid cautious consumer appetite, 2018*, <https://www2.deloitte.com/uk/en/pages/press-releases/articles/uk-retailers-brace-for-fiercely-competitive-christmas-amid-cautious-consumer-appetite.html>

- **Valentine’s Day - February 14:** a day traditionally celebrated by couples, where romantic gifts are exchanged (such as cards, chocolates and flowers).
- **Mothering Sunday - first Sunday in March:** where gifts are given to mothers (note that the date is different to the international norm, reflecting its historical roots).
- **Father’s Day - third Sunday in June:** where gifts are given to fathers.
- **Black Friday and Cyber Monday - Fourth Friday in November and following Monday:** the unofficial starting date for Christmas shopping where stores usually offer discounts, online and offline.
- **Christmas Eve, Christmas Day and Boxing Day - December 24-26.**

Figure 6: Average weekly value for Internet retail sales (£ million)



Source: Office for National Statistics<sup>22</sup>

### 3.3.3 Routes to purchase

UK consumers use a range of channels, combining desktop, tablet and mobile for e-commerce. Mobile phones or smartphones are the most popular devices used to access the internet (78% of adults in 2018 used mobile phones or smartphones)<sup>23</sup>, and it has been forecast that online purchases made via smartphones will represent around 56% of all e-commerce sales by 2021.<sup>24</sup> Facebook research found that 46% of mobile-first Christmas shoppers in the UK in 2017 were Millennials.<sup>25</sup> However, desktops and laptops are currently more popular overall for actual purchases, at 28%, behind 40% for in store purchases.

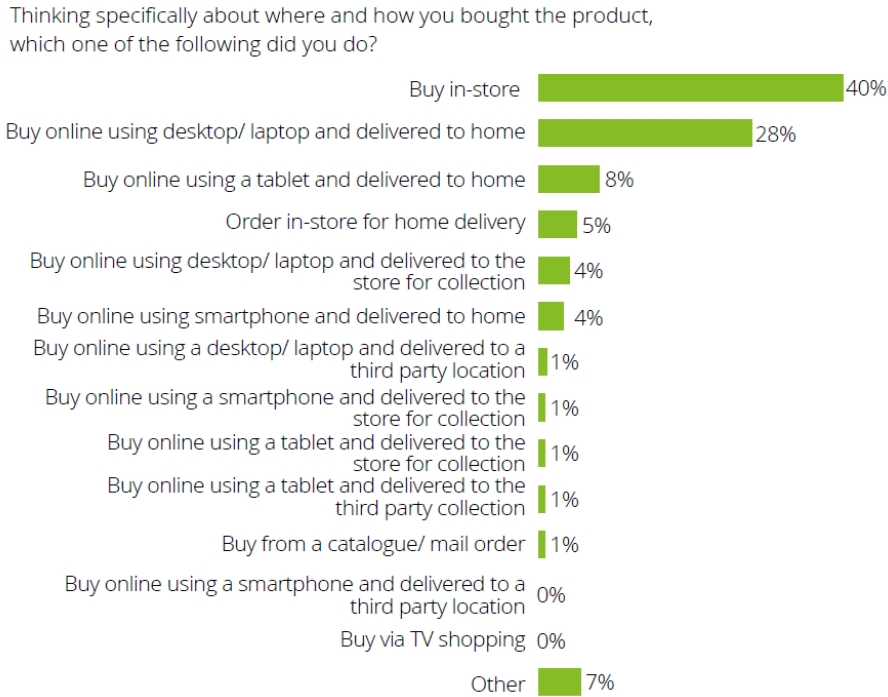
<sup>22</sup> Office for National Statistics, *Internet retail sales, £ millions. All retailing*, 2018, <https://www.ons.gov.uk/businessindustryandtrade/retailindustry/timeseries/je2j>

<sup>23</sup> Office for National Statistics, *Internet access – households and individuals, Great Britain*, 2018, <https://www.ons.gov.uk/peoplepopulationandcommunity/householdcharacteristics/homeinternetandsocialmediausage/bulletins/internetaccesshouseholdsandindividuals/2018>

<sup>24</sup> Export.gov, United Kingdom – eCommerce, 2018, <https://www.export.gov/article?id=United-Kingdom-eCommerce>

<sup>25</sup> Facebook IQ, *Facebook Holiday Study: Ipsos Marketing - online study of 1,204 people aged 18+ in the UK*, 2017, [https://scontent-lhr3-1.xx.fbcdn.net/v/t39.2365-6/20685117\\_182977195576850\\_3654430648162058240\\_n.pdf?nc\\_cat=106&nc\\_ht=scontent-lhr3-1.xx&oh=fe466c19afc9b4a99264f3b3fc6279f8&oe=5CF1FC3B](https://scontent-lhr3-1.xx.fbcdn.net/v/t39.2365-6/20685117_182977195576850_3654430648162058240_n.pdf?nc_cat=106&nc_ht=scontent-lhr3-1.xx&oh=fe466c19afc9b4a99264f3b3fc6279f8&oe=5CF1FC3B)

Figure 7: Channel used to buy a product (% UK consumers who made a purchase in the last three months preceding November 2016)



Source: Deloitte analysis<sup>26</sup>

Smartphone purchases are most likely to be done over a marketplace app (such as eBay, Shpock, Amazon), rather than by a retailer’s website or a retailer’s app, reflecting the importance of these wider online marketplaces in UK consumer spending behaviour.

Figure 8: How products and services are purchased online when using a smartphone



Source: Deloitte analysis<sup>27</sup>

Consumers can follow many paths to their final purchase, in terms of how they find inspiration and get information, complete their transaction and then share the experience with others. Looking at the

<sup>26</sup> Deloitte, *The Deloitte Consumer Review - CX marks the spot: Rethinking the customer experience to win*, 2016, <https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/consumer-business/deloitte-uk-consumer-review-customer-experience.pdf>

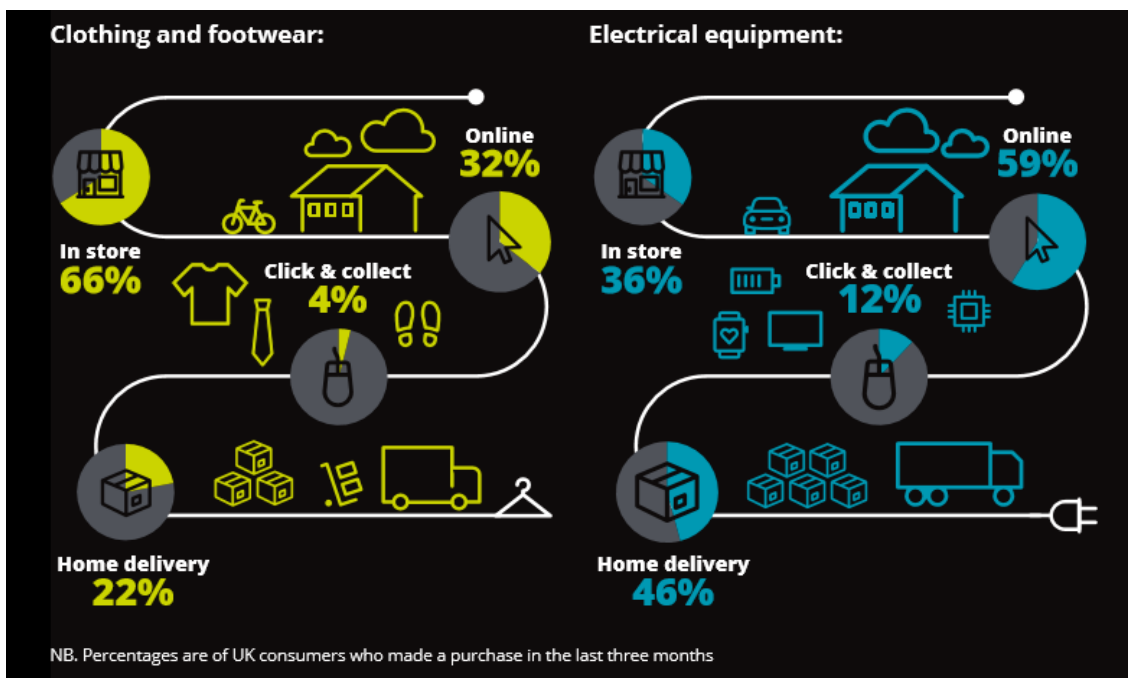
<sup>27</sup> Deloitte, *Global Mobile Consumer Survey: The UK Cut*, 2018, <http://www.deloitte.co.uk/mobileuk/#smartphones-and-media>

first few stages of the shopping journey, consumer activities will be different depending on whether they are looking for inspiration or whether, once they know what they want, they are looking to find where the product or service is available.

Search engines have an important role in providing consumers their information on this journey. In 2017, search engines were used by 95% of internet users.<sup>28</sup> 80% of people who went online to look for information on leisure activities, including trips to the cinema and live music events, used search engines in 2016. In comparison, only 41% of people have used Wikipedia, 40% have used websites with user reviews such as Amazon, TripAdvisor or OpenTable, 40% have used the BBC website and 37% say they have used a government or local council website.<sup>29</sup>

The research shows very different paths to purchase across product and service categories. For example, in commodity categories such as shopping for groceries or train tickets, consumers will typically engage in very few activities because they know exactly what they are looking for. When the purchase requires more consideration, consumers are more likely to engage in more activities before making a decision. This is particularly true for categories such as major household appliances or packaged holidays. Examples of how the consumer journeys vary in the UK are shown below.

Figure 9: Consumers' paths to purchasing



Source: Deloitte<sup>30</sup>

### 3.3.4 Payments and fulfilment

Debit and credit cards remain the most common method of payment for online B2C transactions, with almost all UK-based online businesses having this functionality. Visa and MasterCard are almost universally accepted, while other cards such as American Express are also commonly accepted. A

<sup>28</sup> Ofcom, *Adults' Media Use and Attitudes Report*, 2018, [https://www.ofcom.org.uk/data/assets/pdf\\_file/0011/113222/Adults-Media-Use-and-Attitudes-Report-2018.pdf](https://www.ofcom.org.uk/data/assets/pdf_file/0011/113222/Adults-Media-Use-and-Attitudes-Report-2018.pdf)

<sup>29</sup> Ibid

<sup>30</sup> Deloitte, *The Deloitte Consumer Review - CX marks the spot: Rethinking the customer experience to win*, 2016, <https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/consumer-business/deloitte-uk-consumer-review-customer-experience.pdf>

high proportion of the market's transactions are also undertaken on PayPal or other similar services, accounting for 40% of transactions.

Nearly half of UK consumers (48%) prefer to pay with a debit or credit card, 42% by "Paypal or similar", 2% by invoice in arrears, and 4% using cash on delivery. The combined share for cards is the third highest of the major European markets after France (54%) and Belgium (55%) and the preference for PayPal or similar is the second highest after Italy (48%).<sup>31</sup> <sup>32</sup> There is also a general preference for upfront payment across industries and sectors, with consumers expecting to do so for most products. Payment on delivery is uncommon generally at 3%, and credit is normally only extended to consumers for larger scale purchases, such as for vehicles or home appliances. Mobile payments are also a fast growing sector in the e-commerce market, with third party services processing payments for major apps. Further information is provided on these and other payments services for online businesses in Section 5.1.

Within the UK fulfilment space, customers most value convenience and therefore largely expect companies to be flexible, offering multiple delivery options, including home delivery, click and collect, workplace delivery, and so on. Out of these options, customers tend to favour home delivery, with 72% of consumers indicating this as their preferred method of delivery, followed by click and collect.<sup>33</sup> Further information on potential delivery and return fulfilment options for e-commerce businesses is provided in Section 5.2.

### 3.4 Practical steps for businesses to consider

As a first step, businesses considering entering the UK market should understand their relevant consumer base, to help guide investment decisions (such as on advertising, as examined in the following chapter). A quick and low cost approach would be secondary research – using existing analysis to get an insight into your potential consumers. Alternatively, primary research can be considered (studying consumers directly, such as through surveys or interviews), and this can be tailored to businesses specific market and research needs. There are many consultancies operating in the UK that can offer specialist market research, both primary and secondary, as set out further below in Section 3.5. Broadly this can involve:

- **Determining the research questions:** Businesses should determine what they need to know about their market, including the level of detail and the time frame. Do they need to know about what consumers are buying, why they are buying the products, and what will make them buy?
- **Segmentation:** Businesses can break the UK population down into sub-segments, for example by age, gender or income. This requires using categories that may represent different spending behaviours relevant to their product. Useful public sources on UK demographics include UK Office of National Statistics data for population (including age and sex),<sup>34</sup> and its Nomis data on local labour markets (population, employment, unemployment, qualifications, earnings, benefit claimants and businesses).<sup>35</sup> There are many commercial data sets that may be useful, for example as provided by Experian.
- **Understanding your target market:** Businesses can understand the behaviours of their relevant sub-segments of consumers. This can include their spending behaviours on similar products (for example, using ONS data on consumption expenditure by age and detailed

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<sup>31</sup> Postnord, *E-commerce in Europe*, 2017, [https://www.postnord.fi/siteassets/raportit/e-commerce-in-europe-2017\\_en\\_low.pdf](https://www.postnord.fi/siteassets/raportit/e-commerce-in-europe-2017_en_low.pdf)

<sup>32</sup> Spain also reports a 42% preference of paying using "Paypal or similar" products.

<sup>33</sup> Ecommerce Foundation, *European Ecommerce Report*, 2018, <https://www.haendlerbund.de/de/downloads/ecommerce-europe/european-ecommerce-report-2018.pdf>

<sup>34</sup> Office for National Statistics, *Population estimates*, 2018, <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates#timeseries>

<sup>35</sup> Nomis: Official labour market statistics, <https://www.nomisweb.co.uk/>



categories),<sup>36</sup> so they can identify the sub-segments that are most likely to buy their product. It can also include data on preferences (such as by examining their likes on Facebook) and how they search for information (for example, by using Google Analytics on web visits), to tailor engagement strategies and product offerings.

### 3.5 Key sources of information and support

For businesses considering entering the UK market, there are a numerous official bodies that can assist with developing an understanding of the potential benefits and challenges, such as:

- **The Department for International Trade (“DIT”)**: produces an extensive and regularly updated guide for overseas businesses looking to conduct business in the UK, available in both English as well as an array of foreign languages.<sup>37</sup> Additionally, advice on identifying market opportunities, setting up in the UK (covering tax, employment, marketing, visas) and finding events and networking opportunities with British suppliers is available from DIT staff located in over 100 offices throughout the world.<sup>38</sup>
- **International Chambers of Commerce based in the UK**: these, and specific institutes explicitly tasked with promoting bi-lateral relationships, can also be valuable partners, providing overseas businesses with both information and assistance in networking and connecting with potential business partners.<sup>39</sup>
- **Foreign Chambers of Commerce**: these have offices located in the UK, with the majority combining under the joint umbrella of The Council of Foreign Chambers of Commerce in the UK (“CFCC”). Each is focused on providing assistance to native businesses looking to expand into the UK or initiate trade and will look to build connections between member businesses to share information and promote accredited service partners, while also providing practical support on matters such as visa issues or VAT recovery where appropriate.<sup>40</sup>
- **China-Britain Business Council**: one of the most prominent bodies promoting bi-lateral trade between China and the UK. It organises networking events in both nations, connects members with industry-specific advisors and produces webinars and literature to provide updates on potential developments.<sup>41</sup>

In addition to this, there are also a number of other sources of information, summarised in the table below and set out in the following sections of this report.

| Organisation               | Description  | Link   |
|----------------------------|--|--|
| <b>UK Government: HMRC</b> | UK taxes, payments and customs authority.  | <a href="https://www.gov.uk/government/organisations/hm-revenue-customs">https://www.gov.uk/government/organisations/hm-revenue-customs</a>  |
| <b>UK Government: DIT</b>  | Government department tasked with driving policy to increase the number of exporters and inward investors to the UK. | <a href="https://www.gov.uk/government/organisations/department-for-international-trade">https://www.gov.uk/government/organisations/department-for-international-trade</a> and specifically <a href="https://www.great.gov.uk/market-research/">https://www.great.gov.uk/market-research/</a> |

<sup>36</sup> Office for National Statistics, *Expenditure*, <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure>

<sup>37</sup> UK Government: Department for International Trade, *Business investment in the UK: Guidance for overseas businesses*, 2018, <https://www.gov.uk/government/collections/investment-in-the-uk-guidance-for-overseas-businesses>

<sup>38</sup> UK Government: Department for International Trade, *Department for International Trade offices around the world*, <https://www.gov.uk/government/publications/dit-worldwide-offices/department-for-international-trade-offices-around-the-world>

<sup>39</sup> International Chamber of Commerce, <https://iccwbo.org/>

<sup>40</sup> The Council Of Foreign Chambers Of Commerce In The UK, <http://www.cfcc.org.uk/>

<sup>41</sup> China-Britain Business Council, <http://www.cbbc.org/>

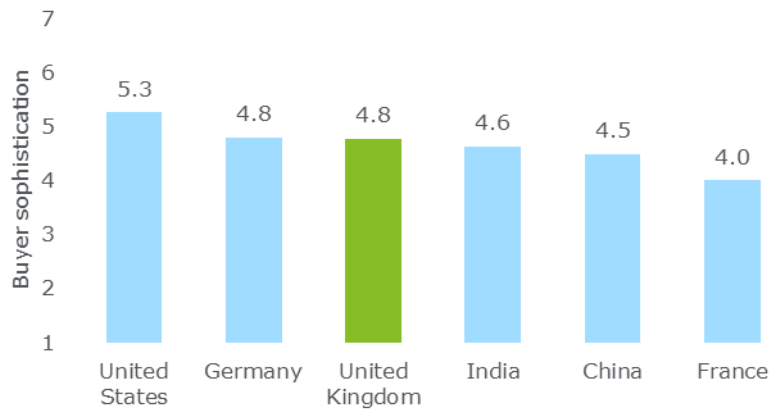
|  |   |   |
|--|---|---|
| <b>Institute for Fiscal Studies</b>                          | A politically independent economic research institute based in London. It specialises in UK taxation and public policy. | <a href="https://www.ifs.org.uk/">https://www.ifs.org.uk/</a>   |
| <b>UK Government: Online and distance Selling</b>            | Page providing advice for both online and long-distance commerce.   | <a href="https://www.gov.uk/online-and-distance-selling-for-businesses">https://www.gov.uk/online-and-distance-selling-for-businesses</a>   |
| <b>UK Government: Imports and exports: general enquiries</b> | Offers support for general queries, with online help available.   | <a href="https://www.gov.uk/government/organisations/hm-revenue-customs/contact/customs-international-trade-and-excise-enquiries">https://www.gov.uk/government/organisations/hm-revenue-customs/contact/customs-international-trade-and-excise-enquiries</a> |

# 4 Marketing in the UK

This chapter focuses on what is required for e-commerce businesses to meet UK consumers' expectations around the consumer experience and to build a positive reputation with them. These two related issues will be crucial in whether a business is able to develop a market strategy that positions it to thrive in the UK market. They interact with the technical and regulatory requirements discussed later in this report to the extent that meeting those requirements consistently is crucial in establishing a positive reputation.

