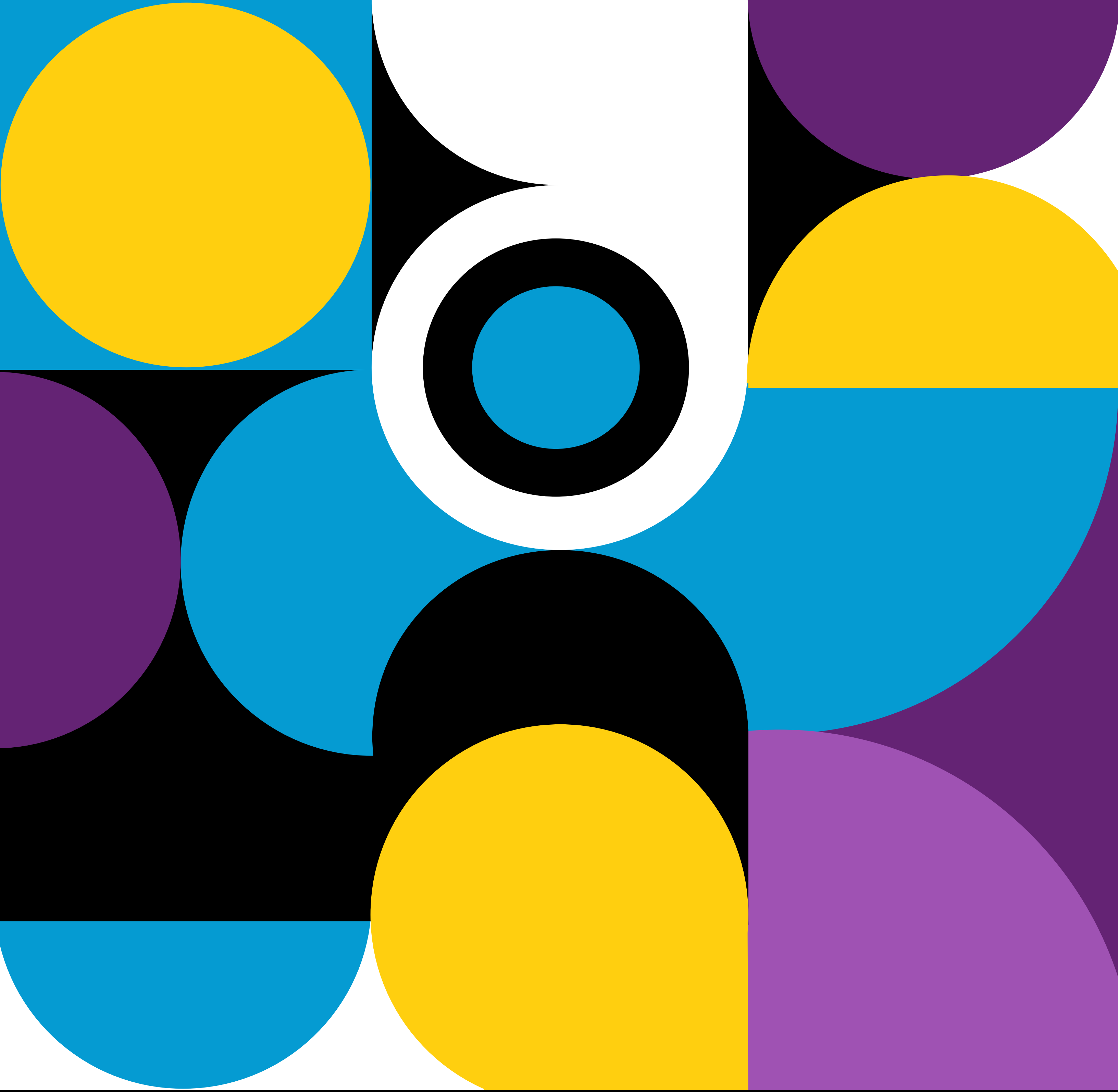


Overcoming the obstacles to global online sales:

A retail guide to cross-border ecommerce

Avalara

DIGITAL COMMERCE 360 B2B

Contents

DISCLAIMER

INTRODUCTION

The untapped opportunity of cross-border online sales

COVID-19 changed consumers' buying habits dramatically: They bought more online, including from retail websites in other countries.

