An Analysis of the Cross-Border E-Commerce Opportunity (and Challenges) for U.S. Merchants

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Tax compliance done right

EXECUTIVE SUMMARY

As more and more consumers opt to shop online, so too do the number of retailers and brands selling their products via e-commerce sites. With U.S. e-commerce sales forecast to grow to $561 billion in 2019, according to Statista, the competition for those dollars has become intense. As a result of the market pressures being placed upon U.S. retailers to support challenged brick-and-mortar stores with e-commerce sales, many are looking beyond the United States' borders for growth.

However, many are doing so without a complete understanding of the complexities of selling and fulfilling cross-border orders. Furthermore, in many cases they lack a fully developed plan for effectively engaging and shepherding international customers throughout the purchase journey, from discovery to order delivery, and all the steps in between.

This was a key finding of a recent survey of retail executives on their cross-border e-commerce activity. The respondents to the survey identified themselves as the person currently or soon to be responsible for managing cross-border activities at their company. The survey was conducted by NAPCO Research in conjunction with Avalara, a provider of automated tax compliance software.

- **86% of respondents are currently selling cross-border**
- **Cross-border selling not being deemed a priority by management was cited as the No. 1 reason why retailers and brands weren't selling cross-border**
- **56% of retailers selling cross-border said they're challenged by shipments being delayed in customs**
- **55% of respondents are hiring staff skilled in cross-border selling to help address challenges with the practice**
- **41% of retailers said their cross-border customers are equally or less satisfied compared to their domestic customers.**

An anonymous online survey was sent to retail executives in the fourth quarter of 2018. Respondents from companies with less than $10 million in annual revenue were screened out of the survey. In total, there were 141 respondents to the survey. More than 50 percent of the respondents (52 percent) were from one of the following three product verticals: apparel/accessories (19 percent); general merchandise (17 percent); or consumer electronics (16 percent).

The survey data sought to identify the following:

- the pervasiveness of cross-border selling by U.S. merchants;
- challenges confronting retailers and brands selling cross-border, from accurately calculating international taxes and duties to shipments delayed in customs;
- solutions being put into place to address those challenges; and
- the satisfaction level of cross-border customers vs. domestic customers.

In order to capitalize on the opportunity at hand — cross-border e-commerce sales are forecast to reach $1 trillion by 2020, according to a report from consulting firm Accenture and AliResearch, Alibaba Group's research division — a commitment to selling cross-border is needed throughout the organization. All company stakeholders, from the C-suite to practitioners executing upon the strategy on a day-to-day basis, must work together to support a successful cross-border e-commerce program.

Selling cross-border brings with it a host of challenges that aren't a concern for retailers when expanding their e-commerce reach domestically. For example, customs duties and local taxes, and ensuring shipments adhere to customs regulations aren't necessary considerations when selling domestically. Therefore, understanding the differences in selling cross-border and having systems and processes in place to account for them is pivotal in successfully establishing and sustaining a cross-border e-commerce business.

The old adage, "you never get a second chance to make a first impression" rings true for retailers that hastily rush into cross-border selling without a fully baked plan. At stake is not only the opportunity to capture additional sales, but your brand reputation as well. It's inevitable that there will be obstacles that you need to overcome as you begin selling cross-border, but by having the right systems and processes in place from the start, those challenges will be mere speed bumps on the road to success.

FINDINGS AND RESULTS

In order to get a better understanding of the current environment in which U.S.-based retailers are operating, and specifically how many of them are currently selling cross-border, we asked respondents, "Is your business currently selling or planning on selling its products cross-border?" The answer? A whole lot of them are.

Eighty-six percent of all respondents said they're currently selling cross-border. What does this mean for retailers? A few different things: one, the downward pressure on profit margin, created in part by the continued e-commerce dominance of Amazon.com, has caused many retailers to look internationally for new customers and growth markets. Two, if your business has yet to test cross-border selling, you're late to the party. Your competition is likely doing so — and reaping the benefits. This data suggests that retailers might consider expanding the reach of their e-commerce businesses by selling to international customers. Simply maintaining your current U.S.-based customer demographic is important, but so too is finding new customers in markets that you have yet to enter. And three, recent events such as Brexit and an impending trade war between the U.S. and China have forced retailers to consider new markets or cease to exist.