These reputational factors are important in the UK where consumers are generally seen as relatively "sophisticated", i.e. attaching greater importance to non-price factors, when buying products compared to consumers in some other major economies.

Figure 10: Buyer sophistication scores in sample countries, 2017-2018



Out of 7, with 7 indicating the best overall score. Source: WEF<sup>42</sup>

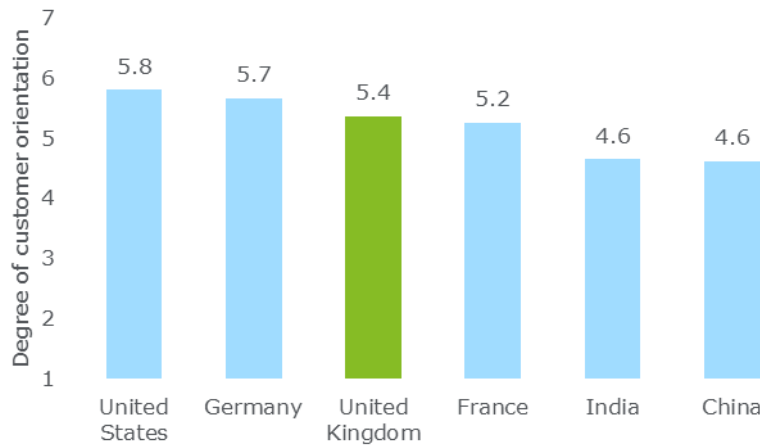
## 4.1 Consumer experience

The experience of e-commerce businesses is defined by the consumer's interactions with its website, when speaking to members of staff, reading a marketing e-mail and so forth. Consumer experience can be an important source of competitive differentiation, and so attention needs to be paid to each of these elements.

Like other major developed economies, the UK is generally seen as a highly consumer-centric market, meaning that given the degree of competition businesses are expected to meet high levels of consumer expectations in order to ensure consumer satisfaction and repeat business.

<sup>42</sup> WEF, *Global Competitiveness Report: Buyer sophistication*, 2017-2018, <http://reports.weforum.org/global-competitiveness-index-2017-2018/#topic=data>

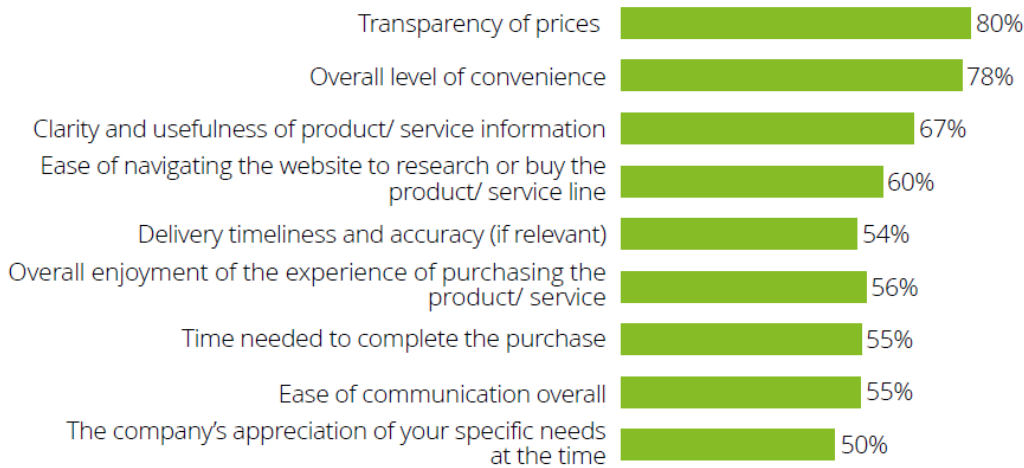
Figure 11: Consumer orientation scores in sample countries, 2017-2018



Out of 7, with 7 indicating the best overall score. Source: WEF<sup>43</sup>

In particular, Deloitte research shows that experiential non-price factors around transparency of prices, convenience, clarity of information, ease of navigating websites and delivery timeliness play an important role in UK consumers' decisions to buy a product or service<sup>44</sup>. Two key factors that affect these are the choice of user interface and the provision of information. We expand on these two key issues below.

Figure 12: Importance of factors in decision to buy a product or service (% UK consumers who made a purchase)



Source: Deloitte analysis<sup>45</sup>

#### 4.1.1 User interface

The choice of platform and design of the virtual storefront are vital in creating a positive consumer experience. It can influence the level of convenience, clarity and usefulness of product and service

<sup>43</sup> WEF, *Global Competitiveness Report: Consumer orientation, 2017-2018*, <http://reports.weforum.org/global-competitiveness-index-2017-2018/#topic=data>

<sup>44</sup> Deloitte, *The Deloitte Consumer Review - CX marks the spot: Rethinking the customer experience to win*, 2016, <https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/consumer-business/deloitte-uk-consumer-review-customer-experience.pdf>

<sup>45</sup> Ibid

information, ease of research, overall experience of purchasing and time to complete the purchase. This means it is important to tailor it to the specific UK market.

It is also important to be mindful of the practicalities of the e-commerce channel in question. Facebook research has found that, for the average campaign, placement optimisation (adapting an advert to the mode in which it will be placed) translated to an additional 500,000 people reached for the same budget,<sup>46</sup> and additional reach of 4.8%.<sup>47</sup>

Factors such as the speed at which each page loads, the functionality with which different channels are integrated and visual aspects including the number and quality of product photographs are all important when convincing consumers to extend their trust to an unfamiliar supplier. Evidence suggests around half of consumers expect a webpage to load in two seconds, with one second delay reducing conversions by 7%.<sup>48</sup> UK consumers are also becoming more aware of the threat of online identity theft and will generally only conduct financial transactions on websites that appear secure (there are also large potential fines for breaches of laws requiring the securing of personal data).

Businesses should also be mindful of the manner in which content should be adapted for mobile consumption as consumer interaction tends to differ between formats (e.g. entering text is more laborious). Mobile e-commerce may be more or less common in the UK than in a home market and consumers may be more likely to use app purchases versus buying in browser. The in-app and social media segments are both growing, with both typically placing greater emphasis on partnerships and branded content to reach new demographics less likely to engage with more traditional formats.

“UK consumers are among the world’s earliest adopters of new technologies, including new payment methods, so retailers need to stay on top of technological and regulatory developments. For example, mobile’s share of ecommerce is set to increase to over 50% in the next five years, while smartphones will outpace tablets in the same timeframe. Merchants should therefore invest in developing their own apps to build a seamless shopping and checkout experience for all users, across every device, and support the most popular payment methods.”

*Dave Glaser, Chief Product Officer, Global eCom at Worldpay*

#### 4.1.2 Provision of information

Websites and products need to provide clear information for the consumer. Any lack of clarity will undermine consumer confidence and could exacerbate the cost of returns and other failed transactions. Language can be a particular barrier to overseas businesses looking to engage with UK consumers. Technical accuracy, clarity and tone will all affect the consumer experience.

Consumers will have expectations around translations and a poor or awkward attempt will have a negative product perception. It may also affect the efficacy of digital marketing and word of mouth via social media.

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<sup>46</sup> FacebookIQ, Facebook internal analysis of 10 brand lift studies (including six reach and frequency campaigns in BR, CA, UK and US), Dec 2015–May 2016. Verticals include Automotive, Consumer Goods, Entertainment, Politics and Retail, <https://www.facebook.com/iq/insights-to-go/500k-for-the-average-campaign-placement-optimization-translated-into-an-additional-500k-people-reached-for-the-same-budget-compared-to-facebook-only-cellsanalysis-looked-at-10-brand-advertisers-who-represented-a-cross-section-of-verticals/>

<sup>47</sup> FacebookIQ, Facebook internal analysis of 10 brand lift studies (including six reach and frequency campaigns in BR, CA, UK and US), Dec 2015–May 2016. Verticals include Automotive, Consumer Goods, Entertainment, Politics and Retail, <https://www.facebook.com/iq/insights-to-go/on-average-placement-optimization-campaigns-had-41-more-reach-and-a-52-lower-cost-per-impression-cpmanalysis-looked-at-10-brand-advertisers-who-represented-a-cross-section-of-verticals/>

<sup>48</sup> Padychova, *How Page Load Time Affects Conversion Rates: 12 Case Studies*, 2018, <https://blog.hubspot.com/marketing/page-load-time-conversion-rates>

The introduction of Neural Machine Translation has improved translation services, reaching near human levels in commonly used language pairs<sup>49</sup>. Professional translation services will still improve quality and reliability outside of those common pairs (and avoid mistakes around idioms and tone). Common Sense Advisory in the United States produces an annual report on the translation industry and compiles a list of the largest agencies across the globe<sup>50</sup>.

Information may also be provided reactively in response to customer support questions before, during and after sales. The human capital implications of this are considered in Section 5.3.1. Consumer expectations for the channels by which they can reach a business will vary by sector. Facebook research suggests around three quarters of consumers message companies to get customer service. This is similar to other developed economies like the US, but less than in some emerging markets. This share is growing (over 70% expect to message more in future) and is associated with an expectation of improved standards (54% expect a faster response time versus other channels).<sup>51</sup>

## 4.2 Consumer perception

As the market becomes crowded with similar products and services, a company's brand becomes an important asset enabling it to differentiate itself and increase demand. This can be important for consumers who have not yet had direct experience of a company or its product or a company attempting to stand out in a competitive market. Consumers will rely on the experience of others until they interact with your company directly.

### 4.2.1 Reviews

Reviews and feedback are a key driver behind consumer perceptions of companies and in building trust in their products and services, whether this information is provided by other consumers, friends, relatives or by independent organisations. Deloitte data shows that for 2014, 81% of people read reviews and checked ratings, and more than one third of consumers contributed to online forums or commented on blogs.<sup>52</sup>

Many companies have started to encourage consumers to post reviews by incentivising them with gifts or other inducements. This has been associated with a decline in the number of people trusting reviews. Compared to 2014, the proportion of people claiming they do not trust anyone to provide honest feedback has risen from 9% to 15%. The research shows that consumer trust in manufacturers and service providers has declined by more than half since 2014.

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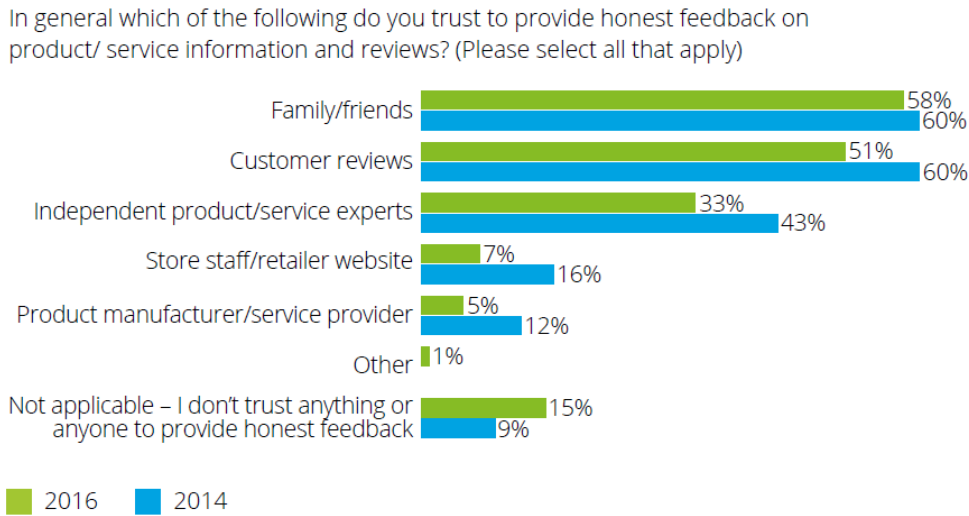
<sup>49</sup> Le and Schuster, Google Brain Team, *A Neural Network for Machine Translation, at Production Scale*, 2016, <https://ai.googleblog.com/2016/09/a-neural-network-for-machine.html>

<sup>50</sup> Common Sense Advisory, [http://www.commonsenseadvisory.com/top\\_100\\_Isps\\_2018.aspx](http://www.commonsenseadvisory.com/top_100_Isps_2018.aspx)

<sup>51</sup> Facebook IQ, *Motivations, Mindsets and Emotional Experiences in Messaging (vs feed)* by Sentient Decision Science. Facebook-commissioned survey of 8,156 people in BR, UK, IN and the US, 2018, <https://www.facebook.com/business/news/insights/why-messaging-businesses-is-the-new-normal>

<sup>52</sup> <https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/consumer-business/consumer-review-8-the-growing-power-of-consumers.pdf>

Figure 13: Trusted sources of information (% UK consumers)



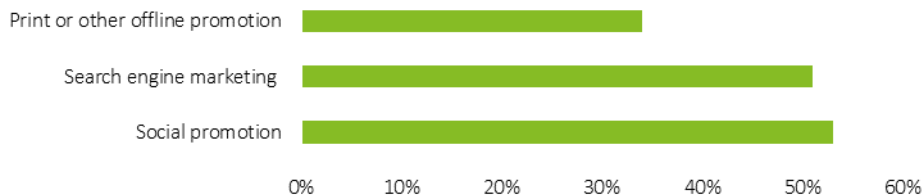
Source: Deloitte analysis<sup>53</sup>

Consumer reviews are still important however, and companies need to ensure they provide a consumer experience that does not incite negative reviews, whilst learning from feedback to improve their product and broader consumer offering.

#### 4.2.2 Advertising

The UK is the largest market for digital advertising spending in Europe, with more than double the amount of spending in digital channels than Germany, the next biggest market. 60% of UK media advertising is digital and this is forecast to rise to over 70% by 2022.<sup>54</sup> It is reasonable to expect that e-commerce businesses are particularly likely to use digital advertising (given the relatively direct potential connection from advert to purchase) and that the large UK e-commerce market is one reason why spending is focused on digital media. Retail leads digital advertising spending, at £1.9bn in 2018.<sup>55</sup> 25% of all UK digital advertising spending is estimated to be through social media in 2018, with increased spending across platforms such as Facebook, Twitter and Snapchat.<sup>56</sup>

Figure 14: Paid advertising methods ranked by effectiveness according to marketing firms in the UK, 2016



Source: Statista<sup>57</sup>

<sup>53</sup> Deloitte, *The Deloitte Consumer Review: The growing power of consumers, 2014*, <https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/consumer-business/deloitte-uk-consumer-review-customer-experience.pdf>

<sup>54</sup> eMarketer, *UK Digital Ad Spending by Industry, 2018*, <https://www.emarketer.com/content/uk-digital-ad-spending-by-industry-2018>

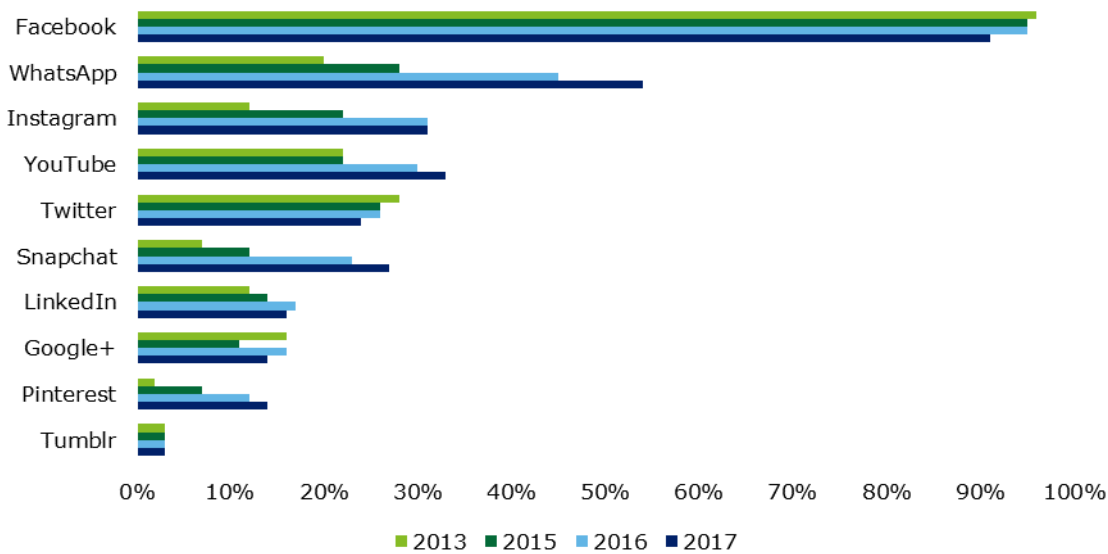
<sup>55</sup> Ibid

<sup>56</sup> Ibid

<sup>57</sup> Statista, *Paid digital advertising methods ranked by effectiveness according to marketers in the United Kingdom (UK) in 2016, 2019*, <https://www.statista.com/statistics/416903/most-effective-digital-advertising-methods-uk/>

The growth in social media advertising reflects the growth in social media adoption, shown below. 77% of internet users in the UK in 2017 had a social media profile. Facebook is by far the most popular form of social media, with 91% of survey respondents that are social media / messaging site users stating that they have a profile or account that they still use. Social media use is increasing with consumers using services from a growing range of providers, with the highest usage among young adults (aged 16-24). The older generations still use social media to some degree, but are more likely to use a single platform rather than multiple platforms.