But, at least in one respect, retailers' selling strategies didn't change: Many leading retailers and brands still won't take online orders from customers outside of North America.

Only 51.8% of the 1,000 leading online retailers based in the U.S., Canada, and Mexico were serving customers outside of North America according to a late 2021 study by Digital Commerce 360, a news and research organization that specializes in ecommerce. That was unchanged from Digital Commerce 360's survey a year earlier and down slightly from 52.8% in 2019.

To be sure, retail executives had plenty on their hands during the pandemic. They had to keep employees healthy and working, adapt to big shifts in consumer buying patterns, navigate supply chain disruptions, and deal with rising product and transportation costs. They could be forgiven for assigning a low priority to mastering the nontrivial challenges of cross-border ecommerce.

But as they look for growth opportunities in the post-pandemic world, they would do well to pay attention to consumers' increased willingness to buy online, including from foreign retailers.

Globally, online sales grew 13.1% to $4.85 trillion in 2021 after surging 24.1% in 2020 as the global pandemic took hold, according to Digital Commerce 360. Consumers not only shopped more online from websites in their own country, but they also increasingly bought from online retailers beyond their own borders. In fact, 52% of consumers surveyed said they were buying from retail websites overseas in a March 2021 five-country survey by ClearSale, a company that provides fraud management services to online retailers.

A global survey conducted in late 2020 by postal service consortium International Post Corporation found 33% of consumers surveyed purchased more from international sellers due to the pandemic, and half expected to buy more from foreign retail websites in the future. Why shop across borders? In IPC's 2019 survey, most consumers said it was to find lower prices, goods scarce in their home country, or products from well-known brands they trust more than local suppliers. (IPC did not ask that question in the 2020 survey.)

In the fourth quarter of 2021, which includes the all-important holiday season, consumers made 19.1% of their purchases online, according to a Digital Commerce 360 analysis of U.S. Department of Commerce data. That was steady from the 2020 holiday season, before COVID-19 vaccinations were available and many shoppers stayed away from stores. But it was a big jump from 15.5% in 2019, before the pandemic hit the U.S.

That makes the U.S. market more competitive and the international opportunity more important as a source of potential growth.

Many retailers hesitate to sell cross-border because of concerns about issues such as customs clearance, taxes, and import restrictions. This guide will provide an introduction to how retailers and brands, with the help of the growing number of companies specializing in international ecommerce, can overcome these obstacles.

A RAPIDLY CHANGING LANDSCAPE

Cross-border ecommerce is compelling because so many midsize and larger online retailers in North America aren't yet competing for the loyalty of foreign online shoppers. According to Digital Commerce 360, among the Top 1000 online retailers in North America, only about half sell to shoppers in the United Kingdom – even though most U.K. shoppers speak English. And even fewer sell to consumers in major markets such as Germany, France, China, Japan, and India.

What keeps these relatively large online merchants from selling internationally? Many are held back by complexities like language, delivery, customer service, customs clearance, and taxes and regulatory requirements that vary from one country to another.

Cross-border sales to Europe became significantly more complex in 2021 as both the European Union and the United Kingdom, which is no longer part of the EU, changed their rules to require online retailers to charge value-added tax, or VAT (similar to sales tax in the U.S.), on all sales into their jurisdictions. Previously, the EU exempted from tax collection orders valued at less than 22 euros ($24) and the U.K. exempted purchases of 15 pounds ($20).

Governments are taking these steps for two reasons, says Craig Reed, GM Cross-border at tax software provider Avalara. First, they're responding to complaints from domestic retailers that they are at a disadvantage when they charge VAT and foreign sellers do not. Second, they want the additional revenue that cross-border online sales can bring. The EU estimated that eliminating its de minimis exemption on cross-border transactions would bring in an additional 7 billion euros in revenue each year.

Complying with these regulations means all online retailers selling into the EU and U.K. must register with local tax authorities and then remit taxes. Many retailers don't know what they need to do or how to do it, Reed says.

Cross-border sales to Europe became significantly more complex in 2021 as both the European Union and the United Kingdom, which is no longer part of the EU, changed their rules to require online retailers to charge value-added tax, or VAT (similar to sales tax in the U.S.), on all sales into their jurisdictions.

