

German Market Entry

The three most frequently asked questions

When we talk to UK or US-based home shopping companies that are interested in expanding to Germany we almost always get asked the following questions. We would like to thank Tom Schult, managing director of Abacus Germany and Florian Schulte, managing director of arvato infocore for their expertise in answering them.

1. Is there a German equivalent to Abacus or Club Canvasse that is a reliable source of quality data and if there is, where are the differences to the UK/US system?

Unlike in the US or the UK, there is only one alliance database in Germany, Abacus. And this is a fairly recent development, because Abacus launched at the end of 2003 in Germany.

We spoke to Tom Schult, managing director of Abacus Germany, about the background and position of Abacus in Germany. When Abacus started in Germany, the large home shopping companies were sceptical about the potential success of an alliance database, first because of the restrictive data protection laws and second because of German inclination to keep data and information in-house. This is why overseas cataloguers already familiar with the system played an important role in the initial growth of Abacus.

Abacus resolved the issues with the German data protection law to the effect that there are three separate companies handling different parts of the data. For the Alliance members this ensures that data is treated on a confidential and secure basis. These high standards are reflected in the member contract and the representation by the Alliance member that the data is collected in a lawful manner. Today, security standards are the highest in world.

Tom Schult is convinced that Abacus is poised for further growth in Germany. Despite the fact that it already has coverage of 30 million customers in 25.8 million households in Germany, the



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volume of multi-buyers in the US and the UK are proportionately higher so there is ample room for growth. In addition, Abacus is working on additional products that are specific to the German market.

2. In Germany, orders get filled on open invoice, and the customer will pay by wire transfer into the merchant's bank account after having received the order. What are the implications of this system and could you do without it by just offering credit card payments?

As a rule, home shopping firms active in Germany effectively extend a 30-day credit to those customers who they choose to do business with. But what if you are not in the credit business? Finding the right answer to this question could make or break your decision to enter the German market place.

German consumers do not view the open invoice system as a credit that is being extended to them but as an integral part of customer service that they are used to. Open invoice is the most frequently used payment method for distance shopping in Germany. In short, we believe that offering open invoice is an absolute must in Germany, especially if you are

marketing apparel or hard goods for the home and garden.

So, how do you separate the wheat from the chaff? We asked Florian Schulte, managing director of arvato infocore, the leading provider of consumer risk management/credit scoring systems in Germany about the major implications of the open invoice system.

Home shopping companies using an effective risk management system will only experience bad debt rates of approximately 1 per cent of net sales. Without the system, bad debt can be around 20 per cent or more, depending on the product being offered and the type of merchant. Typically, bad debt risk is higher for an internet merchant than for a "traditional" catalogue. Exceptions are the e-commerce arms of merchants delivering supplies for daily use such as internet drug stores.

The data for the scoring system is sourced from the public registry for personal bankruptcies and from current collection proceedings.

Florian Schulte thinks that the largest mistake that a company can make is to completely do without a risk management system or to only start at a certain order value. He recommends credit scoring not only for new customer acquisition but also for the housefile, because history shows that 40 to 60 per cent of all bad debt is caused by existing customers.

3. Could you just enter the German marketplace through the internet and not the traditional way through catalogue and mailings?

In our opinion, the answer to this question is short. We are convinced that if you are marketing merchandise that is impulse driven (mostly, this is clothing and hard goods for the home and garden) and not event/need driven (weddings, maternity, tickets, travel, publications, furniture, white goods, etc.), your route to success will still likely be paper based – at least to the tune of 80 per cent. ■



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