Figure 15: Social media sites used: 2013, 2015, 2016 and 2017



Source: Ofcom<sup>58</sup>

### 4.3 Practical steps for businesses to consider

There are a number of practical steps a company can take to build a positive perception among UK consumers:

- **Diagnose the 'as-is' consumer experience and perception:** Define your consumer base and its constituent segments and assess their existing experience and perception to understand what is working, what is not and why:
  - **Consumer lens:** Investigate the 'pain points' and 'magic moments'. For example, do consumer get frustrated with the customer service? Do they enjoy the personalised note in the delivery box?
  - **Market lens:** How the company fares against the leading direct and non-direct competitors. Does the company lead the market in some areas? Themes and examples from market leaders will emerge and should provide guidance on best practice. It can be useful for the company to understand where they are weaker or stronger across their consumer experience activities.
- **Set a realistic 'to-be' goal:** Determine the company's consumer experience and perception goals and ensure they match the corporate strategy. These should be realistic and clearly

<sup>58</sup> Ofcom, *Adults' Media Use and Attitudes Report, 2018*, [https://www.ofcom.org.uk/data/assets/pdf\\_file/0011/113222/Adults-Media-Use-and-Attitudes-Report-2018.pdf](https://www.ofcom.org.uk/data/assets/pdf_file/0011/113222/Adults-Media-Use-and-Attitudes-Report-2018.pdf)



defined, and relevant to the needs of their target consumers (or, ideally, consumer segments).

- **Set out clear and actionable next steps:** Having set clear goals for consumer experience and perception, a prioritisation exercise is required. Generally, investments will fall into three high-level categories:
  - **'Correct' - lower effort investments for tactical quick wins:** The 'correct' category will typically include changes that are clear from the outset and require minimal effort or investment, such as improving the experience by amending the layout of a website homepage.
  - **'Optimise' - medium effort investments to optimise existing capability:** 'Optimise' relates to areas in which capability exists but is not optimised in the right way, for example inspirational content not being used across touchpoints consistently.
  - **'Disrupt' - higher effort investments to disrupt and innovate:** The third category, 'disrupt' refers to the areas where the company is looking to lead. Such areas can, but do not always, require significant investment in strategic initiatives such as rethinking customer service, loyalty offering or content strategy.

'Disrupt' can be the most transformational but can carry the most risk. Companies can be overly confident in how they launch a new channel, product, service or process improvement without fully understanding or allowing for the impact on the wider consumer experience. In contrast, some companies can shy away from any attempt to disrupt.

Despite those risks, it may be worthwhile for e-commerce businesses to invest to build their competitiveness in the UK e-commerce market. The value lies not only in creating tangible consumer impact but also in generating key learnings for the business, supporting an iterative process of testing and learning for application in the UK, the home market and other prospective international markets.

#### 4.4 Key sources of information and support

Information sources are set out below.

| Source          | Topic   | Link  |
|-----------------|---|---|
| <b>Facebook</b> | Facebook IQ provides a wide range of published reports on consumer and particularly digital consumer trends globally. Facebook Blueprint provides eLearning courses regarding Facebook marketing for a range of categories and roles.   | <a href="https://www.facebook.com/business/insights">https://www.facebook.com/business/insights</a>   |
| <b>Ofcom</b>    | The Office of Communications, commonly known as Ofcom, is the UK government-approved regulatory and competition authority for the broadcasting, telecommunications and postal industries of the United Kingdom. Their website contains detailed information on UK social and wider media usage by demographic | <a href="https://www.ofcom.org.uk/home">https://www.ofcom.org.uk/home</a>   |
| <b>ONS</b>      | The Office for National Statistics is the executive office of the UK Statistics Authority, a non-ministerial department which reports directly to the UK Parliament. It has a wide range of economic data, such as sales by retailers in Great Britain directly   | <a href="https://www.ons.gov.uk/businessindustryandtrade/retailindustry">https://www.ons.gov.uk/businessindustryandtrade/retailindustry</a> |

|                      |  |   |
|----------------------|--|---|
|                      | to end consumers, including spending on goods (in store and online)  |   |
| <b>UK Government</b> | Consumer behaviour survey  | <a href="https://www.gov.uk/government/publications/consumer-behaviour-survey">https://www.gov.uk/government/publications/consumer-behaviour-survey</a>   |
| <b>Consultancies</b> | There are a range of consultancies that can undertake market and consumer analysis. The Financial Times, in conjunction with Statista, has undertaken an assessment of these consultancies and set them out in the link to the right | <a href="https://iq.ft.com/special-reports/rankings/uk-management-consultants/">https://iq.ft.com/special-reports/rankings/uk-management-consultants/</a> |

# 5 Delivering e-commerce to the UK

Building an e-commerce business and supplying to the UK, as in any market, involves a package of services including payment, delivery and returns. UK consumer expectations are generally high but a range of supporting services and robust infrastructure reduce the challenge in meeting them.

This chapter sets out to discuss the contexts and challenges, potential business responses to these challenges, practical steps for businesses, and sources for other information for the following areas essential to deliver e-commerce in the UK:

- Payments and financial services
- Delivery and return fulfilment
- Human capital

## 5.1 Payments and financial services

Choosing the right payments and financial services providers is key to ensuring smooth cross-border e-commerce. Businesses must choose the payment services most appropriate for their businesses while ensuring flexibility for customers. Payments providers in the UK offer a wide variety of choices and cost structures, and your business can choose a mix of payment options that will appeal to its consumers.

### 5.1.1 Context and challenges

In order ensure a smooth and effective cross-border e-commerce trade with the UK, businesses need to enable individuals to make and receive payments easily, cheaply, and smoothly. UK consumers are increasingly comfortable with electronic payments of all kinds, including debit and credit cards<sup>59</sup>, real-time bank payments<sup>60</sup>, and mobile payments.<sup>61</sup> In terms of value of sales in retail overall, UK consumers use debit cards for over 54% of purchases and payment cards in general for over 78%<sup>62</sup>. In e-commerce sales they also increasingly use wallet services, such as PayPal<sup>63</sup>, although credit

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<sup>59</sup> The Guardian, *UK debit cards transactions overtake cash for the first time*, 2018, <https://www.theguardian.com/business/2018/jun/18/uk-debit-cards-transactions-overtake-cash-for-the-first-time>

<sup>60</sup> Faster Payments Scheme, *Summary of key payment statistics for Q1 2018*, 2018, <http://www.fasterpayments.org.uk/sites/default/files/Quarterly%20Statistical%20Report%20Q1%202018.pdf>

<sup>61</sup> Finextra, *UK contactless mobile payments hit tipping point*, 2018, <https://www.finextra.com/newsarticle/31753/uk-contactless-mobile-payments-hit-tipping-point>

<sup>62</sup> UK Cards Association (now UK Finance), *Card Expenditure Statistics April 2017*, 2017, [http://www.theukcardsassociation.org.uk/wm\\_documents/Card%20Expenditure%20Report%20-%20April%202017.pdf](http://www.theukcardsassociation.org.uk/wm_documents/Card%20Expenditure%20Report%20-%20April%202017.pdf)

<sup>63</sup> Worldpay, *UK eCommerce market set for strong growth, powered by rise in eWallets*, 2017, <https://www.worldpay.com/uk/about/media-centre/2017-10/uk-ecommerce-market-set-for-strong-growth-powered-by-rise-in-ewallets>

cards and debit cards remain the most popular online payments methods.<sup>64</sup> Approximately 60% of UK adults hold at least one credit card and 98% hold at least one debit card.<sup>65,66</sup>

Problems associated with cross-border payments remain a barrier to cross-border e-commerce. For sellers, there is a need to ensure that they offer the right (i.e. most prevalent) UK payment options and can connect them to interbank systems in their home countries. UK customers can face challenges in terms of high foreign exchange conversion fees, poor foreign exchange spot rates, and less protection for payments. One survey found that e-commerce exporters reported issues with international e-payments as the largest bottleneck in the process chain, compared with other elements such as establishing an online business,<sup>67</sup> while another by Payvision suggested that this is the fourth largest challenge for cross-border e-commerce globally.<sup>68</sup>

Key challenges in international payments include:

- **Payment systems cost and links to international interbank systems:** A common concern regarding acceptance of cross-border payments is that they are expensive to process. In many cases, this is due to the mismatch between payment methods across different countries and the lack of links between payments providers and banks. This can lead to reliance on costly traditional cross-border payment systems for direct interbank transfers. In a recent ITC survey, a missing link between third-party payment providers and local banks was highlighted as a central challenge in cross-border e-commerce.<sup>69</sup> Other drivers of cost can include foreign exchange controls and currency exchange costs, difficulties in conducting wire transfers, and acceptance of foreign credit cards, all of which may be associated with the lack of a payment provider with established banking links.
- **Currency transparency:** Consumers in the UK are highly averse to making purchases on websites without local currency pricing. In a survey by E4X, almost half (44%) of British respondents suggested they would be likely to abandon a purchase if a website used USD-only pricing, and a greater proportion (49%) were unlikely to revisit a website if it used USD-only pricing. When asked whether were more likely to spend more for online merchants displaying prices in GBP, 86% said they would definitely or probably do so.<sup>70</sup> This effect is likely to be even more pronounced for currencies other than USD or EUR, with which UK consumers are relatively familiar.
- **Currency fluctuation:** Currency localisation for customers offers an additional currency fluctuation risk for businesses, which may be exacerbated for some businesses (e.g. where manufacturing takes place in a third country). Currency hedging can address the issue (using various financial instruments, such as forward contracts or other similar derivatives including future contracts and currency options), but it can also be costly and/or complicated to manage. In contrast, multiple currency accounts may be costly in some countries, and add an additional layer of complication if they are not offered by the financial institutions your business is already interacting with, or are not widely available in your local financial system.

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<sup>64</sup> Ecommerce News, *Ecommerce in The United Kingdom*, 2017, <https://ecommercenews.eu/ecommerce-in-europe/ecommerce-the-united-kingdom/>

<sup>65</sup> Financial Conduct Authority, *Credit card market study: MS14/6*, 2017, <https://www.fca.org.uk/credit-card-market-study-interim-report/market-overview>

<sup>66</sup> CityAM, *Card clash: MasterCard UK's Mark Barnett on the battle for payments market share*, 2018, <http://www.cityam.com/265662/card-clash-mastercard-uks-mark-barnett-battle-payments>

<sup>67</sup> WEF, *Addressing E-Payment Challenges in Global E-Commerce*, 2018, [http://www3.weforum.org/docs/WEF\\_Addressinq\\_E-Payment\\_Challenges\\_in\\_Global\\_E-Commerce\\_clean.pdf](http://www3.weforum.org/docs/WEF_Addressinq_E-Payment_Challenges_in_Global_E-Commerce_clean.pdf)

<sup>68</sup> Payvision, *Key business drivers and opportunities in cross-border ecommerce*, 2017, [https://www.payvision.com/system/files/Key-business-drivers-and-opportunities-2017\\_0.pdf](https://www.payvision.com/system/files/Key-business-drivers-and-opportunities-2017_0.pdf)

<sup>69</sup> International Trade Centre, *New Pathways To E-Commerce A Global Msme Competitiveness Survey*, 2017, [http://www.intracen.org/uploadedFiles/intracenorg/Content/Publications/New%20Pathways%20to%20E-commerce\\_Low%20res\(2\).pdf](http://www.intracen.org/uploadedFiles/intracenorg/Content/Publications/New%20Pathways%20to%20E-commerce_Low%20res(2).pdf)

<sup>70</sup> E4X eCommerce, *Local Currency Pricing for eCommerce - Increasing Online Sales by Implementing a Global Pricing Strategy*, 2013, <https://www.cambridgefx.com/wp-content/uploads/2015/08/E4X-Local-Currency-Pricing-06-07-20161.pdf>

- **Consumer ease-of-access:** Obstacles of any kind in making payments may reduce consumer satisfaction with the process and therefore lead to reduced conversion rates. A key aspect of this is the payment options offered. Research by eCommerce and digital agency Visualsoft found that retailers in the UK were restricting sales by up to 30% due to offering limited payment options.<sup>71</sup> Consumers in the UK appreciate having multiple options in the payment method. Consumers particularly affected e-commerce businesses offering payment methods likely to smooth the payment process and reduce time to pay by having payment details pre-registered.<sup>72</sup> eCommerce and Visualsoft's research found that one in four UK consumers used PayPal as a payment option when this was offered as a payment option by an online retailer.<sup>73</sup>

It is worth noting that the most used payment options may vary by country, even across Europe, and it is best practice to research and tailor these to the local region. In a 2017 survey by Payvision, 63% of businesses researched preferred alternative payment methods in different regions before expanding.<sup>74</sup> In the UK, the most popular debit card brands in 2015 were Visa Debit and Debit Mastercard.<sup>75</sup>

Besides Visa and MasterCard, American Express makes up a significant share of credit cards in the UK (more than in many non-US markets, particularly among affluent consumers).

- **Lack of consumer trust in international payment services:** Trust in payments services is a significant driver of the degree of overall consumer trust and therefore sales for cross-border e-commerce businesses. Consumers in the UK may be worried about online fraud and payment information security in particular for cross-border e-commerce, with 42% saying they have concerns about payment security when shopping on overseas websites. In many cases, this is also tied to UK regulations regarding payment practices. In a survey by Worldpay, a payments provider, the use of trusted payment providers and visually displaying badges on the payment page to reassure customers of the presence of security checks, was found to be necessary by over half (57%) of UK respondents.<sup>76</sup>

### 5.1.2 Potential responses

The UK e-commerce market has a range of options to facilitate payments. Payments should not present a significant barrier to e-commerce exporters to the UK if businesses adopt a suitable mix of supportive services and offer a diverse range of payment methods.

#### Payment gateways

Established payment gateway services partly or fully address many of the above challenges in cross-border payments. Payment gateway services in the UK provide connections to a number of banks, which allows for cheaper cross-border payments than traditional cross-border money transfer services. Those cheaper cross-border payments can be based on branch-based remittance services, for example, or direct interbank money wiring. Using payment gateways, customers are able to make payments using a number of locally-prevalent payment methods (e.g. Visa, MasterCard or

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<sup>71</sup> MobileMarketing (quoting a study by eCommerce and Visualsoft), *A Lack Of Online Payment Options Is Limiting The Growth Potential Of UK Retailers*, 2018, <https://mobilemarketingmagazine.com/uk-retailers-limited-payment-options-sales-growth-retail-paypal-visualsoft>

<sup>72</sup> Charlton, G., *Which online payment methods should small retailers offer?*, 2018, <https://www.theukdomain.uk/which-online-payment-methods-should-small-retailers-offer/>

<sup>73</sup> MobileMarketing (quoting a study by eCommerce and Visualsoft), *A Lack Of Online Payment Options Is Limiting The Growth Potential Of UK Retailers*, 2018, <https://mobilemarketingmagazine.com/uk-retailers-limited-payment-options-sales-growth-retail-paypal-visualsoft>

<sup>74</sup> Payvision, *Key business drivers and opportunities in cross-border eCommerce*, 2017, [https://www.payvision.com/system/files/Key-business-drivers-and-opportunities-2017\\_0.pdf](https://www.payvision.com/system/files/Key-business-drivers-and-opportunities-2017_0.pdf)

<sup>75</sup> Statista, *UK credit and debit cards - Statistics & Facts*, 2018 <https://www.statista.com/topics/3136/payment-cards-in-the-united-kingdom-uk/>

<sup>76</sup> Worldpay, accessed November 2018, <https://www.worldpay.com/uk>

PayPal in the UK) and have these routed automatically to ensure the payments are made successfully to the seller.<sup>77</sup>

There are a number of payment gateways, with a number of factors to consider in choosing the right one for your business. These range from straightforward choices over setup and running costs, service cost structures (e.g. Pay as You Go, Fixed Monthly, etc.), and payment options and currency accepted, to subtler issues such as ease of integration, customer security data compliance levels, and fraud detection.<sup>78</sup>

Data compliance and fraud detection can support customer acceptance. Use of a trusted payment gateway can provide a safety net for when there are issues with a payment, both for the customer as well as for the business. Payment gateways can also offer additional features that may help address other challenges, for example reducing the time to pay through pre-saved payment information. They can also offer local currency accounts with the payment gateway, potentially easing costs and risks associated with currency hedging for multiple-currency e-commerce. A 2017 survey noted that 67% of businesses agreed or strongly agreed that partnering with an international payment service provider could support business growth.<sup>79</sup>

### **Currency localisation**

Currency localisation eases customer concerns about transparency in pricing due to currency exchange. Many payment gateways ease implementation of currency localisation by allowing for receipt of payment using multiple currencies, with variations in how these are handled (e.g. converting and depositing into your account, holding in "local currency accounts", etc.).<sup>80</sup> Each of these options can have different implications for how currency fluctuation risk can be handled, and businesses should assess whether use of multiple currency accounts or currency hedging is appropriate for their business. Business leaders should note, however, that in some contexts currency localisation has been associated with increased costs for consumers and therefore the subject of regulatory and public scrutiny.