"We're hearing customers ask, 'Do I have to get VAT-registered? How do I remit? I don't get it,'" he says.

REACHING EUROPEAN SHOPPERS

There are also regulatory differences between countries, including within the 27-member EU, says Evan Wright, senior director of growth at Avalara.

The EU sets the broad VAT rules through European VAT directives and has set the minimum standard VAT rate at 15%. The 27 member states (and the U.K.) are otherwise free to set their own standard VAT rates, Wright says. The EU also permits a maximum of two reduced rates, the lowest of which must be 5% or above. Some countries have variations on this, including a third, reduced VAT rate, which they had in place prior to their accession to the EU.

"We hear on a daily basis about merchants turning off their websites' ability to accept orders in Europe, because of the challenges navigating all the crazy regulatory compliance changes," Wright says. "Smaller and midsized businesses especially are throwing up their hands and turning off the ability for customers to purchase from them until they get their arms around compliance."

The EU has eased the burden significantly by creating the option to register once for all EU countries, using what's called the Import One-Stop Shop, (IOSS). This single registration and return allows individual consignments of goods under EUR150 to clear customs without Import VAT, instead tax is charged by the seller to the consumer at the point of sale. There is a similar pan-EU registration and return for B2C sales of goods fulfilled from within the EU, called the One-Stop-Shop (OSS).

EU businesses can also use this OSS return to declare a range of B2C services supplied in EU countries. Non-EU businesses can register for the Non-Union OSS to report B2C services. This option is particularly popular for US and UK businesses providing digital services to European consumers.

Reed expects other countries will also ramp up taxation of online orders as ecommerce grows in order to generate more revenue. “The U.K. and the EU are like the canary in the coal mine,” he says. “Other jurisdictions are watching with interest to see how this all works out, and a lot will probably follow suit.”

CHANGING SHOPPER EXPECTATIONS

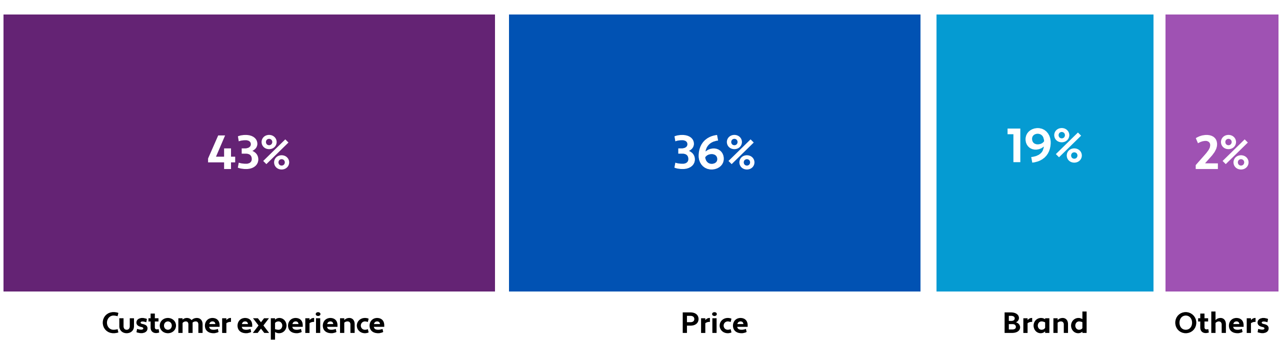
On the positive side, the growth in cross-border online shopping has led service providers to offer additional services to retailers seeking to sell to international shoppers, says Krishna Iyer, vice president of strategic partnerships and industry relations at Auctane, the parent company of such ecommerce shipping solution providers as Stamps.com, ShipStation, and Metapack.

Before COVID-19 hit, these additional services led to international shipping costs and delivery times falling as airlines worked more closely with the freight consolidators that handle most cross-border shipments, aggregating many small parcels into larger loads to cut costs. That helped reduce delivery times from three to four weeks to several days for many international orders, Iyer says.

The pandemic and related supply chain disruptions reversed some of those gains temporarily. But even that development had a silver lining, Iyer says, in that many consumers now expect orders to take longer and for shipping costs to be a little higher, especially on international orders.