Cross-Border Selling Has Gone Mainstream

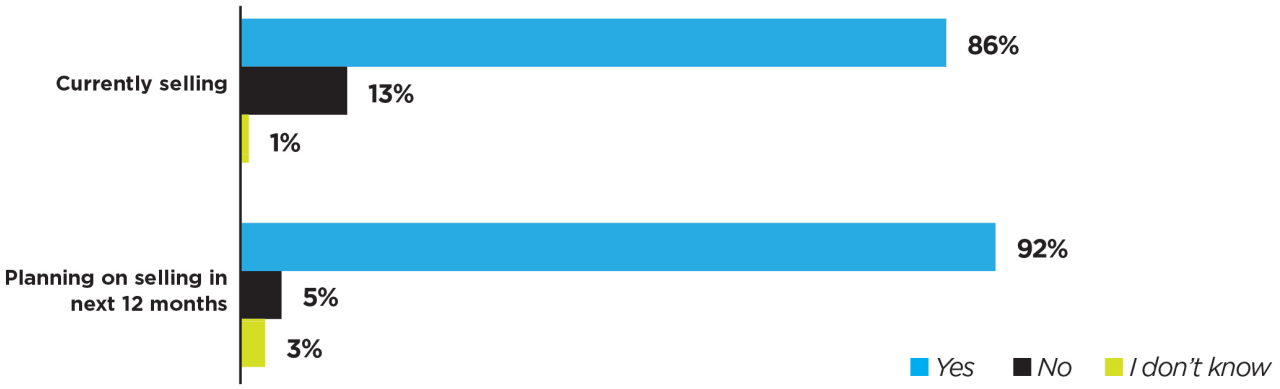

Figure 1
Q: Is your business currently selling or planning on selling its products cross-border? (i.e., selling and shipping products to customers in a country other than where your business is based)
n = 153 Retailers

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For those retailers not currently selling cross-border, what's preventing them from doing so? They were myriad answers from our survey respondents, including cross-border selling not being deemed a priority by management; concerns over global trade wars and tariffs; added cost to the supply chain; a poor user experience for cross-border shoppers (e.g., pricing, translation of product copy); among other reasons.

Be Prepared to Face Challenges

Retailers can't expect to simply set up shop and start shipping cross-border. There are numerous challenges that brands and retailers are confronted with in the process of selling to international customers.

When asked to identify the challenges that their business has encountered in selling cross-border, there was no shortage of respondents' answers. The No. 1 challenge cited was shipments being delayed in customs, with more than half of all respondents (56 percent) having had to deal with this issue in the past. That was closely followed by added supply chain costs (50 percent), and accurately calculating international duties and taxes (46 percent).