### **Payment options**

In terms of payment options, payment gateways generally offer access to a wide variety of popular payment methods in the UK. In determining the payment options to accept, Visa and MasterCard debit and credit cards are considered to be a minimum. Business leaders may also wish to consider acceptance of American Express credit cards as cardholders are generally more affluent.<sup>81</sup> Businesses should also consider accepting a wider range of payment options, particularly eWallets such as PayPal. According to research by WorldPay, the preferred payment methods for UK e-commerce (as at 2017) are: first, debit cards; second eWallets (including PayPal), and third credit cards.<sup>82 83</sup>

Businesses should also be aware of emerging payment trends in the UK, and consider if and when to introduce the option for customers to pay using these methods. Mobile payments in particular are likely to play a larger role in the future in the e-commerce market. Worldpay suggests that mobile's share of the UK e-commerce market will rise to almost half within five years, while traditional e-commerce payment methods such as debit and credit cards are set to decrease.<sup>84</sup> Not all mobile commerce payments necessarily use mobile payment services, with customers also able to use debit

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<sup>77</sup> Blubolt, *3 major challenges of international eCommerce*, accessed November 2018, <https://www.blubolt.com/2017/02/20/3-major-challenges-international-ecommerce/>

<sup>78</sup> Merchant Machine, *Payment Gateways in The UK: What You Need To Know In 2019*, accessed November 2018, <https://merchantmachine.co.uk/payment-gateway/>

<sup>79</sup> Payvision, *Key business drivers and opportunities in cross-border ecommerce, 2017*, [https://www.payvision.com/system/files/Key-business-drivers-and-opportunities-2017\\_0.pdf](https://www.payvision.com/system/files/Key-business-drivers-and-opportunities-2017_0.pdf)

<sup>80</sup> Merchant Machine, *Online Payment Systems: 11 Easy To Use UK Options For 2019*, accessed November 2018, <https://merchantmachine.co.uk/online-payment-systems/>

<sup>81</sup> <https://merchantmachine.co.uk/visa-mastercard-amex/>

<sup>82</sup> Worldpay, *Global Payments Report, 2018*, <https://worldpay.globalpaymentsreport.com/#/home>

<sup>83</sup> In contrast, research by Payvision ranks these as: first, credit card; second PayPal; and third debit card. <https://www.payvision.com/key-business-drivers-2017>

<sup>84</sup> Worldpay, *UK eCommerce market set for strong growth, powered by rise in eWallets, 2017*, <https://www.worldpay.com/uk/about/media-centre/2017-10/uk-ecommerce-market-set-for-strong-growth-powered-by-rise-in-ewallets>

and credit cards and eWallets for purchases. However, usage of mobile payment services in the UK, such as Apple Pay, Google Pay, and Samsung Pay, is increasing rapidly and stood at 24% of all internet users as at Q2 2017 according to data from GlobalWebIndex, with this figure almost doubling from Q4 2015 despite mitigating factors such as a strong attachment to cards and high adoption of contactless cards generally.<sup>85</sup>

Businesses should therefore generally aim to accept mobile payments for the most popular services, particularly Apple Pay (c.38% of mobile payment service users) and Google Pay (c.21% of mobile payment service users),<sup>86</sup> in order to ensure they are able to exploit consumer trends and take advantage of growth in mobile commerce. This may be particularly important as people aged between 16 and 44 are more likely than those 45 and older to use mobile payments services, according to UK Finance market research.<sup>87</sup> However, they should not view these investments as an immediate or limiting barrier to developing an e-commerce business generally. For example, if the cost of mobile payments acceptance is considered to be too high, businesses could consider expanding mobile payment acceptance at a later point. Mobile payments services usage still remains relatively limited, and relatively high consumer comfort with cards suggests that many consumers are willing to input and use debit and credit cards for mobile commerce.<sup>88</sup> Around half of consumers who do not use Apple Pay report that this is because they are satisfied with the other payment methods available.<sup>89</sup>

Another emerging trend may be a growing deployment of bank-to-bank instant payment solutions, and other non-card payment modes, but these account for a small share of payments at present. As of 2017, Worldpay reports that bank transfers account for 9% of payments non-POS payments (i.e. payments not made in person, such as in a store), compared to 32% for debit cards, 23% for eWallets (including PayPal), and 18% for credit cards. The priority therefore remains to offer the smoothest possible integration of conventional payment options and to expand to mobile payment options when possible to better take advantage of mobile commerce.

### 5.1.3 Practical steps for businesses to consider

In order to develop an effective payments strategy, e-commerce businesses should:

- Research the different payment gateways and assess which of these might be most suitable, considering the implications of different cost structures and how they fit with their business strategy and expected volume of sales. This can be done using a number of online resources, with some suggestions below.
- Consider the implications of currency localisation policies, multiple currency accounts, and currency hedging and decide whether these are right for them. This may also be related to decisions on logistics and distribution and whether the business invests or outsources to implement a local fulfilment strategy or uses international delivery.
- Consider which payment options they should offer through the payment gateways. These are associated with different costs, and businesses should consider whether to offer a minimum number of payment methods (i.e. Visa and MasterCard debit and credit cards) or a more expansive set of options to ensure the widest level of customer access.

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<sup>85</sup> GlobalWebIndex, *Mobile payments infographic*, 2017  
[https://insight.globalwebindex.net/hubfs/Downloads/mobile-payments-infographic.pdf?\\_ga=2.123087496.2022225642.1549378874-47608272.1549378874](https://insight.globalwebindex.net/hubfs/Downloads/mobile-payments-infographic.pdf?_ga=2.123087496.2022225642.1549378874-47608272.1549378874)

<sup>86</sup> Ibid

<sup>87</sup> UK Finance, *UK Payment Markets Summary*, 2018, <https://www.ukfinance.org.uk/system/files/Summary-UK-Payment-Markets-2018.pdf>

<sup>88</sup> GlobalWebIndex, *Mobile payments infographic*, 2017  
[https://insight.globalwebindex.net/hubfs/Downloads/mobile-payments-infographic.pdf?\\_ga=2.123087496.2022225642.1549378874-47608272.1549378874](https://insight.globalwebindex.net/hubfs/Downloads/mobile-payments-infographic.pdf?_ga=2.123087496.2022225642.1549378874-47608272.1549378874)

<sup>89</sup> PYMNTS, *Apple Pay Adoption*, accessed November 2018, <https://www.pymnts.com/apple-pay-adoption/>

### 5.1.4 Sources for further information

| Source   | Topic   | Link  |
|--|---|---|
| "Online Payment Systems: 11 Easy To Use UK Options For 2018" | Information on a number of payment gateway options, with information on costs, plans, additional features, and summaries of benefits and downsides to each option | <a href="https://merchantmachine.co.uk/online-payment-systems/">https://merchantmachine.co.uk/online-payment-systems/</a> |
| "Payment Gateways in The UK: What You Need To Know In 2018"  | A guide to factors to consider when choosing a payment gateway service.   | <a href="https://merchantmachine.co.uk/payment-gateway/">https://merchantmachine.co.uk/payment-gateway/</a>               |

## 5.2 Delivery and return fulfilment

New entrants to the UK e-commerce market need to deploy cost-effective and rapid delivery facilitation for physical goods. This allows them to meet demanding consumer expectations regarding timing, service, and cost of delivery. The UK has a well-developed postage and delivery infrastructure, with a number of options available to help facilitate delivery to UK consumers.

### 5.2.1 Context and challenges

The UK's logistics network is consistently ranked among the top ten globally in the World Bank's Logistics Performance Index, a benchmark of the overall quality of countries' logistics networks<sup>90</sup>. There is a range of delivery providers with which overseas businesses can work. Currently the largest player in the UK B2C order fulfilment industry is the formerly nationalised Royal Mail Group, which operates as Royal Mail (letters) and Parcelforce (smaller packages) and conducts 53% of deliveries.<sup>91</sup> Smaller competitors, such as UK Mail and Whistl, partner with the Royal Mail for last mile delivery and compete on cost. Private companies such as Yodel (6% of share), Hermes (13%), DPD (7%), TNT Express (4%) and others, including Amazon Logistics, represent the remaining share in a consolidated market. It is common for these private fulfilment companies to partner with e-commerce businesses, providing additional services such as warehousing of goods and support on good returns.

The UK postal system is highly standardised, with all properties having a postcode relating to either a major delivery point (e.g. a large building), side of a street, or a street generally. The full address data of properties are stored centrally, updated frequently, and available for a wide number of uses (e.g. calculating insurance premiums) via the Postcode Address File.<sup>92</sup>

This contributes to all addresses in the UK being theoretically findable and reachable by the postal service. Additionally, the UK employs universal postal service regulations, meaning that all addresses benefit from certain delivery and collection standards through Royal Mail.<sup>93</sup>

Nevertheless, several factors may complicate the ability for international sellers to utilise the UK's delivery infrastructure for an effective e-commerce strategy. Particular factors to consider for businesses exporting to the UK include:

<sup>90</sup> World Bank, *International LPI: Global Rankings 2018*, accessed November 2018, <https://lpi.worldbank.org/international/global/2018?sort=asc&order=Infrastructure#datatable>

<sup>91</sup> Royal Mail Group, *Annual Report and Financial Statements: 2017-2018*, 2018, <https://www.royalmailgroup.com/media/10169/royal-mail-group-annual-report-and-accounts-2017-18.pdf>

<sup>92</sup> Royal Mail, *Postcode Address File*, accessed November 2018, <https://www.royalmail.com/business/services/marketing/data-optimisation/paf>

<sup>93</sup> Ofcom, *Conditions imposed on postal operators*, 2013, <https://www.ofcom.org.uk/postal-services/information-for-the-postal-industry/conditions>



- **International shipping and air freight:** These are generally higher cost than domestic delivery services, and may be prohibitive on a per-item level. Costs are likely to be driven by global fuel costs, both for large freight delivery as well as small parcels.
- **Taxes, tariffs, and import quotas facilitation:** On arrival, items need to be cleared by customs officials to comply with any taxes, tariffs, and import quotas. These are discussed further in Chapter 6.
- **Domestic (and last-mile) delivery:** Once goods are in the UK, they require delivery to a regional delivery zone and then to a local dispatch for last-mile delivery. High volumes of deliveries within the UK may suggest a more cost-effective delivery system through local fulfilment hubs and on-shore warehousing, although these are likely to be costly due to high demand for warehousing space from a growing e-commerce market.<sup>94</sup>
- **Goods-specific handling and storage:** For some goods, such as perishables, there may be particular requirements regarding handling and storage which increase transport costs. Storage costs in particular are likely to be heavily impacted by the need for temperature control for certain items, either to ensure product quality (e.g. chocolates, wine, tobacco) or for regulatory reasons (e.g. medicines and food stuffs). Other factors that may increase handling and storage costs include the need for specialist handling for delivery, such as sofas, large electronic appliances, etc. Finally, additional costs may also be incurred for items that require installation. However, these are often services that are outsourced and therefore provided by the logistics provider rather than the seller.

These factors are likely to influence decisions on timing of delivery, services that can be offered, and costs of delivery. In addition, a key driver of the challenges is market expectations due to consumer demand and competitor offers, particularly around the availability and cost of express delivery services and returns. Altogether, these place a significant challenge for cross-border sellers. In a survey by Payvision, 43% ranked logistics and delivery as the most problematic "pain point" for cross-border e-commerce.<sup>95</sup>

### Express delivery

In the UK, many sellers provide express delivery services using a variety of models. Most sellers offer a by-package service, with the customer paying most or all of the cost of express delivery, while others, such as Amazon or the online supermarket Ocado, offer a subscription service with a flat fee for delivery.

Whatever business model is chosen for express delivery, it is expected to be both fast and low-cost to the consumer. 1<sup>st</sup> class (1-day) delivery of small parcels through Royal Mail can be up to £6.50<sup>96</sup>, while Amazon charges approximately £8 per month for unlimited next day delivery (with some conditions, such as requiring packages of a certain size for some items). Customer expectations for express delivery capabilities are also increasing, with some sellers increasingly offering the capability to order late and still receive express or next-day delivery.

Consumers in the UK often have the option of specific delivery windows. Some delivery providers provide an estimated one-hour delivery window rather than a nominated full day, as well as the capability to real-time track deliveries. In contrast, missed delivery targets for express deliveries can have a significant impact on business reputations and consumer trust, increasing pressure for customer service and capabilities.

The demand for express delivery increases the pressure for businesses to overcome other challenges with e-commerce logistics. For example, express delivery increases the demands on international

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<sup>94</sup> BBC, *Online shopping drives demand for warehousing space*, 2018, <https://www.bbc.co.uk/news/business-45210148>

<sup>95</sup> Payvision, *Key business drivers and opportunities in cross-border ecommerce*, 2017, [https://www.payvision.com/system/files/Key-business-drivers-and-opportunities-2017\\_0.pdf](https://www.payvision.com/system/files/Key-business-drivers-and-opportunities-2017_0.pdf)

<sup>96</sup> Post Office, *Postage Prices*, accessed November 2018, <https://www.postoffice.co.uk/price-finder>

shipping and airfreight in terms of time and cost and customs facilitation. This may affect consumer perceptions for cross-border e-commerce in general, making them reluctant to buy from abroad if they experience slow delivery times and high shipping costs<sup>97</sup>. This can be overcome with domestic warehousing and distribution, limiting delivery times to domestic or last-mile delivery, but that requires scarce warehousing space.

### Returns

Consumer demands related to returns can pose a significant barrier for importers to the UK. Under UK legislation, consumers have a right to return goods bought online without specifying a reason if they notify the firm within 14 days of receipt and return the goods within a further 14 days, while businesses must provide a full refund within 14 days of receiving the returned item.<sup>98</sup> However, even when there is an awareness that they may have breached the return policy, consumers still typically expect that their returns are accepted and that they are handled swiftly. Additionally, many businesses use return policies as a particular marketing or product feature, with return periods frequently exceeding the mandatory 14 days, more than in any other major European economy.<sup>99</sup>

Although companies are entitled to insist the consumer bears the cost of return there is a general expectation by consumers to not have to pay to return an item. 47% of UK consumers say they would not consider shopping with a retailer if they charged for a return.<sup>100</sup> 61% of consumers expressed a preference for a pre-paid label to be included with the product delivery as standard and 75% of consumers cited this as a key factor in their purchasing decision.<sup>101</sup> As a result, 50% of businesses in the UK choose to offer completely free returns, considerably more than in other major European economies (except Germany).<sup>102</sup>

UK consumers therefore expect a degree of consumer protection beyond the legal requirements, in part reflecting competition among e-commerce businesses. Businesses may be at a disadvantage in securing consumers if they do not offer free returns and therefore many offer partially subsidised or free returns and longer return periods to increase consumer satisfaction<sup>103</sup>.

Many returns are likely to reflect consumer preferences (such as on clothing size or fit) rather than quality control issues. In many cases, these goods can be repackaged and put up for resale. However, in addition to the cost of the returns themselves, the pattern of periods of peak e-commerce followed by periods of widespread discounting can reduce the final sale value of the goods. Items returned following Black Friday, for example, can re-enter the market during the January sales at a lower price, with any difference lost.

### 5.2.2 Potential responses

Given the UK's well-developed e-commerce market, options are available to meet market expectations while minimizing time and cost. Larger businesses have been able to meet market demand due to scale, e.g. acquiring and maintaining large warehouses. Options are also available for smaller sellers to address these challenges.

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<sup>97</sup> Payvision, *Key business drivers and opportunities in cross-border ecommerce*, 2017, [https://www.payvision.com/system/files/Key-business-drivers-and-opportunities-2017\\_0.pdf](https://www.payvision.com/system/files/Key-business-drivers-and-opportunities-2017_0.pdf)

<sup>98</sup> UK Government, *Accepting returns and giving refunds: the law*, accessed November 2018, <https://www.gov.uk/accepting-returns-and-giving-refunds>

<sup>99</sup> Idealo, *Idealo shop study: How customer-friendly are online retailers?*, 2014, <https://www.idealco.co.uk/press/268-idealco-shop-study-how-customer-friendly-are-online-retailers.html>

<sup>100</sup> Royal Mail Group, *Delivery Matters for online shoppers*, 2018, <https://www.royalmail.com/business/insights/business-trends/delivery-matters-for-online-shoppers>

<sup>101</sup> Ibid

<sup>102</sup> Idealo, *Idealo shop study: How customer-friendly are online retailers?*, 2014, <https://www.idealco.co.uk/press/268-idealco-shop-study-how-customer-friendly-are-online-retailers.html>

<sup>103</sup> Econsultancy, *Five reasons why the UK leads the world for ecommerce*, 2012, <https://econsultancy.com/five-reasons-why-the-uk-leads-the-world-for-ecommerce/>

The right mix of these responses will depend on each business's individual considerations, such as size, type of goods, and priorities between logistical co-ordination, timing and cost.

### **Local fulfilment**

If the UK is a significant market for a business, it may be cost-effective to create a fulfilment hub for local deliveries. This allows businesses to take advantage of economies of scale and save on international delivery by shipping in bulk to a local hub, with last-mile delivery costs being the only additional costs for each order fulfilled. The overall cost of the local hub may be cheaper per item than international delivery. Note that this also has some advantages in terms of consumer acceptance. An FCA study of cross-border commerce within the EU found greater consumer acceptance of cross-border commerce when distribution was local.<sup>104</sup>

Local fulfilment will require a business to procure warehousing space in an area with good transport connections to wherever its customers live. This will support next day delivery. Demand for such warehousing in the UK is increasing significantly and driven by e-commerce.<sup>105</sup> In the first six months of 2018, warehousing space take-up was 38% higher than the first six months of 2017.<sup>106</sup> The largest regions for warehousing space are London and the South East combined at 25% of total space and the East Midlands at 18%.<sup>107</sup>

Warehousing space in the East Midlands region in particular is in high demand. This reflects its proximity to key motorways (e.g. M1, M6) and freight transport hubs such as the Daventry International Rail Freight Terminal for rail freight and East Midlands Airport for airfreight. This region therefore provides easy inbound and outbound access with almost 100% coverage of the UK for next day delivery, as well as proximity in particular to two major population hubs – London and Birmingham.

Nonetheless, warehouse vacancies may also become available as some large, traditional retailers downsize or cease operation.<sup>108</sup> Given the potential for stickiness in warehouse leases, it may be optimal for a business to consider this option flexibly, based on degree of sales in the UK and on the availability of suitable warehousing spaces in areas near their customers. Additionally, the maturity of the UK market means that a number of online warehouse marketplaces are available to help businesses find available spaces across the UK (see 5.2.4 for examples).

Note that the establishment of a local fulfilment hub may also entail the establishment of a local subsidiary or branch entity to hold warehouse leases and employ local labour. Your business may also have to pay high warehousing labour costs in areas where there is high density of warehouses (see Section 5.3).

Businesses may therefore instead choose to use an outsourced local fulfilment service instead, which avoids the need to lease warehouse space and hire staff.<sup>109</sup> These services receive bulk orders of stock and fulfil orders by picking, packing, and preparing items for dispatch. In many cases, they partner with local courier services. Finally, they process returns based on specific instructions.<sup>110</sup>

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<sup>104</sup> YouGov, *Consumer Appetite for Cross-border Shopping in Financial Services*, 2010, <https://www.fca.org.uk/publication/research/yougov-report.pdf>

<sup>105</sup> United Kingdom Warehousing Association, *The Size and make up of the UK Warehousing Sector*, accessed November 2018, <https://www.cambridgeshirechamber.co.uk/downloadlibrary/UKWA%20Savills.pdf>

<sup>106</sup> Evening Standard, *Online retailers lead demand for warehouse space*, 2018, <https://www.standard.co.uk/business/online-retailers-lead-demand-for-warehouse-space-a3897961.html>

<sup>107</sup> United Kingdom Warehousing Association, *The Size and make up of the UK Warehousing Sector*, accessed November 2018, <https://www.cambridgeshirechamber.co.uk/downloadlibrary/UKWA%20Savills.pdf>

<sup>108</sup> Savills, *UK Retail Warehouse Market*, 2018, [https://www.savills.co.uk/research\\_articles/229130/246328-0/uk-retail-warehouse-market---june-2018](https://www.savills.co.uk/research_articles/229130/246328-0/uk-retail-warehouse-market---june-2018)

<sup>109</sup> Shopify, *Everything You Ever Wanted to Know About Third-Party Warehousing and Fulfillment*, 2015, <https://www.shopify.co.uk/blog/60645957-everything-you-ever-wanted-to-know-about-third-party-warehousing-and-fulfillment>

<sup>110</sup> James and James eCommerce Fulfillment, *Outsourced fulfilment: what is it and is it right for you?*, 2018, <https://www.ecommercefulfillment.com/en/academy/outsourced-fulfillment/>

Online warehouse marketplaces for finding vacancies may offer the ability to find warehouses that include outsourced fulfilment services to various degrees. For example, Stowga allows businesses to search for 'ecommerce fulfilment solutions' by location in the UK.<sup>111</sup> Note however that businesses where items to be shipped require particular packaging and shipping requirements should take caution when choosing providers to ensure they offer specialised handling and customised solutions.<sup>112</sup>

### **Choice of logistics and delivery partners and options to offer**

Offering a number of delivery and return options helps meet UK consumer expectations for convenience and timeliness. An extensive infrastructure exists for consumers to receive and drop-off packages for delivery and returns respectively. An important feature is the ability to collect from a local store (owned or third party), post office or delivery locker. Some delivery providers have also begun to implement options for remote home or car access to drop off parcels when customers are not present, with the delivery company having a single-use access code for a smart lock and/or car boot. These trends reflect the need to offer convenient solutions to consumers and avoid the costs of failed deliveries, particularly to the extent deliveries take place during work hours.