GOOD CUSTOMER EXPERIENCE LEADS TO HIGH CUSTOMER LOYALTY

Top factors that drive loyalty for online consumers



"When you have a more understanding customer, one a little less sensitive than normal to shipping costs and delivery times, that makes this the right time for someone to expand their business internationally," he says. "This is the time to work out the kinks." That's particularly true, he says, for a country like Brazil, which charges high tariffs to protect domestic industries.

"The Brazilian customer, for example, has always been used to paying horrifically high duties, taxes, and shipping costs," Iyer says. "If there is less of a sensitivity to price these days that makes Brazil a pretty good market." In North America, 32.4% of the Top 1000 online retailers sell to Brazil, tying it with Chile as the top destination among South American countries, according to Digital Commerce 360.

The U.S.-Mexico-Canada Agreement, or USMCA, the replacement for the North America Free Trade Agreement (NAFTA) that took effect July 1, 2020, also made it somewhat easier for U.S. companies to ship online orders to Canada and Mexico, Iyer says. "You're getting a lot of U.S. businesses looking at Mexico, where they hadn't before," he says. Now, 39% of U.S.-based Top 1000 online retailers ship to Mexico and 62.2% to Canada.

Major marketplace operators like Amazon and ecommerce platform providers like Shopify have added features that make it easier for their North American online sellers to expand internationally, Iyer says. And, he says, so have major marketplaces in other countries, such as Coupang in South Korea, JD.com in China, and Rakuten in China, which are recruiting more North American companies to offer products on their shopping sites.

> ***Major marketplace operators like Amazon and ecommerce platform providers like Shopify have added features that make it easier for their North American online sellers to expand internationally.***

These marketplaces also have local expertise and can advise foreign companies on whether their products are a good fit for a particular country, Iyer says.

For example, Mercado Libre, Latin America's largest online marketplace and the tenth largest in the world according to

Digital Commerce 360, is aware that Mexico classifies health and beauty products as pharmaceuticals, leading the marketplace to be more selective about which cosmetics brands it invites to sell in that country, Iyer says.

In short, despite the obstacles created by the pandemic and those that predated COVID-19, there remain great opportunities to expand online sales internationally. And that has retailers and brands investigating how they can take advantage of the potential for cross-border sales to boost revenue.

AN IMPORTANT CHOICE

As retailers and brands investigate how they can take advantage of cross-border sales, they will find two broad options. One option is to rely on companies that claim to handle all the challenges of cross-border sales, including shipping, customs clearance, customer service, and taxes. While that sounds simple, few companies can truly be experts in all those areas, each of which requires deep expertise. In fact, many of the companies that offer all-inclusive services resell other firms' offerings, making it harder for a retailer to ensure it is getting the service it requires and adding dramatically to the costs the retailer pays.

One U.S. manufacturer of high-end bicycles learned that lesson the hard way when it discovered it was paying tens of thousands of dollars too much in tariffs each year because of inaccurate Harmonized System (HS) codes on the parts it was importing from abroad. When the manufacturer engaged Avalara to handle its cross-border tariff code classification work required for customs clearance, it saved that money and obtained the information it needed to petition for reimbursement of excess duties and fees it had paid.

That points to the second option: a more modular approach that relies on best-of-breed companies to handle each of the major tasks associated with cross-border ecommerce.

When cross-border sales were a small part of many companies' business, getting first-rate service in all areas of international online sales may not have been as crucial. But as those global sales become a more significant part of their business, the stakes get higher.

But success in cross-border ecommerce, as in serving local customers, depends on delivering a great experience – and customer experience includes what happens when the consumer accepts delivery. A shopper who buys a $100 dress from a foreign website and then finds she is being asked to pay an additional $60 in duties and taxes when the garment arrives is not likely to view that as a great shopping experience. To avoid alienating customers, retailers need first-rate advice in the often arcane details of national import restrictions, customs clearance, duties, and local taxes.

When cross-border sales were a small part of many companies' business, getting first-rate service in all areas of international online sales may not have been as crucial as it is today.

Consumer cross-border shopping behavior – and the retailer response

Millions of online shoppers purchase from retail websites in other countries, but there are big variations in the behavior of shoppers from one country to another.