Slowed Deliveries, Added Costs Top Cross-Border Selling Challenges

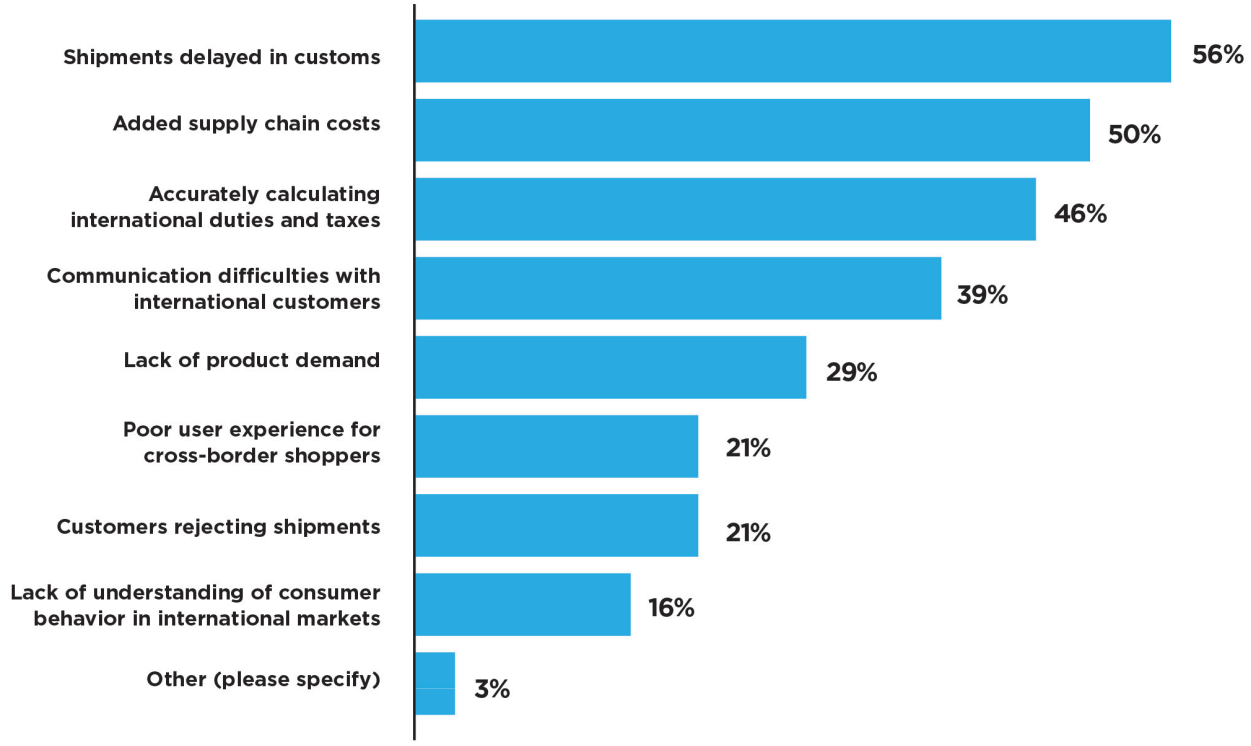

Figure 2
Q: What are the challenges, if any, that your business has encountered in selling cross-border? (Choose all that apply)
n = 127 Retailers

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Respondents were asked in a follow-up question to elaborate on the biggest challenge they have faced in cross-border selling. Here's just a sampling of their responses:

- "Our biggest challenge is understanding the customs fees and structure."
- "Shipments being delayed is the biggest challenge that we experience, and one that causes serious pain points for our company."
- "Taxes and fees always change, products always gets held longer than expected in customs."
- "Cost of duties and taxes. It seems to be constantly changing with American items."
- "Having shipments being delayed due to customs restrictions."
- "Making sure we are paying duties and international tariffs accurately."
- "Added supply chain costs. Selling cross border increases our spending and sometimes the ROI is less."

The lesson here for retailers is to not jump into cross-border selling blindly. It doesn't matter how successful your e-commerce site has been or how fast it has grown domestically. Selling to international customers is a whole new ballgame, with a whole new set of rules. A customer's order getting stuck in customs isn't a concern when shipping from your distribution center in Illinois to your customer's home in California. But shipping that same order to a customer in the U.K. presents potential challenges that must be addressed before testing cross-border selling.

Furthermore, the customer experience must be factored in as well. Nearly half of respondents said they've encountered difficulties calculating international duties and taxes for customers, whether at the point of sale or point of delivery. There's perhaps no quicker way to lose a customer than by presenting them with an unpaid bill for taxes and duties when their order is delivered. There's also the risk of orders being rejected in such a scenario, with the cost of the goods ultimately falling back to the retailer.

Investigate how selling to international customers is different than what you're currently doing. The good news is that you don't have to be a global trade expert to have a successful cross-border e-commerce program. The right partner can help you determine the systems and processes that need to be put into place to enable seamless cross-border transactions. These capabilities may or may not exist within your current systems .

People and Technology Helping to Address Cross-Border Challenges

With the challenges associated with cross-border e-commerce identified, we wanted to know what solutions retailers were putting into place to address them. What we learned is that for most cross-border sellers, they're relying on people and technology to eliminate — or at least minimize — potential issues that might arise during the customer purchase journey.