For both deliveries and returns, businesses typically look to partner with one or more specialist couriers, allowing consumers to choose the most convenient option based on their preferences. It is important to note that a one-size-fits-all policy may not be appropriate in many cases. Online apparel retailer ASOS, for example, works with multiple partners to provide diverse options to customers.<sup>113</sup>

Some partners are more suited for within-UK deliveries (e.g. a UK local fulfilment hub) while others are able to handle international deliveries. Choosing the right delivery and returns partner will depend on the particular nature of the delivery model chosen (e.g. international fulfilment or local hub-and-spoke).

For example, couriers such as Yodel and Royal Mail may be more suited for within-UK delivery, while international delivery providers such as DHL, FedEx, and UPS may be more suited for international fulfilment due to offering potentially more competitive international rates.<sup>114</sup> Delivery and returns partners should be chosen carefully, as these will in many cases be seen as representatives of the seller and therefore affect the customer experience for better or for worse.

Methods of contracting with couriers and providers may vary. Some businesses may choose to negotiate and contract directly with one or more couriers, particularly if they are able to achieve scale discounts on shipping rates. Others may use third-party delivery management services, which in turn contract with courier companies to offer a multi-carrier experience for businesses. For example, providers such as ParcelHub offer businesses access to a multi-carrier shipping software that benefits from 'pooled volume' discount rates across many of the largest UK couriers, including Yodel, Hermes, DPD, DHL, FedEx, TNT Express, and UPS.<sup>115</sup>

For more occasional or one-off parcel or pallet deliveries, it is possible to use delivery comparison websites. However, in many cases these are limited to sending from certain countries.

### **Returns policy leniency and cost-sharing for delivery and returns**

Given UK consumer expectations, it is important to ensure that staff understand the cultural expectation of leniency in the application of a returns policy. It may be better to allow for some degree of wastage rather than disputing marginal cases where customers may have contravened the returns guidelines. Businesses should remain aware of the need for haste in processing refunds

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<sup>111</sup> Stowga, accessed February 2019, <https://www.stowga.com/>

<sup>112</sup> Shopify, *Everything You Ever Wanted to Know About Third-Party Warehousing and Fulfillment*, 2015, <https://www.shopify.co.uk/blog/60645957-everything-you-ever-wanted-to-know-about-third-party-warehousing-and-fulfillment>

<sup>113</sup> ASOS, accessed November 2018, <https://www.asos.com/>

<sup>114</sup> Parcelhub, *Finding the best courier service for small businesses*, 2018, <https://www.parcelhub.co.uk/blog/best-courier-service-small-businesses/>

<sup>115</sup> Parcelhub, accessed February 2019, <https://www.parcelhub.co.uk/>

(which 75% of consumers said would affect future purchasing decisions) and keeping customers updated (which 96% said would affect future purchasing decisions).<sup>116</sup>

Businesses may be able to recuperate some of the cost of delivery and returns through higher prices. However, the ability to pass on costs may be limited to the extent competing businesses can avoid such costs through local fulfilment. Attempting to recuperate costs implicitly through higher price margins could affect the general competitiveness of your proposition, while making customers pay for return costs explicitly may deter customers from buying or returning if they feel misled. Many online retailers in the UK advertise free returns in their marketing materials.

As in the case of deliveries, partnering with the local facilitation businesses and couriers can minimise the cost of last-mile delivery and help allow for a swift turnaround in processing returns and restoring them to for-sale status.

### Minimising returns

The cost of returns can be minimised by ensuring that consumers receive an item as advertised prior to purchase. Specifically, businesses should ensure the product description is clear and accompanied by numerous high-quality photos that accurately depict the dimensions and appearance, to allow consumers to make an informed choice. Businesses can also consider a more insights-driven approach to reducing returns, for example by analysing why consumers make returns and addressing the root causes. This entails developing a more pre-emptive and proactive approach and could result in longer-term savings if properly executed.

### 5.2.3 Practical steps for businesses to consider

The priority for your business will be to make the fundamental decisions around whether to look for local fulfilment and which partners will be best placed to support your logistics needs.

There may then be a need to consider whether policy choices appropriate for markets with less demanding consumer norms are still appropriate in the UK and other export markets.

Once these policy decisions are made your business will then either need to: (a) act fast to secure the often scarce warehousing space needed; or (b) work to integrate facilitation partners with your wider e-commerce systems.

### 5.2.4 Sources for further information

| Source                          | Topic   | Link  |
|---------------------------------|---|---|
| Return Loads Warehouse Exchange | An online tool to find available warehouse space in the UK. It allows businesses to find and make space enquiries by region.                          | <a href="https://www.returnloads.net/warehouse-exchange/">https://www.returnloads.net/warehouse-exchange/</a> |
| Whichwarehouse                  | Another online space aggregator, which also allows businesses to customise searches by different specifying necessary outsourced fulfilment services. | <a href="https://www.whichwarehouse.com/find-space.html">https://www.whichwarehouse.com/find-space.html</a>   |
| Stowga                          | A warehousing marketplace, offering a variety of warehousing and fulfilment search options including an 'ecommerce fulfilment solution'.              | <a href="https://www.stowga.com/">https://www.stowga.com/</a>   |

<sup>116</sup> Royal Mail Group, *Delivery Matters for online shoppers*, 2018, <https://www.royalmail.com/business/insights/business-trends/delivery-matters-for-online-shoppers>

|            |  |   |
|------------|--|---|
| Royal Mail | A price-finder for Royal Mail. This is for one-off packages; Royal Mail and other couriers also offer delivery options for more regular deliveries.      | <a href="https://www.postoffice.co.uk/price-finder">https://www.postoffice.co.uk/price-finder</a>   |
| Parcel2Go  | A parcel delivery comparison website for one-off parcel deliveries, offering both within UK and international parcel and pallet collection and delivery. | <a href="https://www.parcel2go.com/helpcentre">https://www.parcel2go.com/helpcentre</a>   |
| ParcelHub  | A multi-carrier shipping portal and service, which also includes particular options for inbound shipping to UK customers.                                | <a href="https://www.parcelhub.co.uk/">https://www.parcelhub.co.uk/</a> and <a href="https://www.parcelhub.co.uk/uk-inbound-shipping-solutions/">https://www.parcelhub.co.uk/uk-inbound-shipping-solutions/</a>   |
| ParcelHub  | A guide to considerations for businesses seeking to ship in the UK.  | <a href="https://www.parcelhub.co.uk/blog/best-courier-service-small-businesses/">https://www.parcelhub.co.uk/blog/best-courier-service-small-businesses/</a>   |
| Shopify    | A guide to factors to consider when choosing an outsourcer for fulfilment  | <a href="https://www.shopify.co.uk/blog/60645957-everything-you-ever-wanted-to-know-about-third-party-warehousing-and-fulfillment">https://www.shopify.co.uk/blog/60645957-everything-you-ever-wanted-to-know-about-third-party-warehousing-and-fulfillment</a> |

### 5.3 Human capital

Exporters to the UK may need to use UK-based labour in order to sell into the UK market. In particular, businesses may need to hire engineering or technical staff to adapt products and services to meet UK technical standards and/or customise goods to satisfy UK-specific consumer preferences. They may also need to hire labour for warehousing and logistics jobs as part of local facilitation strategies. Generally, human capital should not be a significant barrier unless your business is highly reliant on specialist skilled labour subject to shortages.

The need for cross-border relocation of staff may also pose some challenges in terms of cost, delays, and visa restrictions, which need to be factored into planning.

#### 5.3.1 Context and challenges

Selling goods into the UK may require product and service provision from UK-based labour across a range of activities. These include:

- **Customer support:** E-commerce consumers have a wealth of information and options available them, which can create high expectations and sensitivity to customer service. Dedicated consumer support teams with the requisite language skills and of appropriate size may be needed to handle consumer queries across multiple platforms (via website/online chat, telephone, social media). Certain consumer-facing services (such as aftercare) may be best provided by UK labour, to ensure familiarity with the local culture and language, to build goodwill with consumers and to attract repeat business.
- **Language and branding adaptations:** Local marketing advice may be essential to adapt the products' branding, including packaging and brand name, to meet local tastes. Documentation, labelling and user interfaces may also need language amendments. Written content on websites, for example, can drive consumer behaviour (e.g. sales, returns) and how the business is treated by search engines and other digital platforms. For businesses based in a country where English is not the primary language, translation and copy writing services may be required from UK companies who have the appropriate expertise.

- **Product modifications:** Products may need modifications to work in UK conditions or to meet technical specifications, for example adapting electrical products to work with the local electricity system. Products may also need market testing with UK consumers, so they can be adapted to local tastes, which may be best served by local employees.
- **Complying with local legal obligations:** There may be rules around data protection, privacy, marketing, advertising, sales, and product standards. Local legal support may be needed to comply with applicable laws and regulations. Furthermore, the CE mark, which aims to support consumer safety, is required on many products sold in EU countries. This may need services from UK based specialists.

### **The CE Mark**

CE marking is required for many products<sup>117</sup> to show that:

- The manufacturer has checked that these products meet EU safety, health or environmental requirements.
- A product complies with EU legislation.
- It can move freely within the European market.

Not all products must bear the CE marking – it is only required for those subject to specific EU directives. When a CE mark is required, it is the manufacturer's responsibility to carry out the conformity assessment, set up the technical file, issue the EC Declaration of Conformity, and place CE marking on a product.

Each directive covering each product type specifies whether an authorised third party (Notified Body) must be involved in the conformity assessment procedure necessary for CE marking. This may require services from UK businesses and its labour. If a product does not need to be verified by an independent body, then it is up to the manufacturer to check that it complies with the technical requirements.

For some of the above categories, there are a number of roles where there may be a potential for high demand and shortages, with few alternatives outside the UK. This may result in businesses needing to pay a wage premium for these types of roles.

By contrast, there are other circumstances where skilled labour may be needed for UK product localisation but international labour may also fulfil this role. Such services could include:

- **Web designers:** A website is the digital equivalent of a storefront for an e-commerce business and exporters may therefore consider using UK based web designers. Web designers are responsible for aesthetics, mobile device compatibility, web performance/loading speeds, and information architecture – a crucial aspect of search engine optimisation ("SEO"). The nature of the service (e.g. how standardised the relevant language is internationally) may determine whether local or international expertise is needed.
- **Data and business analysts:** The digital nature of e-commerce means that massive quantities of data can be generated, even after the restrictions discussed in Chapter 6. Businesses need to acquire the right personnel to use this data to generate insights and inform decision-making. Some of the specific areas of focus within the broad function of data analysis include: supply chain management, product-specific analytics, pricing, user experience/customer analysis, advertising/search engine marketing, and merchant analytics.

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<sup>117</sup> UK Government: Department for Business, Energy & Industrial Strategy, *CE marking*, 2012, <https://www.gov.uk/guidance/ce-marking>

This may be done internationally but this could be restricted by either (a) regulatory restrictions on data flows; or (b) the need for the analysis to address local nuances.

- **App/software developers:** With smartphones now being the primary device through which UK consumers access the internet<sup>118</sup>, e-commerce businesses need to optimise their content for these users. One of the most prominent ways in which businesses do this is to design their own app. Most of the activity might be centralised, but design expectations and preferences can vary geographically.

Despite the potential for international substitution, those roles still generally demand a wage premium in the UK due to high demand locally and the transferability of the skills in many of these roles. For example, business analysts in the UK generally have a base pay of around £40,000, rising to around £52,000 for senior roles and around £64,000 for manager roles.<sup>119</sup> These figures are also higher in key urban labour markets such as London.

In addition to skills barriers and general market barriers, businesses may also face challenges in bringing non-UK labour into the UK for specialised roles. Businesses may face obstacles in obtaining visas for permanent relocations in particular due to caps on the number of immigrants allowed in the UK from outside the EEA under certain visa categories (see below).

There may also be UK roles that require less specialised labour, for example in local warehousing and logistics. While these are unlikely to be subject to skills barriers, it may be more difficult to use international labour for these roles due to visa restrictions intended to restrict medium and low-skilled labour migration (see below). This can contribute to labour shortages in these areas, particularly in regions with high warehousing concentration such as the East Midlands (see Section 5.2).

Businesses may also require non-UK-based workers to temporarily visit the UK, for example for meetings, conferences or training. Temporary visas for business visitors are available under the Standard Visitor category and generally create less of a challenge, but it is important that businesses consider the restrictions on these visas. For example, holders of temporary visitor visas are not allowed to conduct any paid or unpaid work that can be undertaken by permanent UK-based labour.

Challenges may also be faced where UK labour is required to relocate to a business's home nation or another market where they operate, for example to work in the head office permanently or temporarily. These include securing the required visa for the UK labour and providing them with a sufficiently competitive offer, which needs to take account of issues such as a wage necessary to compensate for differentials in local services, such as education and health care provisions.

### **Visas in the UK**

To travel to the UK from outside the EEA requires a visa. The UK operates a range of long term visas (e.g. up to three years) and short term visa (e.g. for trips up to one to three months), and a tiered system as set out below. Tiers 1 and 2 are likely the most relevant for exporters:

- Tier 1 Visa: This visa category is for 'high-value migrants' from outside the EEA and covers entry of entrepreneurs, investors, and those very few people who come under the 'exceptional talent' visa.
- Tier 2 Visa: This category is for 'skilled workers' from outside the EEA with a job offer in the UK. It includes skilled workers who are transferred to the UK by an international company, skilled workers where there is a proven shortage in the UK, ministers of religion and sportspeople. There is an annual limit on these visas of 20,700, divided into a rolling monthly allocation.

<sup>118</sup> Ofcom, *Communications Market Report: Internet and online content, 2017*, [https://www.ofcom.org.uk/data/assets/pdf\\_file/0021/105438/uk-internet-online.pdf](https://www.ofcom.org.uk/data/assets/pdf_file/0021/105438/uk-internet-online.pdf)

<sup>119</sup> Glassdoor, accessed November 2018, <https://www.glassdoor.co.uk/>



- Tier 3 Visa: This category was designed for low-skilled workers filling specific temporary labour shortages. The Government has so far never allocated any visas under this scheme, and therefore this visa tier is currently unavailable.
- Tier 4 Visa: This category is for students aged over 16 from outside the EEA who wish to study in the UK. Applicants must have a place at a registered UK educational establishment before they can apply.
- Tier 5 Visa: This category contains six sub-tiers of temporary worker including creative and sporting, charity, religious workers, and the youth mobility scheme which enables about 55,000 young people every year to work in the UK on working holidays. The visas are awarded to young people from countries that have reciprocal arrangements with the UK.

Visa processing times can vary significantly by applicant and visa type. There could be delays in obtaining visas for skilled workers from outside Europe owing to restrictive national caps for the Tier 2 visa, which is the most commonly used visa for bringing in international workers. The rolling monthly limit on Tier 2 visas has been met repeatedly in 2018<sup>120</sup>. When there is an excess of applications, visas are decided on a points-based system that depends heavily on salary. Entry requirements have also become stricter in recent years. For example, for a Tier 2 "experienced skilled worker" visa, applicants now need to be paid at least £30,000 to apply, up almost £10,000 from 2011.<sup>121</sup>

### 5.3.2 Potential responses

Human capital restrictions, whether skills based or due to visas, are generally outside of businesses' control and therefore simply need to be taken into account. Businesses should consider the particular skills needed based on their overall entry strategy, and can conduct targeted labour market research using a number of online tools.

Where businesses identify that local labor will be needed and factor labour costs into business plans, they should also consider if non-UK or EEA management labour are necessary and the relevant visa categories and restrictions. This can be done using the guidance available online, or in coordination with a UK-based immigration adviser.

Finally, businesses could consider alternative strategies in the medium to long-term to address any skills shortages they face. For example, businesses could consider upskilling employees from their own country, and establishing long-term relationships with key target universities (potentially in the UK) to build a supply of talent.

### 5.3.3 Practical steps for businesses to consider

Businesses will need to consider carefully whether their entry strategy requires local labour, or whether they can enter the UK market using non-UK labour exclusively (working in or outside the UK). If they identify a need for UK labour, businesses should:

- Factor recruitment or procurement time lags and risks of shortages into business planning and decision making. Localised labour market research will also be needed for the particular skills required.
- Ensure that they comply with all registration requirements to be a UK employer. This may include setting up a local UK branch or subsidiary, for example. They should also consider the cost of additional requirements for UK-based labour, such as National Insurance contributions

<sup>120</sup> Financial Times, *Demand for high-skilled migrants overtakes new UK limits*, 2018 <https://www.ft.com/content/914b10e2-901f-11e8-b639-7680cedcc421>

<sup>121</sup> BBC, *10 charts explaining the UK's immigration system*, 2018, <https://www.bbc.co.uk/news/uk-43960088>

and workplace pensions. Labour-specific registration requirements are discussed in Section 6.1.

- Consult a UK-based immigration adviser if non-UK or EEA labour are needed.<sup>122</sup> The UK immigration application processes may be complex in certain areas, with particular documentation requirements necessary. Businesses should ensure they educate themselves on the guidance for relevant visa categories, and seek the advice of a UK immigration adviser if anything is unclear.