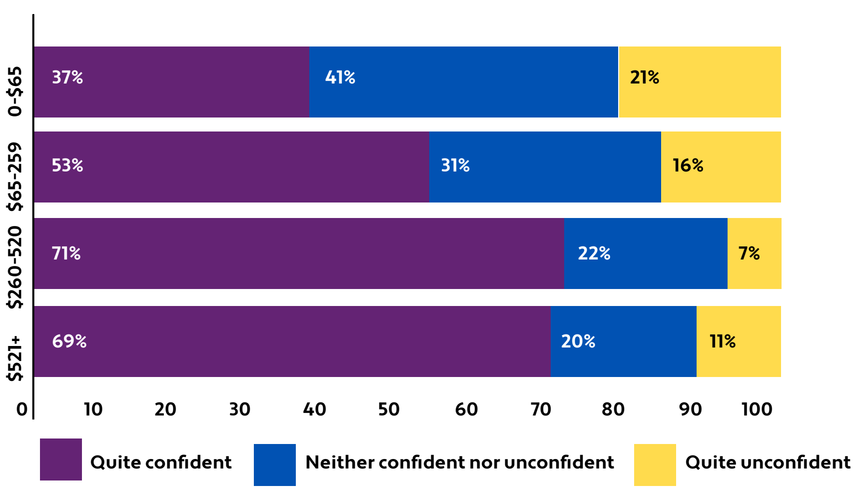
For example, the ClearSale study released early in 2022 showed that while 52% of survey respondents overall shop across borders, 64% of Mexican consumers do so, and 57% in both Canada and Australia. But that drops to 47% for shoppers in the U.K. and 35% for those in the U.S.

That's consistent with other studies that show consumers in countries with plenty of domestic online retail options – like the U.S. and the U.K.– are less likely than shoppers in smaller markets to risk buying from a foreign retailer. This points to big opportunities for retailers in the U.S. and other major economies to serve customers in smaller countries that are looking for well-known brands.

It's also worth noting that younger consumers are the most comfortable shopping on foreign websites. In the ClearSale study,

BIG ONLINE SPENDERS ARE MORE CONFIDENT ABOUT CROSS-BORDER ONLINE SHOPPING

How confident do you feel purchasing products online from overseas merchants?
(By monthly online spend.)



Source: 2021 Global Consumer Ecommerce Behavior Analysis from ClearSale. Based on survey by Sapio Research of more than 1,000 online shoppers in each of five countries: United States, Canada, Mexico, United Kingdom and Australia. Figures may not add up to 100% due to rounding.

63% of shoppers ages 18–24 and 62% of shoppers ages 25–34 say they buy from overseas sites. That percentage declines as consumers age, with only 31% of those 65 and older making international ecommerce purchases.

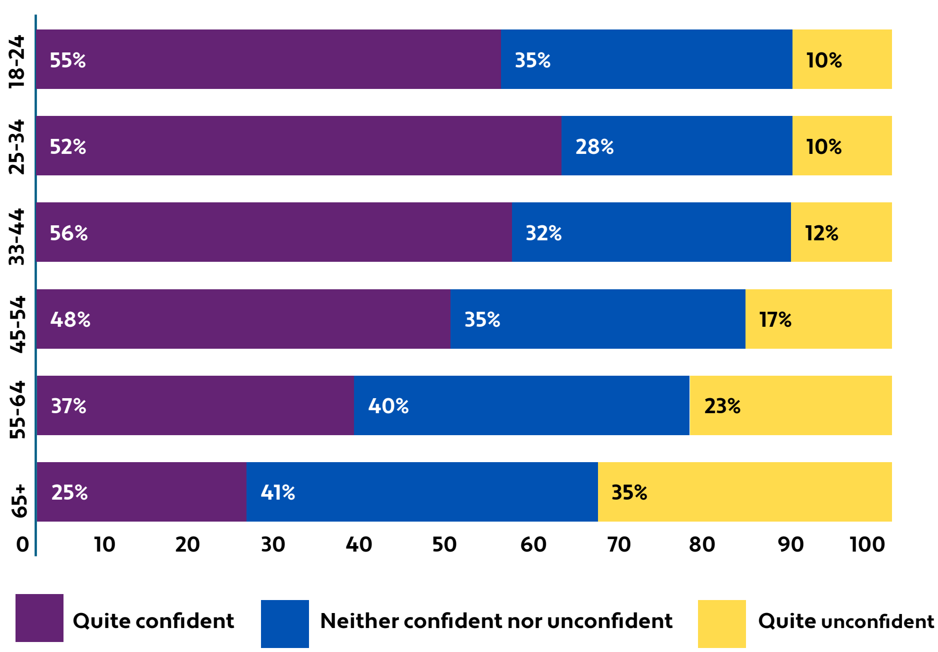
Younger consumers rarely hesitate to buy from overseas online retailers, with only 10% of those ages 18–34 saying they would be “quite unconfident” about making cross-border purchases, the ClearSale study shows. But that increases to 35% for shoppers 65 and older.