Brands Invest in People, Technology to Solve Cross-Border Challenges

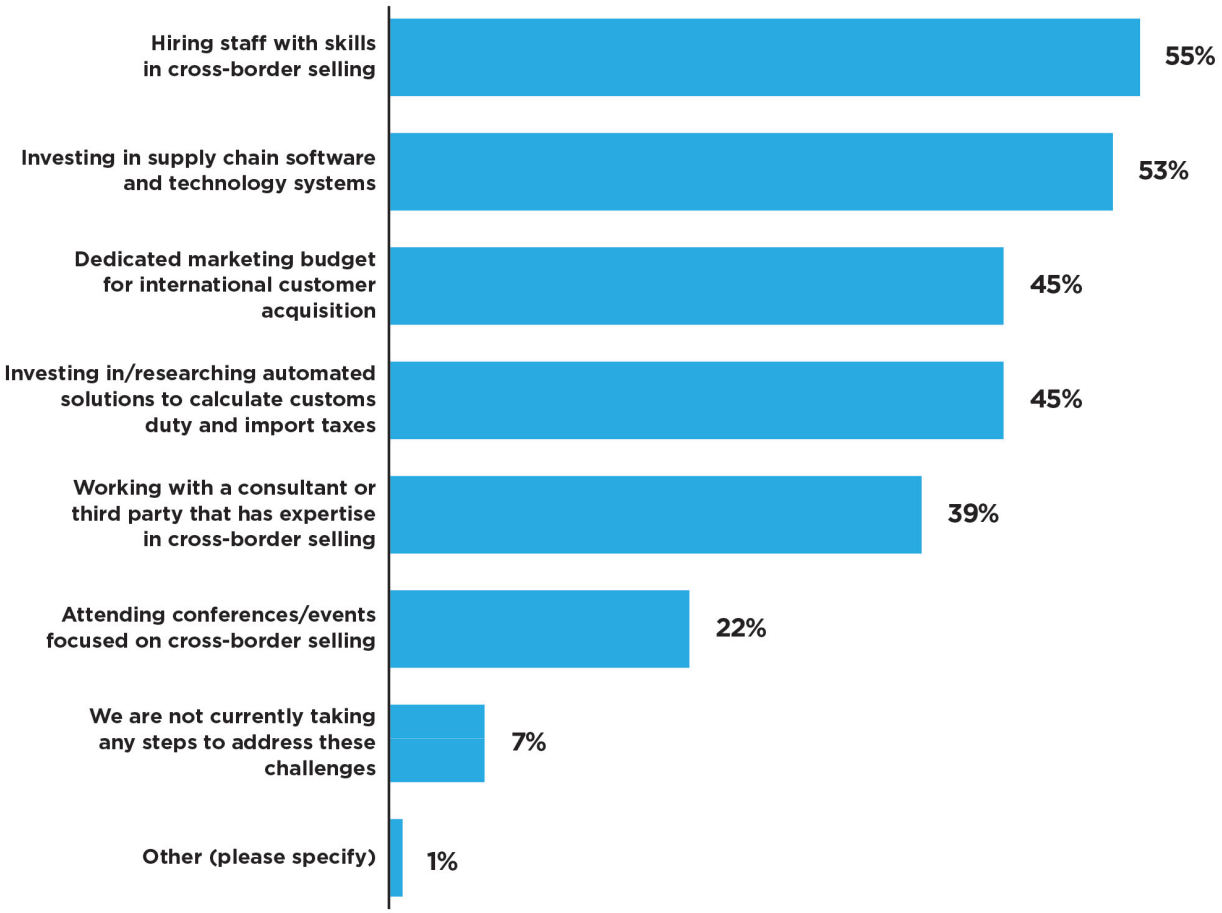

Figure 3
Q: What is your company doing to address these challenges? (Choose all that apply.)
n = 127 Retailers

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Fifty-five percent of respondents said they were hiring staff with skills in cross-border selling to help alleviate the challenges associated with the practice. Additional people-based solutions cited by respondents included working with a consultant or third party that has expertise in cross-border selling, such as customs brokers and logistics providers (39 percent) and attending conferences/events focused on cross-border selling (22 percent).

In addition to leaning on people to address cross-border e-commerce challenges, retailers are investing in technology solutions to help do the work for them. For example, 53 percent have invested in supply chain software and technology systems, while another 45 percent are investing in or researching an automated solution to calculate customs duty and import taxes. Furthermore, nearly half of all respondents (45 percent) noted that their company has dedicated marketing budget for international customer acquisition.