#### 5.3.4 Sources for further information

| Source              | Topic   | Link  |
|---------------------|---|---|
| UK Government       | Rules and requirements about UK work visas  | <a href="https://www.gov.uk/browse/visas-immigration/work-visas">https://www.gov.uk/browse/visas-immigration/work-visas</a>   |
| UK Home Office      | Information on skills shortages in the UK   | <a href="https://www.gov.uk/guidance/immigration-rules/immigration-rules-appendix-k-shortage-occupation-list">https://www.gov.uk/guidance/immigration-rules/immigration-rules-appendix-k-shortage-occupation-list</a> |
| European Commission | Guidance on CE marking  | <a href="http://ec.europa.eu/growth/single-market/goods/">http://ec.europa.eu/growth/single-market/goods/</a>   |
| European Commission | Database for bodies that have been designated to carry out conformity assessments on products | <a href="http://ec.europa.eu/growth/tools-databases/nando/">http://ec.europa.eu/growth/tools-databases/nando/</a>   |

<sup>122</sup> EEA labour right to work regulations may be uncertain due to impending potential immigration policy changes following Brexit.

# 6 Meeting UK compliance requirements

In order to ensure businesses are in compliance with the key areas of regulation for doing e-commerce in the UK, businesses must understand and implement procedures to comply with rules around import procedures, tariffs and restrictions, taxes, consumer and data protection and intellectual property. These areas, particularly for consumer and data protection and intellectual property, also have significant overlaps with brand positioning and consumer perceptions that are key to conducting an effective e-commerce business in the UK.

This chapter sets out to discuss the contexts and challenges, potential business responses to these challenges, practical steps for businesses, and sources for other information for the following areas essential for businesses to understand the rules and areas of compliance for UK e-commerce:

- Import procedures, tariffs and quotas
- Domestic taxes
- Consumer protection
- Data protection and localisation
- Intellectual property

## 6.1 Import procedures, tariffs and quotas

When exporting to the UK, your business will need to take the necessary steps needed to comply with customs procedures and requirements and to pay the applicable import duty (also called “import tax”). Doing so will help ensure that goods are processed and delivered in a timely manner to the end customer, avoiding both potential fines and possible delays which could affect consumer satisfaction.

### 6.1.1 Context and challenges

Anything that is posted or couriered to the UK goes through a customs check. The purpose of this is to check that the right tax and duty have been paid as well as to ensure that no banned or restricted products are entering the UK. The requirement to pay an import duty depends on two factors - the classification of the goods and where they come from. Some goods might also be liable to additional duties, for example as a result of a determination being made that they are being placed on the UK market in an unfair manner, as with anti-dumping duties. Goods are not normally released by the UK’s HMRC until all charges are paid<sup>123</sup>. The maximum penalties provided in law are £2,500, which applies per significant contravention.

#### Import tariffs and duties

The average tariff applied to the typically imported good to the UK is around 2.8%<sup>124</sup>, with the tariff depending on the good and the country of origin (see details below on how to determine the rates applied). Customs duties are charged on gifts and other goods sent from outside the EU if they are

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<sup>123</sup> This is the case for posted or couriered products as normal importers are able to accumulate import duties quarterly.

<sup>124</sup> Institute for Fiscal Studies, *The Customs Union, tariff reductions and consumer prices: IFS Briefing note BN225*, 2018, <https://www.ifs.org.uk/uploads/publications/bns/BN225.pdf>

above a certain value. The value includes the price paid for the goods, postage, packaging and insurance. Customs duty rates are as follows<sup>125</sup>:

- Anything under £135 has no charge.<sup>126</sup>
- Gifts worth £135-£630 are charged 2.5%, but rates are lower for some goods.
- Gifts above £630 and other goods above £135 are charged a rate which depends on the type of goods and where they came from.

The EU has rules for establishing the country of origin of imported goods. There are two main categories of origin in these rules: goods wholly obtained or produced in a single country, and goods whose production involved materials from more than one country. This second category is the more complex as there are several criteria to consider – such as the origins of the materials, the country in which the final substantial production phase took place and the value the working and processing in each country has added.

Whether duties and import taxes are paid by the buyer or seller is down to the discretion of both parties. There are a number of different models that are used. These are known as 'Incoterms' - a set of rules which define the responsibilities of sellers and buyers for the delivery of goods under sales contracts. Incoterms reduce misunderstandings among traders and minimise trade disputes and litigation. The three most common models are below:

- **Carriage Paid To ("CPT"):** This means that the seller delivers the goods to the carrier (or another person nominated by the seller at an agreed place) and that the seller must contract for and pay the costs of carriage necessary to bring the goods to the named place of destination.
- **Carriage and Insurance Paid To ("CIP"):** Exactly the same as CPT, however, on top of this the seller also contracts for insurance cover against the buyer's risk of loss of or damage to the goods during the carriage. The buyer should note that under CIP the seller is required to obtain insurance only on minimum cover. Should the buyer wish to have more insurance protection, it will need either to agree as much expressly with the seller or to make its own extra insurance arrangements.
- **Delivered Duty Paid ("DDP"):** The seller fulfils its obligation to deliver when the goods have been made available at the named place in the country of importation. The seller has to bear the risks and costs, including duties, taxes and other charges of delivering the goods thereto, cleared for importation.

### Rules for importers - understanding tariff and duties

A declaration must be made to the UK's HMRC when a good is imported into the UK from outside the EU. The main customs form used in international trade is known as the Single Administrative Document ("SAD") - also known as form C88 in the UK. The form gives information on what the imported goods are and how and they will be arriving in the UK.

Imports of third country goods into the UK must be declared by using the information captured on the SAD. Most traders submit their SAD online to the Customs Handling of Import and Export Freight ("CHIEF") system,<sup>127</sup> although when systems are down it can still

<sup>125</sup> UK Government, *Imports and exports: general enquiries*, accessed November 2018, <https://www.gov.uk/government/organisations/hm-revenue-customs/contact/customs-international-trade-and-excise-enquiries>

<sup>126</sup> If alcohol or tobacco are sent from outside the EU, they will be charged Excise Duty at current rates.

<sup>127</sup> CHIEF is being phased out and being replaced by CDS.

be submitted on paper. Software can be bought from freight software suppliers that is designed to simplify the process for submitting electronic declarations.

To determine how goods will be treated by customs officials in the UK, and the associated import VAT, duty, excise or levies due on them under UK and European law, the following sections of the SAD form must be completed:

- Box 33: input the commodity code matching the description of the imported goods (if the classification is still unclear then contact the Tariff Classification Service).<sup>128</sup>
- Box 37: input the Customs Procedure Code ("CPC") that applies to the company in box 37 of the form.

A full declaration to CHIEF or a paper SAD declaration is required for goods that are liable for duty (note that once details are completed on the SAD an agent can act on a company's behalf). The SAD breaks down into 54 boxes and the full version comes in 8 parts for use at different points in the trading process. Parts 2 and 3 are for export, parts 6, 7 and 8 are for import, and parts 1, 4 and 5 are for transit. An important part of the C88 form is the import value placed on the good. The value of the good can be classed as the price paid for the good, as well as postage, packaging, insurance and any other duties the product may be charged for.

The SAD will also need an Economic Operator Registration and Identification ("EORI") number. This is a unique number valid throughout the UK and EU. By registering for Customs purposes in UK, an Economic Operator ("EO") is able to obtain an EORI number for use in all communications with any UK and EU Customs authorities where a customs identifier is required. The easiest way of applying for EORI is through an online form on the HMRC's website.<sup>129</sup> The application process usually takes around three working days.

### Quotas and other restrictions

There are three types of import control:

- Bans: where no import is allowed.
- Quotas: where the volume of goods imported is restricted (this normally applies to agricultural products and foodstuffs).
- Surveillance: where the import of goods is monitored with licences.

Import controls can originate from the EU or nationally. EU import controls are directly applicable in all EU member states. They are imposed when the EU seeks to carry out a measure agreed within the EU or internationally (for example, a UN Security Council resolution), or to carry out an EU trade policy decision.

National import controls are imposed using the UK's national import prohibition legislation – the Import, Export and Customs Powers (Defence) Act of 1939. All national import controls are listed in the Open General Import Licence ("OGIL") made under it. For example, import licensing controls on firearms back up Home Office domestic legislation on the possession of firearms so that only those with authority to own firearms can import them. You will find a full list of import controls and the government department responsible for them in volume 1 part 3 of the HMRC Integrated Tariff. It is the responsibility of importers to ensure that they are aware of import restrictions and controls.

<sup>128</sup> On +44 (0)1702 366077 between 9.00 and 17.00 Mondays – Thursday, 9.00 and 16.30 on Fridays

<sup>129</sup> UK Government, *Get an EORI number*, accessed November 2018, <https://www.gov.uk/eori/>

### 6.1.2 Potential responses

To ensure consumers do not experience delays, the seller should ensure agreement is reached on the responsibility for payment of tariffs and duties and work to ensure all requirements are complied with to avoid customs withholding goods.

The duties and tariffs applied to imports will increase their price and decrease their competitiveness compared with goods that are not subject to the same duties or tariffs (such as those originating from within the UK). This should be factored into exporters' decisions on pricing and on target markets.

### 6.1.3 Practical steps for businesses to consider

Businesses should undertake the following actions to make sure that they avoid delays and that all charges are paid:

- **Recognise which laws apply:** Businesses should collect the relevant information for the SAD forms and determine which duties and tariffs apply, consulting the UK Government guidance and helplines below if needed;
- **Develop the required procedures:** Businesses should develop appropriate policies, procedures, staff training and compliance checks to ensure that customs requirements are complied with. This may need agreements with the importer that they will be taking responsibility for payment of charges, or it may require the exporter to make the payments. The approach needs to be clearly communicated to consumers so it is clear who is responsible for paying the tax.

### 6.1.4 Sources for further information

| Source              | Topic  | Link  |
|---------------------|--|---|
| UK Government: HMRC | Helpline on imports and exports  | <a href="https://www.gov.uk/government/organisations/hm-revenue-customs/contact/customs-international-trade-and-excise-enquiries">https://www.gov.uk/government/organisations/hm-revenue-customs/contact/customs-international-trade-and-excise-enquiries</a> |
| UK Government       | Full guidance on the Single Administrative Document  | <a href="https://www.gov.uk/guidance/declarations-and-the-single-administrative-document">https://www.gov.uk/guidance/declarations-and-the-single-administrative-document</a>   |
| UK Government       | The Import Control System  | <a href="https://www.gov.uk/guidance/import-control-system">https://www.gov.uk/guidance/import-control-system</a>   |
| UK Government       | The database to look up commodity codes and duty rates   | <a href="https://www.gov.uk/trade-tariff">https://www.gov.uk/trade-tariff</a>   |
| UK Government       | Information on duties on imports   | <a href="https://www.gov.uk/tax-on-shopping/alcohol-tobacco">https://www.gov.uk/tax-on-shopping/alcohol-tobacco</a>   |
| UK Government       | Information on import restrictions   | <a href="https://www.gov.uk/guidance/import-controls">https://www.gov.uk/guidance/import-controls</a>   |
| UK Government: DIT  | The DIT Import Licensing Branch's Import Case Management System for the issue of import licences and Certificates of Free Sale ("CFS") for exporters | <a href="http://www.ilb.trade.gov.uk">www.ilb.trade.gov.uk</a>  |

## 6.2 Domestic taxes

The UK tax code for businesses includes rules and regulations on eligibility for corporation tax, employment-related taxes, and value-added tax. This may seem complex for foreign market

entrants, but – given this complexity – a well-developed support ecosystem exists with a number of resources to help foreign market entrants ensure that they comply with all relevant domestic taxes.

### 6.2.1 Context and challenges

There are five main categories of tax that businesses may be required to pay:

- Value-added tax ("VAT"), which is a tax on the sale of goods and services to end-users;
- Product-specific taxes, which include excise and other taxes on certain products;
- Corporation tax, which is a tax on the profits of UK-resident businesses;
- Non-domestic rates, also known as business rates, which are taxes on property that is not solely residential (e.g. land or buildings used solely or partly for business);
- Income tax and National Insurance, which are payments that individuals are liable for but are administered and paid by employers.

#### 6.2.1.1 VAT

For businesses who are considering exporting to the UK market in a primarily online capacity, the most relevant tax consideration is VAT. This is a tax on the sale of goods and services which, while end-users are technically liable, is paid to the UK tax authority (HMRC) by the seller. As such, businesses assume responsibility for the payment of VAT on all goods and services sold by them. Given the potential for penalties for late registration for VAT,<sup>130</sup> it is essential that businesses selling to the UK are cognisant of how and when the rules and regulations are applied.

According to VAT Notice 700/1, all businesses that are not incorporated in the UK or do not have a UK establishment (and in the case of persons, are not normally resident in the UK) must register for VAT in the UK. This therefore applies to all businesses seeking to sell goods or services directly to UK customers without use of a local subsidiary or branch. In UK tax parlance, these businesses are known as non-established taxable persons, or NETP<sup>131</sup>. Note that an exception to this is if a business is registered for VAT in another EU member state. In this case, it must register for VAT in the UK only when the value of sales in the UK are over £70,000 in a calendar year<sup>132</sup>. Additionally, if such a business sells any excisable goods to the UK, such as alcohol or tobacco, then it must register for VAT regardless as well as comply with UK excise duties.<sup>133</sup>

If a company instead uses a UK-based establishment (such as a subsidiary or branch) to sell into the UK, they are no longer classified as a NETP and instead only need to register for VAT if they have VAT-taxable turnover of over £85,000 in the next 30-day period or the previous 12 months<sup>134</sup> <sup>135</sup>.

In terms of applicable VAT rates for goods and services sold, this can fall within three different brackets:

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<sup>130</sup> UK Government: HMRC, *VAT Notice 700/1: who should register for VAT*, 2018, <https://www.gov.uk/government/publications/vat-notice-7001-should-i-be-registered-for-vat/vat-notice-7001-should-i-be-registered-for-vat>

<sup>131</sup> Ibid

<sup>132</sup> The value of a good is defined as the price paid for the good, as well as postage, packaging, insurance and any other duties charged for on the product.

<sup>133</sup> UK Government: HMRC, *Overseas business selling goods in the UK*, 2018, <https://www.gov.uk/guidance/vat-what-to-do-if-youre-an-overseas-business-selling-goods-in-the-uk#when-to-register-for-vat-in-the-uk>

<sup>134</sup> UK Government, *VAT registration*, accessed November 2018, <https://www.gov.uk/vat-registration/when-to-register>

<sup>135</sup> UK Government: HMRC, *VAT Notice 700/1: who should register for VAT*, 2018, <https://www.gov.uk/government/publications/vat-notice-7001-should-i-be-registered-for-vat/vat-notice-7001-should-i-be-registered-for-vat>

- Standard rate (20%): Most goods and services.
- Reduced rate (5%): Select categories, including but not limited to women's sanitary products and children's car seats<sup>136</sup>.
- Zero rate (0%): Select categories, including but not limited to most food, books, and young children's clothing and shoes<sup>137</sup>.

Note that some goods and services, such as certain education and training, are exempted from VAT<sup>138</sup>. This is important to distinguish from zero rated goods, particularly as exempt goods do not count toward the thresholds for VAT registration while zero rate goods do.

In addition to the above rates, an additional "de minimis" threshold applies to goods exported to the UK, whereby no VAT is payable for goods under this threshold. Note that this threshold is set on a consignment value (i.e. the package value), and not individual good value. Currently, the de minimis threshold for consignments sent to the UK is £15. Note that this is not applicable for goods for which excise duties are payable.<sup>139</sup>

Finally, there may be additional rules around selling digital content and services in the UK. Currently this is governed by EU rules. Non-EU companies selling digital content or services to UK customers must be registered for VAT in at least one EU member state.<sup>140</sup>

#### 6.2.1.2 Product-specific taxes

In addition to VAT, further taxes may be due for certain product categories, and therefore these additional taxes should be considered when determining the price competitiveness of products for export. This includes excise duties on certain product categories, such as alcoholic products, alcohol-composite products and tobacco products<sup>141</sup>, as well as additional goods or services subject to product-specific taxes, for example the insurance premium tax on insurance services.

#### 6.2.1.3 Corporation tax

Corporation tax is a tax on the profits accrued from business activity for which businesses must register and self-report via a company tax return by the end of each financial year.<sup>142</sup> Businesses that must file a company tax return are:

- Limited companies.
- Any foreign company with a UK branch or office.
- Clubs, co-operatives or other unincorporated associations, e.g. community group or sports clubs.<sup>143</sup>

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<sup>136</sup> UK Government: HMRC, *VAT Notice 700/1: who should register for VAT*, 2018, <https://www.gov.uk/government/publications/vat-notice-7001-should-i-be-registered-for-vat/vat-notice-7001-should-i-be-registered-for-vat>

<sup>137</sup> Ibid

<sup>138</sup> Ibid

<sup>139</sup> UK Government: HMRC, *Notice 143: a guide for international post users*, 2018, <https://www.gov.uk/government/publications/notice-143-a-guide-for-international-post-users/notice-143-a-guide-for-international-post-users>

<sup>140</sup> UK Government: HMRC, *VAT rules for supplies of digital services to consumers in the EU*, 2018, <https://www.gov.uk/guidance/the-vat-rules-if-you-supply-digital-services-to-private-consumers>

<sup>141</sup> UK Government: HMRC, *UK Trade Tariff: excise duties, reliefs, drawbacks and allowances*, 2018, <https://www.gov.uk/government/publications/uk-trade-tariff-excise-duties-reliefs-drawbacks-and-allowances/uk-trade-tariff-excise-duties-reliefs-drawbacks-and-allowances>

<sup>142</sup> The financial year for tax purposes in the UK is 1 April to 31 March.

<sup>143</sup> UK Government, *Corporation Tax*, accessed November 2018, [www.gov.uk/corporation-tax](http://www.gov.uk/corporation-tax)



For overseas-based companies conducting business primarily online, it is unlikely that corporation tax in the UK would be applicable. Current legislation states that companies officially tax-resident elsewhere are only required to pay a corporation tax in the UK:

- If they have either a permanent establishment in the UK.
- Or where the profit-generating economic activity is carried out in the UK<sup>144</sup>.

According to an HMRC policy paper published on 1 March 2016, “simply having customers in the UK does not mean that a company is carrying out its economic activity” in the UK, and that “a non-resident company that is trading from abroad with customers in the UK” will generally not be subject to corporation tax. However, if an overseas-based company uses a local branch or subsidiary to support a company’s online sales, for example through “local warehousing, distribution, or other services and support to the selling company”, it would be liable for corporation tax on the profits of the local subsidiary providing these services<sup>145</sup>.