Winning the loyalty of shoppers in their 20s and 30s today can help a retailer build a base of customers who will return again and again as they move through their peak earning years.

> ***Younger consumers rarely hesitate to buy from overseas online retailers, with only 10% of those ages 18–34 saying they would be “quite unconfident” about making cross-border purchases.***

YOUNGER CONSUMERS ARE MORE CONFIDENT ABOUT CROSS-BORDER ONLINE SHOPPING

How confident do you feel purchasing products online from overseas merchants?



Source: 2021 Global Consumer Ecommerce Behavior Analysis from ClearSale. Based on survey by Sapio Research of more than 1,000 online shoppers in each of five countries: United States, Canada, Mexico, United Kingdom and Australia. Figures may not add up to 100% due to rounding.

HOW ONLINE RETAILERS RESPOND TO THE CROSS-BORDER OPPORTUNITY

International shoppers are coming to North American retail sites looking for the brands and quality goods they want. But not all retailers are taking advantage of that sales potential.

In 2021, 14% of traffic to Top 1000 online retail sites came from outside of the U.S., according to a Digital Commerce 360 analysis of data from web traffic monitor Similarweb. That calculation excludes three companies whose websites get an unusually high percentage of overseas traffic – Amazon, Microsoft, and Apple. (Excluding Canada, overseas shoppers accounted for 10.9% of traffic to Top 1000 online retail sites, without those three companies.)

And for retailers selling certain types of products, the percentage of overseas traffic was much higher. For example, 32.8% of traffic to consumer electronics sites came from outside the U.S., and this number rises to 67.6% if you add back Amazon, Microsoft, and Apple. In the jewelry category, 26.7% of traffic came from outside the U.S. when excluding Amazon, Microsoft, and Apple, but that also jumps to 67.6% with those three companies.

Despite that evident interest from abroad, only 46.3% of North America's top ecommerce sellers ship to the U.K., and the percentages go down for other countries outside of North America. Only around 44% will take orders from shoppers in Germany and France, and only a third from China, a country where consumers buy more online than in any country in the world, including the U.S.

> ***Despite that evident interest from abroad, only 46.3% of North America's top ecommerce sellers ship to the U.K., and the percentages go down for other countries outside of North America.***

Consumers in China also buy a lot of luxury goods, so prestige brands are missing out if they don't cater to these shoppers. Consumers in the Middle East are also prime prospects for luxury brands, but only 38.7% of Top 1000 online retailers ship to that region.