Lastly, and perhaps most telling from the above chart, is that just 7 percent of respondents said they are not currently taking any steps to address the challenges associated with cross-border selling. What this tells us is that while retailers recognize the opportunity that cross-border e-commerce presents to them, they're not foolish enough to take on the challenge all by themselves. A support system of people, process and technology must be in place to take full advantage of the cross-border e-commerce opportunity.

Retailers Handling HS Codes, Payment of Customs Duties and Taxes

To better understand how retailers are handling the tasks necessary for enabling cross-border e-commerce, namely assigning Harmonized System (HS) codes to products as well as determining who pays or will pay customs duties and taxes to the taxing authority, we asked retailers to elaborate on who is handling these tasks. And for the most part, retailers are taking the initiative and handling both tasks rather than relying on a third party (for HS codes) or their customers (for remittance of the correct duties and taxes).

Majority of Retailers Assigning HS Codes Themselves

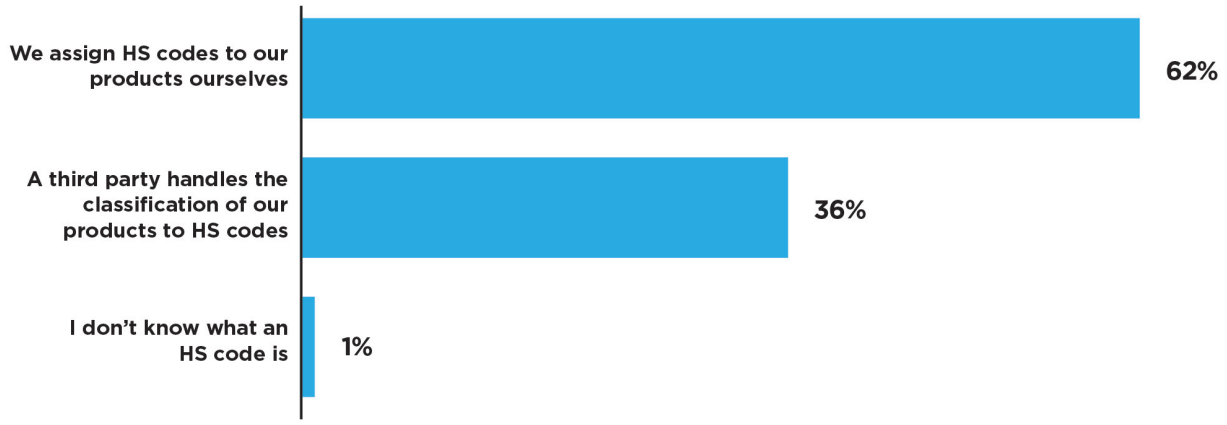

Figure 4
Q: How do you currently or plan to assign Harmonized System (HS) codes to your products today?
n = 141 Retailers

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The good news is nearly all (99 percent) retailers know what a HS code is, which suggests at least a minimum familiarity with relevant terminology. HS codes dictate the customs duty rate that must be paid for each individual product in a cross-border order.

There is risk involved with "going on your own," however, especially as tariffs and taxes change. For example, failure to classify HS codes correctly can lead to non-compliance penalties, border delays, seizure of goods, denial of import privileges, and overpayment of customs duty. Therefore, carefully consider the benefit of partnering with a third-party provider that can offer an automated solution for calculating customs duties and taxes, or classification of HS codes to products.

Brands Handling Task of Paying Customs Duties and Taxes

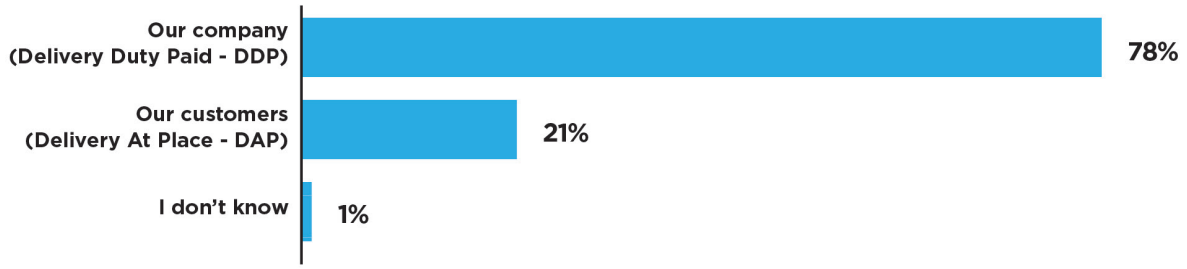

Figure 5
Q: Who pays/will pay the customs duties and taxes for cross-border orders to the taxing authority?
n = 138 Retailers