Since 1 April 2018, the corporation tax in the UK has been set at 19%, with a planned reduction to 17% from 1 April 2020<sup>146</sup>.

#### 6.2.1.4 Non-domestic (business) rates

‘Non-domestic’ rates, also called business rates, apply to any property that will be used for business purposes, whether partially or wholly. This is an important consideration for businesses seeking to, for example, lease UK-based warehousing and distribution facilities in order to implement local fulfilment services, or businesses that are considering establishing a local branch office.

Non-domestic rates are taxes based on a valuation of the “rateable value” by UK Government’s Valuation Office Agency, usually on a five-year basis<sup>147</sup>. The rateable value is then used to calculate the total annual tax bill due to the local council (i.e. local government) authority. There are separate rates for small businesses and all other businesses.<sup>148</sup> Note that non-domestic rates are the responsibility of business occupiers, whether the property is owned or leased (i.e. landlords for non-domestic property are not liable for the tax if they are not also the occupier).

#### Employment-related tax requirements

Any company conducting business in the UK must be aware of its responsibilities as an employer if it seeks to use local, directly-hired labour for any activities, such as local fulfilment. To directly hire full-time or part-time staff, employers in the UK generally must:

- Register as an employer and set up Pay As You Earn (“PAYE”).
- Ensure that they comply with workplace pension requirements and set one up, if necessary.
- Get Employers’ Liability Insurance<sup>149</sup>.

Note that in the UK, as part of their responsibility as an employer, companies will generally need to deduct income tax and employer’s National Insurance payments from employees’ pay as part of regular payrolls. They will also be responsible for collecting employees’ National Insurance

<sup>144</sup> UK Government: HMRC, *HMRC issue briefing: taxing the profits of companies that are not resident in the UK*, 2016, [www.gov.uk/government/publications/issue-briefing-taxing-the-profits-of-companies-that-are-not-resident-in-the-uk/hmrc-issue-briefing-taxing-the-profits-of-companies-that-are-not-resident-in-the-uk](http://www.gov.uk/government/publications/issue-briefing-taxing-the-profits-of-companies-that-are-not-resident-in-the-uk/hmrc-issue-briefing-taxing-the-profits-of-companies-that-are-not-resident-in-the-uk)

<sup>145</sup> Ibid

<sup>146</sup> UK Government: HMRC, *Corporation Tax to 17% in 2020*, 2016, [www.gov.uk/government/publications/corporation-tax-to-17-in-2020](http://www.gov.uk/government/publications/corporation-tax-to-17-in-2020)

<sup>147</sup> UK Government: Valuation Office Agency, *How non-domestic (business) properties are valued*, 2017, <https://www.gov.uk/guidance/how-non-domestic-property-including-plant-and-machinery-is-valued>

<sup>148</sup> UK Government, *Estimate your business rates*, accessed November 2018, <https://www.gov.uk/calculate-your-business-rates>

<sup>149</sup> UK Government, *Get your business ready to employ staff: step by step*, accessed November 2018, <https://www.gov.uk/get-ready-to-employ-someone>

contributions, and have an obligation to collect and remit both the employee and employer contributions<sup>150</sup>.

Additionally, there are three main categories of employment status in the UK: worker, employee, and self-employed contractor, with each of these different statuses entailing different requirements by the employer. Businesses need to be aware which is most suitable for hired staff, and to avoid mis-categorisation as this can result in fines<sup>151</sup>. Depending on the employment status, businesses may be liable for making additional payments, including but not limited to employer National Insurance contributions, holiday pay, maternity, paternity and adoption pay and leave, Statutory Sick Pay, and employer workplace pension contributions.

### 6.2.2 Potential responses

The UK government generally produces clear and accessible documentation to help businesses assess whether they are liable for domestic taxes, and how they should go about registering to do so and paying obligations. There are a number of support professional services and software packages to help businesses in this as well.

For each of the three main tax categories, the key action for businesses is to be aware of when they become liable for UK taxes. Businesses should ensure they consult a UK-qualified tax adviser and/or accountant for assistance if they are in any doubt after consulting official guidance. If businesses find themselves liable, the government websites below provide useful guides for how and where to register. This can generally be done online or by post.

### 6.2.3 Practical steps for businesses to consider

Businesses looking to export to the UK need to ensure they are compliant with all the relevant tax laws. This can be done by:

- Reading the relevant guidance produced by the UK Government on what businesses need to do and when they are liable for different taxes based on the above summaries on when these are applicable. The UK Government produces clear and accessible documentation, provided below.
- Prior to taking any further actions, consult with a UK-qualified tax adviser and/or accountant generally and on any specific issues that may not be certain. It is important for businesses to make sure they comply correctly, as even inadvertent non-compliance may still result in penalties.

### 6.2.4 Sources for further information

| Source        | Topic  | Link  |
|---------------|--|---|
| UK Government | UK HMRC guidance on when and how to register for VAT, as well as how to calculate whether a business meets the VAT registration threshold. | <a href="https://www.gov.uk/vat-registration">https://www.gov.uk/vat-registration</a>   |
| UK Government | Registration form for VAT if distance selling into the UK  | <a href="https://www.gov.uk/government/publications/vat-application-for-registration-distance-selling-vat1a">https://www.gov.uk/government/publications/vat-application-for-registration-distance-selling-vat1a</a> |

<sup>150</sup> The self-employed are required to pay both income tax and National Insurance contributions themselves

<sup>151</sup> UK Government, *Get your business ready to employ staff: step by step*, accessed November 2018, <https://www.gov.uk/get-ready-to-employ-someone>

|               |  |   |
|---------------|--|---|
| UK Government | UK HMRC further guidance on whether a business needs to register for VAT   | <a href="https://www.gov.uk/government/publications/vat-notice-7001-should-i-be-registered-for-vat">https://www.gov.uk/government/publications/vat-notice-7001-should-i-be-registered-for-vat</a>   |
| UK Government | UK HMRC guidance on overseas businesses and UK VAT   | <a href="https://www.gov.uk/money/business-tax-vat-overseas-businesses-and-uk-vat">https://www.gov.uk/money/business-tax-vat-overseas-businesses-and-uk-vat</a>   |
| UK Government | UK HMRC guidance on VAT rules when selling digital content or services to UK customers   | <a href="https://www.gov.uk/guidance/the-vat-rules-if-you-supply-digital-services-to-private-consumers">https://www.gov.uk/guidance/the-vat-rules-if-you-supply-digital-services-to-private-consumers</a>   |
| UK Government | UK Government guidance on goods liable to excise duties.   | <a href="https://www.gov.uk/government/publications/uk-trade-tariff-excise-duties-reliefs-drawbacks-and-allowances/uk-trade-tariff-excise-duties-reliefs-drawbacks-and-allowances">https://www.gov.uk/government/publications/uk-trade-tariff-excise-duties-reliefs-drawbacks-and-allowances/uk-trade-tariff-excise-duties-reliefs-drawbacks-and-allowances</a>   |
| UK Government | UK Government tool to look up commodity codes, duty and VAT rates on products, including features to look at conditions and duties on imports by country | <a href="https://www.gov.uk/trade-tariff">https://www.gov.uk/trade-tariff</a>   |
| UK Government | UK HMRC guidance on which businesses must pay corporation tax and their reporting and record-keeping responsibilities                                    | <a href="https://www.gov.uk/corporation-tax">https://www.gov.uk/corporation-tax</a>   |
| UK Government | UK HMRC policy paper to describe the rules around when and how companies that are not tax resident in the UK should pay UK corporation tax               | <a href="https://www.gov.uk/government/publications/issue-briefing-taxing-the-profits-of-companies-that-are-not-resident-in-the-uk/hmrc-issue-briefing-taxing-the-profits-of-companies-that-are-not-resident-in-the-uk">https://www.gov.uk/government/publications/issue-briefing-taxing-the-profits-of-companies-that-are-not-resident-in-the-uk/hmrc-issue-briefing-taxing-the-profits-of-companies-that-are-not-resident-in-the-uk</a> |
| UK Government | UK Valuation Office Agency guidance on how it values property  | <a href="https://www.gov.uk/guidance/how-non-domestic-property-including-plant-and-machinery-is-valued">https://www.gov.uk/guidance/how-non-domestic-property-including-plant-and-machinery-is-valued</a>   |
| UK Government | UK Government guidance on business rates, including how they are assessed, any relief available, and any exceptions.                                     | <a href="https://www.gov.uk/introduction-to-business-rates">https://www.gov.uk/introduction-to-business-rates</a>   |
| UK Government | UK Government tool to find the rateable value used to calculate business rates for a property  | <a href="https://www.gov.uk/correct-your-business-rates">https://www.gov.uk/correct-your-business-rates</a>   |
| UK Government | UK HMRC step-by-step guide on what a business must do and its responsibilities when hiring staff   | <a href="https://www.gov.uk/get-ready-to-employ-someone">https://www.gov.uk/get-ready-to-employ-someone</a>   |
| UK Government | A resource to find a UK-qualified tax adviser that suits a business's needs  | <a href="https://core.tax.org.uk/">https://core.tax.org.uk/</a>   |

### 6.3 Consumer protection

The UK has one of the strongest consumer protection regimes in the world, which serves both consumers and businesses selling to them<sup>152</sup>. A range of consumer rights are enshrined in UK and EU

<sup>152</sup> UK Government: Department for Business, Energy & Industrial Strategy, *Modernising*

law and well-enforced, often taken seriously by consumers and championed by well-established consumer groups. However, in many cases consumers may perceive that they have less protection for online shopping. Non-EU suppliers should ensure that they educate themselves on the relevant consumer rights and invest in training in compliance. They should also make it clear that they comply with UK consumer protection regulations, in order to overcome barriers of consumer trust (particularly consumer concerns that they are not covered by UK or EU consumer protection).

### 6.3.1 Context and challenges

The UK Government is committed to protecting consumers and to adapting its consumer protection in line with changes affecting the global economy, including those associated with new business models in digital markets. Its responsibility for consumer protection sits under the Department for Business, Energy and Industrial Strategy ("BEIS"). In its recent consultation, 'Modernising consumer markets'<sup>153</sup>, BEIS set out that "as markets become increasingly national (or global) rather than local, it is clear that our current model of enforcement also needs review".

In the context of international consumer policy, the UK Government has also set out that it aims to improve global standards of consumer protection, improve cross-border enforcement outcomes to protect UK consumers from harm and ensure consumer views and protections are a key part of negotiations for new Free Trade Agreements. In the context of EU exit, the UK Government has also stated that it is "firmly committed to the strong consumer rights and high standards from which UK consumers have benefited for many years".

#### The current law

A key piece of consumer protection legislation in the UK, and one which goes further than EU law, is the Consumer Rights Act of 2015. This consolidated previous UK law on consumer protection and added further provisions. It extends to England, Wales, Scotland and Northern Ireland<sup>154</sup> and includes a range of protections. For example, if goods are faulty, and bought from a UK-based retailer, the consumer is entitled to ask for them to be repaired - or to get a full refund. The Act allows a refund up to 30 days from purchase, with the money to be returned within 14 days.

Under the Consumer Protection Act, consumers can bring a claim against the 'producer of the product', which includes any person or company who has imported the product into the EU from a place outside the EU in order to sell it on. The Act covers<sup>155</sup>:

- What should happen when goods are faulty.
- What should happen when digital content is faulty.
- How services should match up to what has been agreed, and what should happen when they do not, or when they are not provided with reasonable care and skill.
- Unfair terms in a contract.
- What happens when a business is acting in a way which is not competitive.
- Written notice for routine inspections by public enforcers, such as Trading Standards.

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*Consumer Markets: Consumer Green Paper*, 2018, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/699937/modernising-consumer-markets-green-paper.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/699937/modernising-consumer-markets-green-paper.pdf)

<sup>153</sup> Ibid

<sup>154</sup> However, some parts of the Act include separate rules for Scotland.

<sup>155</sup> Citizens Advice, *The Consumer Rights Act 2015*, accessed November 2018, <https://www.citizensadvice.org.uk/about-us/how-citizens-advice-works/citizens-advice-consumer-work/the-consumer-rights-act-2015/>

- Greater flexibility for public enforcers, such as Trading Standards, to respond to breaches of consumer law, such as seeking redress for consumers who have suffered harm.

Other examples of key regulations include<sup>156</sup>:

- **Consumer Contracts Regulations (2014):** This provides rights when shopping online, requiring traders to give certain information and allowing cancellation and refund rights when consumers enter into contracts at a distance (e.g. online);
- **Consumer Credit Act (1974, amended 2006):** This legislation covers the information consumers should be provided with before they enter into a credit agreement, the content and form of credit agreements and wider issues, such as rules for calculating annual percentage rates of interest, default, termination and early settlement, and advertising.
- **The Consumer Protection Act (1987):** This provides consumers with the right to claim compensation against the producer of a defective product if it has caused damage, death or personal injury. This contains a strict liability test for defective products, making the producer of that product automatically liable for any damage caused.
- **Consumer Protection from Unfair Trading Regulations (2008):** This protects consumers from unfair or misleading trading practices and bans misleading omissions and aggressive sales tactics.
- **The EU Consumer Rights Directive:** This is one of the most important EU consumer laws, particularly for online sales. It clearly defines consumer rights in the area of online shopping. The Electronic Commerce Directive establishes legal rules that online retailers and service providers must comply with when dealing with consumers in the member countries of the EU.
- **EU General Data Protection Regulation (GDPR) 2016/679:** This EU law came into force in 2018 and applies to data controllers inside and outside the EU who offer goods or services to individuals in the EU. It regulates data protection and privacy, and non-compliance can lead to a fine of up to €20m or 4% of turnover. This is discussed further in Section 6.4.

### Wider protections

Enforcement of consumer protection is carried out by a range of bodies. Local authority Trading Standards carry out most general consumer enforcement. National Trading Standards (“NTS”) and Trading Standards Scotland (“TSS”) coordinate Trading Standards’ response to issues that affect consumers and businesses regionally and nationally. The Consumer Protection Partnership brings together key consumer bodies to identify, prioritise and take action to address key threats and risks to consumers.

Consumers have a range of options for resolving disputes with traders and for seeking redress. They can go through the courts, through an Ombudsman (if it is in a regulated sector, such as water or telecoms), or through alternative dispute resolution (independent third parties who provide dispute resolution to remedy a complaint between a consumer and trader).

There is also wider protection for consumers. The Office for Product Safety and Standards provides dedicated expertise to lead on national product safety challenges to ensure that consumers receive a high level of protection from unsafe goods. The UK also has an independent expert competition body, the Competition and Markets Authority, which works to prevent and mitigate harm to consumers from ineffective competition. This includes proactively investigating competition problems, merger control and enforcing competition law to prevent dominant businesses abusing their market leading positions, and preventing cartel and other agreements that restrict competition.

### Consumer champions

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<sup>156</sup> Which?, *Consumer Rights*, accessed November 2018, <https://www.which.co.uk/consumer-rights>

Companies not only have to comply with the law, but also have to behave in a way that is seen to be 'fair' by consumers in order to avoid reputational consequences which can be costly. Consumer groups play an important role in holding companies to account for their treatment of consumers and for driving improvements in consumer protection.

There are statutory consumer advocates in several regulated sectors such as water, energy, transport, financial services and postal services. To supplement these groups, there are a range of not-for-profit, independent or charity groups, such as Which?, Citizens Advice and Money Saving Expert, which deliver general advice to consumers. In addition, there are aggregators of consumer reviews on a wide variety of businesses, such as Trustpilot and Reviews.

### 6.3.2 Potential responses

Most of the consumer protection laws apply to companies who have imported products from outside the EU in order to sell it on in the UK. To ensure these retailers are confident in sourcing products from outside the EU, non-EU suppliers should have policies in line with the relevant legislation. This will require appropriate staff training and compliance checks within the exporter. It will also require clear public statements of their consumer protection policy to raise consumer confidence and trust. A key principle is to ensure that products are 'Satisfactory<sup>157</sup> as described', and 'Fit for purpose and last a reasonable length of time'<sup>158</sup>.

Additionally, for companies looking to export from outside the EU directly to UK customers, where some consumer law may not apply, a key issue will be trust and reputation. One study found that only 15% of EU consumers said they felt 'very confident' shopping with an internet retailer based outside the EU, whereas 28% of online shoppers said they did not trust online sellers in other countries at all<sup>159</sup>.

Following a review of the qualitative evidence, one key barrier identified was worries about consumer protection - consumers admit that they lack knowledge about their rights in the global online marketplace, but realise that they have less protection.<sup>160</sup> It will be difficult to build a reputation, but adopting policies to protect consumer rights, in line with UK law, even if not required (i.e. if outside its scope), could allow the accumulation of positive online reviews that could build consumer trust.

### 6.3.3 Practical steps for businesses to consider

Businesses can take actions to make sure that they are trusted by consumers to protect their consumer rights, but should note that overcoming this barrier is a process and not an overnight exercise. In particular, businesses seeking to export to the UK can:

- First, make sure they recognise which laws apply to them. This may be best done by consulting with a UK-qualified legal adviser specialising in consumer protection for their particular industry.
- Second, develop appropriate policies, procedures, staff training and compliance checks to ensure that the business complies with the relevant consumer protection laws. This can be done in coordination with a UK-qualified legal adviser as well as specialist consultancies.
- Third, ensure that their interactions with their customers are transparent and fair. UK consumers' trust in a business will not be confined to direct experience, as many consumers

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<sup>157</sup> Defined in terms that a *reasonable* person would be happy.

<sup>158</sup> MoneySavingExpert, *Consumer Rights*, 2018, <https://www.moneysavingexpert.com/shopping/consumer-rights-refunds-exchange/>

<sup>159</sup> The European Consumer Organisation and the Federation of German Consumer Organisations, *The challenge of protecting EU consumers in global online markets*, 2017,

[https://www.vzbv.de/sites/default/files/downloads/2017/11/08/17-11-08\\_brochure-vzbv-beuc-1r3.pdf](https://www.vzbv.de/sites/default/files/downloads/2017/11/08/17-11-08_brochure-vzbv-beuc-1r3.pdf)

<sup>160</sup> Ibid

will both post public reviews on social media or websites, and research companies they are planning to buy from.