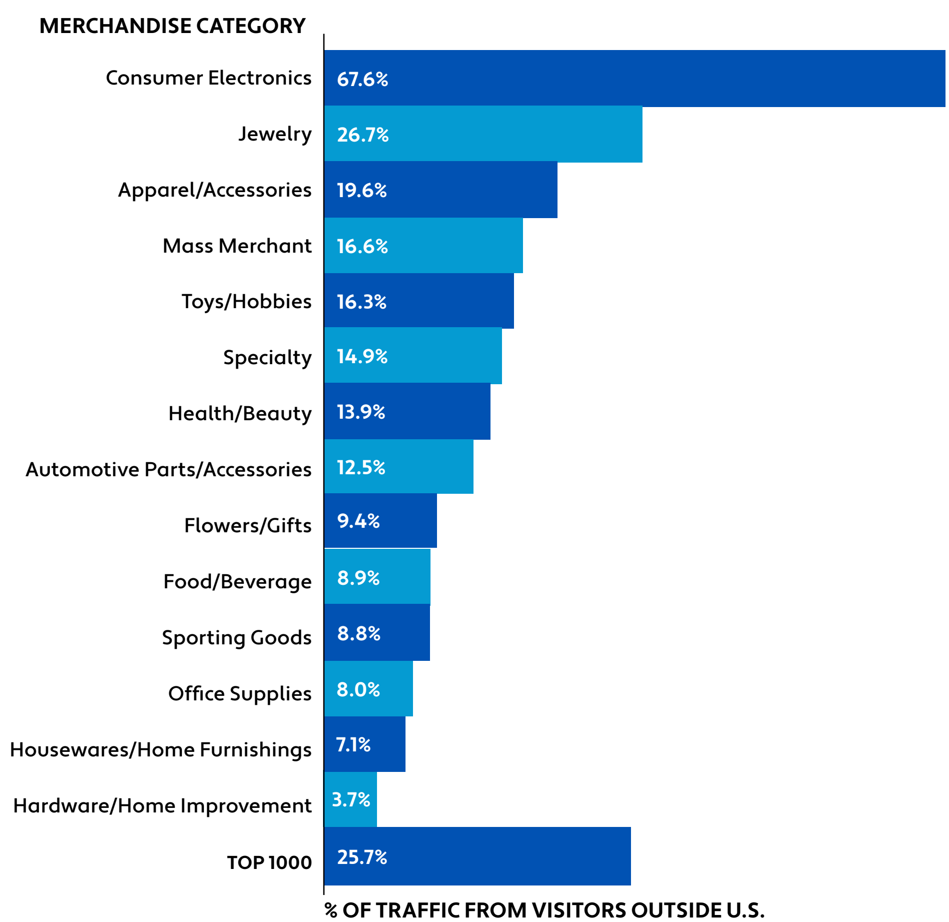
Some U.S. brands are seizing the opportunity. For example, apparel manufacturer VF Corporation's Dickies brand developed a new line of baseball jackets ahead of Alibaba's annual Singles' Day sale in 2021 and sold more than $160,000 worth of these new styles in the first month and attracted 320,000 visitors to its site on the Tmall online marketplace in China, according to Alizila, the official blog of Chinese ecommerce giant Alibaba Group Holding Ltd.

In other words, North American retailers that do serve the world's shoppers will not be competing with all the retailers they vie with at home. That makes cross-border sales a more compelling opportunity.

Those concerns remain. In addition, Europe's elimination of exemptions for low-value transactions, the implications of Brexit, and the World

TOP CATEGORIES FOR CROSS-BORDER TRAFFIC

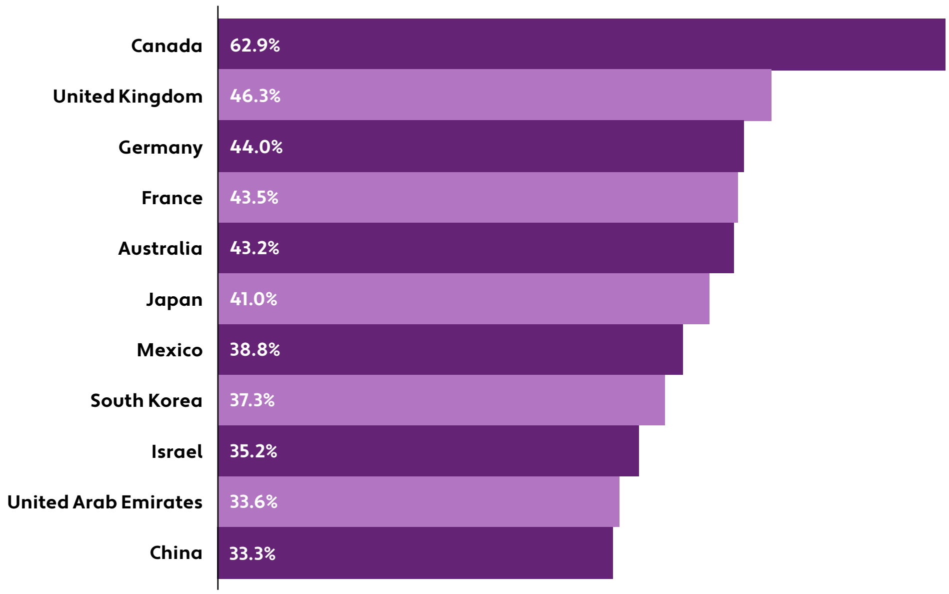
Percentage of traffic to Top 1000 sites from outside the U.S., by merchandise category



Source: Digital Commerce 360 analysis of traffic data from Similarweb

WHERE LEADING ONLINE RETAILERS SHIP

Percentage of Top 1000 online retailers that ship to each country



Source: Digital Commerce 360

Customs Organization's (WCO) new import codes in 2022 all introduce issues that retailers need to address, says Craig Reed.