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Improving the Satisfaction of Cross-Border Customers

The goal of any retailer is to ensure that their customer has a positive experience that would make them willing to come back and purchase again. That same mantra extends to international customers the same way it does for domestic customers. So how are retailers faring in this regard?

Forty-one percent of respondents said their cross-border customers are equally, somewhat less satisfied, or significantly less satisfied when compared to their domestic customers. There are a number of reasons why international customers could be less satisfied than their domestic counterparts. Here are the top reasons cited by our respondents:

- orders delayed or seized in customs (56 percent);
- inaccurate customs, duty and tax calculations at the point of sale (44 percent); and
- inaccurate shipping costs at the point of sale (38 percent).

Given the added complexity of selling cross-border, it stands to reason that the satisfaction levels of international customers would lag those of domestic customers. However, that's not an excuse that international shoppers are willing to accept.

The Matter of Taxation

A critical part of successfully selling cross-border is ensuring your customers are given the correct custom duties and taxes, as well as shipping costs, at the point of sale. Customers don't like surprises, especially in the form of a tax bill when their order is delivered. To their credit, retailers seem to have gotten the message. A whopping 95 percent of respondents said they're currently calculating or plan to calculate and collect duties and taxes at the point of sale, rather than upon delivery of the order.

Duties and Taxes Calculated, Collected at the POS

Figure 6
Q: Are you currently calculating or plan to calculate and collect duties and taxes at the point of sale? (either you or your shipping partner)
n = 138 Retailers

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To help ensure those duties and taxes being assessed at the point of sale are accurate, more than half (51%) are using a third-party solution that plugs into their e-commerce platform for automated calculation, 27 percent are using a home-built solution that plugs into their e-commerce platform for automated calculation); and 22 percent are relying on their e-commerce platform's built-in functionality for calculating shipping costs at the point of sale.

Brands Increasingly Relying on Third-Party Solutions for Calculating, Collecting Customs Duties and Taxes