### 6.3.4 Sources for further information

| Source                                  | Topic  | Link  |
|---|--|---|
| UK Government                           | Provides the content of the Consumer Rights Act - a key piece of consumer protection legislation in the UK   | <a href="http://www.legislation.gov.uk/ukpga/2015/15/contents/enacted">http://www.legislation.gov.uk/ukpga/2015/15/contents/enacted</a>   |
| Which?                                  | A not-for-profit charitable organisation and independent consumer body in the UK. Aims to provide unbiased, independent advice to consumers  | <a href="https://www.which.co.uk/consumer-rights/regulation">https://www.which.co.uk/consumer-rights/regulation</a>   |
| Citizens Advice                         | A network of charities, provides free, confidential and independent advice relating to consumer rights   | <a href="https://www.citizensadvice.org.uk/consumer/">https://www.citizensadvice.org.uk/consumer/</a>   |
| Money Saving Expert                     | An independent champion for consumer rights and the UK's biggest consumer website, with about 15 million users a month.  | <a href="https://www.moneysavingexpert.com">https://www.moneysavingexpert.com</a>   |
| Office for Product Safety and Standards | Created in January 2018 by BEIS, to enhance protections for consumers and the environment and drive increased productivity, growth and business confidence                                 | <a href="https://www.gov.uk/government/organisations/office-for-product-safety-and-standards">https://www.gov.uk/government/organisations/office-for-product-safety-and-standards</a> |
| The Law Society                         | The Law Society is the independent professional body for solicitors. The Find a Solicitor tool can be used to find legal advisers in specialised areas, such as regulation and compliance. | <a href="http://solicitors.lawsociety.org.uk/">http://solicitors.lawsociety.org.uk/</a>   |
| Trustpilot                              | An aggregator of reviews for a large number of companies in the UK.  | <a href="https://uk.trustpilot.com/">https://uk.trustpilot.com/</a>   |
| Reviews                                 | An aggregator of reviews for a large number of companies in the UK.  | <a href="https://www.reviews.co.uk/">https://www.reviews.co.uk/</a>   |

## 6.4 Data protection and localisation

For businesses engaged in e-commerce, data is a key component in operations, getting to know customers and optimising marketing strategies. There are important data laws and regulations that apply in the UK to be aware of and act upon. Breach of these laws and regulations can sometimes result in punitive measures being enforced so businesses are advised to investigate requirements and ensure compliance.

### 6.4.1 Context and challenges

The key data laws and restrictions applicable in the UK mainly apply to personal data, covering consumers and also UK-based employees and other personnel. The key pieces of legislation that outline the requirements on the part of businesses are:

- **The General Data Protection Regulation ("GDPR"):** Developed by the EU and which covers all EU member states.
- **The Data Protection Act 2018 ("DPA"):** The UK's implementation of GDPR.
- **The Privacy and Electronic Communications Regulations ("PECR"):** A complement to the above legislation that covers privacy rights in relation to electronic communications.

The main focus of the legislation is personal data. It marks the result of increasing focus on protection of data relating to individuals, affecting how businesses can collect, process and use personal data.

For businesses to understand the specific challenges posed by GDPR in the UK and what action is required it is important to understand some of the key concepts of the regulation<sup>161</sup> <sup>162</sup>:

- **'Personal data'**: This is information which relates to an identified or identifiable individual. It includes data that identifies users such as IP addresses and also any data which has been pseudonymised. This can refer to customers, potential customers and employees or other personnel involved in any EU-based operations.
- **'Data controllers'**: A controller determines the purpose and means of processing personal data.
- **'Data processors'**: A data processor is responsible for processing personal data on behalf of a controller. Therefore, there will be situations where a data processor is the same as the controller.

GDPR applies to controllers and processors of personal data. It places specific legal obligations on controllers and processors in relation to personal data they may have in their possession. It affects businesses that operate within the EU and any businesses outside of the EU that offer goods or services to EU data subjects i.e. individuals in the EU. In the UK its implementation is overseen by the Information Commissioners' Office ("ICO").

These legal obligations are based on seven key principles:

- 1) Personal data shall be processed lawfully, fairly and in a transparent manner in relation to individuals.
- 2) Personal data shall be collected for specified, explicit and legitimate purposes and not further processed in a manner that is incompatible with those purposes.
- 3) Personal data shall be adequate, relevant and limited to what is necessary in relation to the purposes for which they are processed.
- 4) Personal data shall be accurate and kept up to date where necessary.
- 5) Personal data shall be kept in a form which permits identification of data subjects for no longer than is necessary for the purposes for which the personal data are processed.
- 6) Personal data shall be kept private and confidential, protecting against unauthorised or unlawful processing and against accidental loss, destruction or damage.
- 7) Controllers are accountable for compliance with the above principles and should be able to demonstrate compliance.

In terms of international transfers, personal data may be transferred within the European Economic Area ("EEA")<sup>163</sup>. For data transfers outside of the EEA, the transfer must be to a country which is

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<sup>161</sup> ICO, *Guide to the General Data Protection Regulation (GDPR)*, accessed November 2018, <https://ico.org.uk/for-organisations/guide-to-the-general-data-protection-regulation-gdpr/key-definitions/>

<sup>162</sup> Ibid

<sup>163</sup> The EU member states plus Iceland, Liechtenstein and Norway.



deemed to have sufficient similar protection for personal data<sup>164</sup> or one of a limited number of exceptions must apply, such as model contractual clauses.

Lack of compliance with these principles is punishable with significant fines. The maximum amount that can be levied is €20 million, or 4% of the business's total global annual turnover, whichever is higher.

The PECR covers marketing activities conducted over electronic communications systems, i.e. over the phone and through internet connections. Businesses undertaking marketing activities should generally obtain consent from individuals to carry out unsolicited direct marketing. There are separate, less restrictive rules on marketing to other businesses. In addition, businesses operating websites are obliged to tell visitors to the website if they set cookies, what cookies do and obtain users consent to cookies which must be actively and clearly given.

Key challenges in complying with data laws and restrictions may potentially include:

- **Understanding obligations:** GDPR is extensive in its protection of personal data and so can place obligations on businesses that are onerous. In addition, the situations to which it applies cover a large variety of business activities; therefore, the regulation lacks specifics so it may be unclear when particular obligations apply. It can therefore be difficult for some businesses to understand what exactly is required and what full compliance looks like. This uncertainty coupled with the potential for highly punitive measures being implemented in the event of a lack of compliance increases the risk exposure for businesses.
- **Potential additional cost:** There is the need for appropriate security systems and processes to be in place in order to protect personal data. In addition, certain organisations are required to appoint a Data Protection Officer ("DPO") if they are a public authority or if their 'core activities' consist of processing activities which require the regular and systematic monitoring of individuals on a large scale. Retail businesses tracking customers on their websites may fall into this category.
- **Restrictions on marketing activity:** Individuals must normally consent by opting in to receiving direct marketing communications. Assuming individuals have opted in and providing the option to opt out is not compliant with the PECR regulation. It may also be possible to use legitimate interest rather than consent, but this depends on whether marketing or profiling is considered invasive, and it is therefore not a clear distinction.
- **Restriction on data collection and tracking customers:** Individuals must be informed what data is being collected and for what purpose. They must also be given choice over what data is collected and how it is processed. This also impacts any data relating to employees/personnel that may be involved in UK or EU-based operations.
- **Ensuring compliance with individuals' requests:** Businesses covered by GDPR must be able to respond to individuals requests to exercise their rights regarding their data outlined in GDPR. These include the right to access, update, erase and transfer their data.

#### 6.4.2 Potential responses

In the first instance, it is recommended that businesses understand their compliance obligations. To aid this the ICO has published detailed guidance for organisations on its website in addition to self-assessment tools and examples for particular businesses. This information and the tools available

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<sup>164</sup> At time of writing, the countries judged by the European Commission to have adequate protection are Andorra, Argentina, Guernsey, Isle of Man, Israel, Jersey, New Zealand, Switzerland and Uruguay. The US and Canada have found to be partially adequate, meaning data transfers can only occur in certain circumstances.

there may help businesses decide what action is required and what their obligations are (see sources table at the end of this section for more details).

Following this a business may consider undertaking a review its activities, business model, systems and processes. The result may be the implementation of a number of measures to ensure compliance with the previously-mentioned legislation. Key areas to focus on may be as follows, although it will vary from business to business:

- **Collection and processing of data:** Businesses should ensure that any individuals, including customers, potential customers, employees or otherwise, are adequately informed of any personal data that is collected. Businesses should also review how this data is processed and by whom. Also whether the data is held and processed securely with adequate processes in place to ensure it remains private.
- **International data transfers:** For businesses based outside the UK, there may be some form of data transfer to other countries not covered by GDPR. Where this occurs, alternatives to businesses include:
  - Not transferring the data – Data processing may instead occur in a jurisdiction covered by GDPR.
  - Transferring non-personal data – Unless required, personal data may be removed prior to the transfer.
- **Marketing activities:** Businesses should ensure all marketing activities comply with GDPR and PECR. This includes that individuals have opted-in to marketing and may remove themselves from mailing lists at any time. In practical terms this may mean making changes to websites and seeking consent of individuals via email. The regulation also requires that any data acquired for marketing purposes, such as mailing lists, have been collected and processed in a manner that is compliant, which businesses should review.
- **Activities involving other businesses:** If activities are carried out in partnership with other businesses, for example if using a UK-based partner to deliver products or services, then it is important to ensure that the partner is also compliant with GDPR. In practice this may involve reviewing the business' compliance procedures and systems.

For e-commerce businesses selling into the UK market, an important resource may be UK- or EU-based business partners who may be able to offer more detailed guidance on how to ensure compliance and any lessons learned through their own activities.

It will also be important for businesses to stay up-to-date on the rules and regulations related to data, as there is still scope for further development in both the underlying directives and also their interpretation.

### 6.4.3 Practical steps for businesses to consider

E-commerce businesses that want to export to the UK market need to make sure they comply with data protection law. The first steps they should consider are:

- Understand the requirements of data protection law.
- Develop processes to ensure compliance.

#### 6.4.4 Sources for further information

| Source              | Topic   | Link  |
|---------------------|---|---|
| European Commission | General guidance and details on GDPR.   | <a href="https://ec.europa.eu/commission/priorities/justice-and-fundamental-rights/data-protection/2018-reform-eu-data-protection-rules_en">https://ec.europa.eu/commission/priorities/justice-and-fundamental-rights/data-protection/2018-reform-eu-data-protection-rules_en</a> |
| ICO                 | General guidance on UK data laws and regulations and how these apply to businesses. Provides self-assessment tools and examples covering different areas. | <a href="https://ico.org.uk/">https://ico.org.uk/</a>   |

### 6.5 Intellectual property

The UK has intellectual property rules covering patent rights, design rights, trademark rights and copyrights. These are largely based on EU law. Exporters should be aware of these and comply with them to avoid delays for consumers and to enable exports to the UK. Exporters can also consider applying for intellectual property protection of their goods and designs in the UK.

#### 6.5.1 Context and challenges

Intellectual property (“IP”) rules aim to protect people from theft or copying of product and brand names, inventions, the design or look of products, written content or products themselves. IP rules are designed to address:

- **Counterfeit goods:** including any packaging, label, sticker, brochure, operating instructions and warranty documents.
- **Pirated goods:** copies made without the consent of the holder of a copyright or related right or a design.
- **Grey market goods:** goods manufactured with the consent of the right-holder, but marketed without consent.

Some types of protection are given automatically, others have to be applied for. Intellectual property exists if someone has either created something (and it meets the requirements for copyright, a patent or a design), bought the intellectual property rights (from the creator or a previous owner) or if a brand could be a trademark (such as a well-known product name). Intellectual property can have more than one owner, belong to people or businesses, and can be sold or transferred.

#### Intellectual Property law

IP law that applies to the UK is spread across a large range of legislation, both UK and EU law, covering trade marks, patents, designs and copyright. For example, EU Regulation No 608/2013 of the European Parliament and of the Council establishes mandatory rules and other procedures which customs authorities use to facilitate the enforcement of certain IP rights at the external frontier of the EU. Significant elements of the Regulation include:

- The scope of customs intervention.
- Goods excluded from the scope of the Regulation.
- List of IP rights included and their definitions.
- Application for action process.

- Simplified destruction procedure for infringing goods.
- Obligations of the IP rights applicant including sanctions where appropriate.
- Procedure for the notification of detention to both sides involved plus a clear time line of events.
- Use of information by the right holder.
- Procedure for the destruction of counterfeit or pirated goods in small consignments without reference to the right holder.
- Establishment and use of a central database.
- Legal authority for an implementing act to designate new forms including application for action and request for extension.

The EU Regulation does not apply to grey market goods however Section 89 of the Trade Marks Act 1994 allows the proprietor or the licensee of a registered trademark to give notice in writing that goods expected to arrive in the UK will infringe their trademark and should therefore be treated as prohibited. Section 111 of the Copyright, Designs and Patents Act 1988 ("CDPA") allows the owner of a copyright to give notice in writing that infringing copies of certain types of works expected to arrive in the UK on a specified date, are to be treated as prohibited. These sections apply only to infringing goods arriving in the UK from outside the European Economic Area, or from within that area but not having been entered for free circulation. Goods that are prohibited are liable to forfeiture and may be seized under UK customs law.

#### **What happens if goods suspected of not complying with IP are discovered?**

When goods suspected to infringe on IP protection are detected at the UK border, the UK's Border Force will:

- (a) Detain the goods;
- (b) Notify the declarant or holder of the goods of their detention within one working day of the decision to detain, and give them ten working days in which to either give their consent or object to the abandonment of the goods for destruction;
- (c) Notify the right holder of the detention and invite them to confirm whether or not they believe the goods to be infringing on the IP rights, and if so, whether they agree to their destruction - they will be given ten working days to respond;
- (d) Provide in the notification the consignment details allowed under Article 17.4 of the Regulation and the consequences of failing to respond within ten working days;
- (e) Give all parties the opportunity to inspect the goods - in the case of goods suspected of being counterfeit or pirated, the right holder may request a sample for further analysis;
- (f) Detain the goods pending a response from all parties or the expiry of both of the respective detention periods.

#### **Securing Intellectual Protection**

You can apply for intellectual protection in the UK, such as a patent or a trade mark.

A patent gives the right to take legal action against anyone who makes, uses, sells or imports it without your permission. For a UK patent, application is through the Intellectual Property Office ("IPO"). Note that the IPO advises that "patents are expensive and difficult to get". It can take up to five years for a patent application to be accepted. The IPO states that once a patent has been granted, you can then commercially benefit by licensing, selling or mortgaging your patent to third parties.

You can register your trade mark to protect your brand, for example the name of your product or service. The UK trade mark registration process can take up to four months, providing no-one objects, with any registered trade mark lasting ten years<sup>165</sup>. When you register your trade mark, you will be able to take legal action against anyone who uses your brand without your permission, including counterfeiters. You will also be able to put the '®' symbol next to your brand - to show that it is yours and to warn others against using it, and sell and license your brand.

You can register designs in the UK, which aims to prevent others from stealing or imitating the design, whilst making it easier to bring forward legal action against infringements. The IPO states that the look of a design covers appearance, physical shape, configuration (how multiple parts of a design are arranged together) and decoration. By registering your design, you can prevent others from using it for up to 25 years, but design registration must be renewed every five years. The UK registered design process takes up to one month<sup>166</sup>.

Copyright protection covers, for example, writing and literary works, art and photography, films, television, music, web content and sound recordings. You do not have to apply or pay a fee to get copyright for your work and stop others from using it without your permission. The IPO states you can mark any copyrighted work with the recognised symbol (©), your name and the year of the work's creation. Your work could be protected by copyright in other countries through international agreements, for example the Berne Convention. The IPO Information Centre can provide further advice on international copyright.

### **6.5.2 Potential responses**

Failure to comply with UK IP law could result in delays or failures to get products to customers. This could affect consumer satisfaction, reviews and demand for your products. Businesses should familiarise themselves with the law, and make sure their product does not (or does not appear to) violate IP law. This requires businesses to have the processes in place to undertake these checks. Businesses should also consider if they should protect themselves from competition by applying for IP protection within the UK, such as through a patent or a trade mark.

### **6.5.3 Practical steps for businesses to consider**

Businesses can take actions to make sure that they comply with UK IP law and to also protect their own IP in the UK – using the information provided in the links further below:

- First, understand UK IP law;
- Second, check for potential patents, registered designs, and trademarks that could apply and check that you have not infringe on IP protection;
- Third, ensure you make any modifications to your product, if you find it is in violation of IP law.

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<sup>165</sup> British Library, *What are intellectual property rights?*, accessed November 2018, <https://www.bl.uk/business-and-ip-centre/articles/what-are-intellectual-property-rights>

<sup>166</sup> Ibid

**6.5.4 Sources for further information**

| Source        | Topic  | Link   |
|---------------|--|--|
| UK Government | Detailed guidance on UK IP law   | <a href="https://www.gov.uk/topic/intellectual-property/law-practice">https://www.gov.uk/topic/intellectual-property/law-practice</a>  |
| UK Government | Find details of patents to check if a similar patent to your invention already exists, track the progress of a published patent application, see if patents are available to license                                   | <a href="https://www.gov.uk/search-for-patent">https://www.gov.uk/search-for-patent</a>  |
| Espacenet     | Use Espacenet to check for published patent applications and registered patents. The database includes both worldwide UK patents and details about owners, filed documents and the countries where the patent applies  | <a href="https://worldwide.espacenet.com/advancedSearch?locale=en_EP">https://worldwide.espacenet.com/advancedSearch?locale=en_EP</a>  |
| UK Government | Search for registered designs with the Intellectual Property Office. You need to know the design number or the design owner's name or use 'Designview' if you do not know the design number or the design owner's name | <a href="https://www.gov.uk/search-registered-design">https://www.gov.uk/search-registered-design</a><br><a href="https://www.tmdn.org/consent/cookies.html?referer=/tmdsview-web/welcome">https://www.tmdn.org/consent/cookies.html?referer=/tmdsview-web/welcome</a> |
| UK Government | Search for trademarks  | <a href="https://www.gov.uk/search-for-trademark">https://www.gov.uk/search-for-trademark</a> or <a href="https://www.gov.uk/check-trade-marks-journal">https://www.gov.uk/check-trade-marks-journal</a> for trademark applications accepted in the last week          |
| UK Government | Guide to patenting an invention  | <a href="https://www.gov.uk/apply-for-a-patent">https://www.gov.uk/apply-for-a-patent</a>  |



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