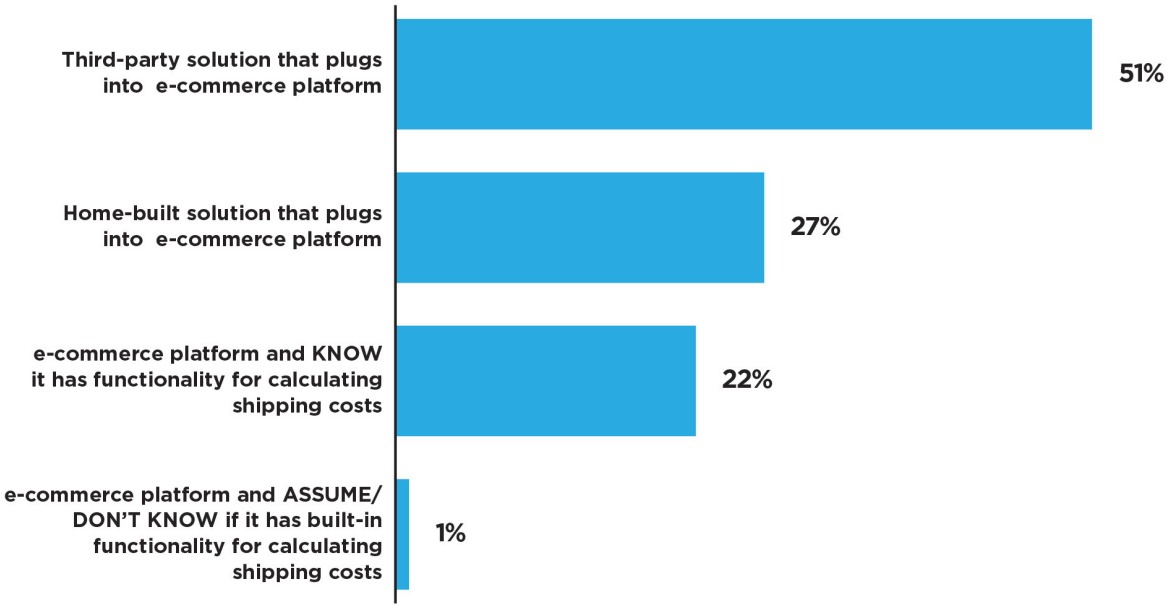

Figure 7
Q: How are you calculating and collecting customs duties and taxes today?
n = 120 Retailers

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With just over half of respondents using a third-party solution that plugs into their e-commerce platform for automated calculation of customs duties and taxes, a question arises: Are the other half using platforms that may not be equipped to properly handle cross-border transactions? And if so, what impact is that having on their businesses? Again, the responsibility for getting it right is on the retailer; consumers expect as much.

CONCLUSION

A fiercely competitive e-commerce marketplace in the United States has led many retailers to look beyond the country's borders for new customer acquisition. The move to cross-border e-commerce is a natural progression given today's global economy and the extended reach of the internet. Why not cash in on the opportunity at hand? Like many things in retail (and life, for that matter), easier said than done.

Yes, cross-border e-commerce represents a real, viable opportunity for your business to acquire new customers, as well as grow sales and profits. The key to capitalizing on that opportunity is ensuring you have the fundamentals of cross-border selling in place. For example, item classification, assessing correct international duties and taxes at the point of sale, among other tasks. Don't jump into the cross-border game without a fully baked plan.

To make cross-border e-commerce a successful initiative for your business (i.e., profitable), you need to be prepared to deal with the complexity of processing transactions, including shipping, for international customers. By having the right partners, systems and technologies in place from the start, you give your business the best chance of success.

The good news is there are third-party technology solution providers out there that can help automate the process of selling to international customers. While assigning HS codes and accurately calculating customs duties and taxes may not sound like a big deal to the cross-border novice, they're absolutely essential pieces to effectively selling to international customers. Without getting these basics down first, your cross-border e-commerce strategy stands no chance for success.

Do the necessary research to identify market demand for your products internationally; put the people, processes and technology solutions in place to enable seamless cross-border shopping and selling; and then begin to reap the rewards of growing your customer base and the bottom line.

METHODOLOGY

NAPCO Research fielded an anonymous web-based survey to retailers in Q4 2018. Respondents with less than $10 million in annual revenue were screened out of the survey.

WHO WE ARE

Avalara

Tax compliance done right

Avalara's cross-border tax compliance solution enables retailers to offload the manual and error-prone task of selling and shipping items worldwide. Avalara Item Classification helps businesses maintain compliance and run efficiently by mapping tariff codes, also known as Harmonized System (HS) codes, to a sellers' product catalog in multiple countries. Once HS codes are assigned, the Avalara AvaTax engine can calculate the customs duty and import taxes for any country you ship to, and reduce the risk of compliance errors, unexpected fees, and other issues that cause a delay in customs.

Avalara helps businesses of all sizes get tax compliance right. In partnership with leading ERP, accounting, ecommerce and other financial management system providers, Avalara delivers cloud-based compliance solutions for various transaction taxes, including sales and use, VAT, excise, communications, and other indirect tax types. Headquartered in Seattle, Avalara has offices across the U.S. and around the world in the U.K., Belgium, Brazil, and India. More information at avalara.com

NAPCO RESEARCH

Led by a former Forrester Research Analyst, the NAPCO Research team crafts custom data-centric solutions that leverage our highly engaged audiences across the markets in which we operate, our industry subject matter experts and in-house research expertise. We partner with our clients to identify their unique business problem and create solutions that enable deeply informed decision-making.

NAPCO Research can help with:

- Business goal prioritization
- Opportunity discovery
- Market segmentation
- Landscape insight
- User needs and wants
- Product features and functionality
- Content marketing strategy
- Sales strategy and tactics
- Market conditions
- Benchmarking
- Industry Trends
- Brand awareness

Contact research@napco.com to talk with our research team to find out how we can help you with your research needs.