The next section of this report breaks down the main regulatory challenges and explains how to address them.

Clearing the regulatory hurdles to cross-border sales

Every country has its own rules on what kinds of products it allows to be imported and how much it charges for customs duties and sales tax. Exporters have always had to deal with these complexities.

Online retailers had it relatively easy for years, as many countries allowed small parcels of low value to cross their borders without inspection or imposition of duties or taxes. But that has now changed.

Governments around the world have recognized that their citizens are buying from foreign websites and importing goods on a regular basis. This phenomenon is shown in the dramatic increase in small parcels being shipped. U.S. delivery technology firm Pitney Bowes has estimated that the number of small packages shipped will more than double from 103 billion in 2019 to between 220 and 262 billion parcels by 2026.

In fact, the growing volume of cheap imports from China's ecommerce sites played a big part in Sweden's decision in 2018 to impose sales tax on all parcels entering the country. Previously, packages valued at less than 1,300 krona were exempt from tax.

The Swedish government estimated at the time that it was losing more than 100 million euros (about $120 million) each year by not taxing online orders crossing its border. What's more, domestic retailers were complaining they were at a disadvantage because they had to collect sales tax from Swedish shoppers whereas foreign ecommerce operators – such as sellers on Amazon Marketplace or China's AliExpress – could offer better prices by not charging tax.

Those two motivations of seeking more revenue and protecting domestic retailers have led other governments to also change their laws so they can tax more online orders. Australia, for example, had previously exempted imports valued at less than AU$1,000. Now the Australian government requires any foreign online retailer that sells at least AU$75,000 a year to Australian consumers to collect and remit sales tax on every parcel shipped into the country.

”

Online retailers had it relatively easy for years, as many countries allowed small parcels of low value to cross their borders without inspection or imposition of duties or taxes.

What's more, governments are taking steps to enforce these rules. Customs agencies in many countries have added staff so they can inspect the growing volume of small parcels crossing borders. And many have invested in new technology, such as X-ray equipment and sniffing devices, allowing them to detect what's inside a package.

Bottom line: Online retailers will have to adhere more closely to customs regulations for each nation or risk disappointing customers whose packages get delayed or who find themselves facing unexpected charges for duties or taxes.

Online retailers will have to adhere more closely to customs regulations for each nation or risk disappointing customers whose packages get delayed or who find themselves facing unexpected charges for duties or taxes.

HOW BREXIT IMPACTS FOREIGN ONLINE SELLERS

The U.K. has implemented new VAT rules since exiting the EU. They're designed to help U.K. retailers when competing with foreign online retailers, while minimizing additional burdens on U.K. customs and tax-collection agencies.

VAT must now be collected on all imported purchases. Previously, those worth less than 15 pounds (about $17) were exempt.

Retailers based outside of the U.K. must now collect VAT on all purchases under 135 pounds (about $155) at checkout. Previously, they had the option of not charging VAT and putting the burden of paying it on the customer, which also created an enforcement burden for U.K. authorities.

If a U.K. retailer is selling goods from its own website and shipping them into the U.K. from overseas, the retailer must collect VAT. If a U.K. retailer is selling goods from an online marketplace, such as Amazon or eBay, and shipping them into the U.K. from overseas, then it's the marketplace's responsibility to collect VAT. Either way, a VAT invoice must accompany the shipment when it goes through U.K. customs.

There is no change in the rules for imported goods above 135 pounds. The seller may collect VAT at checkout and reclaim the tax if they have a U.K. VAT number, or they can leave it to the buyer to pay the VAT at customs or upon delivery.

There is also no change to the rules applying to sales on goods located inside the U.K. at the time of the purchase from a retailer's website. The seller must register with U.K. VAT authorities and charge VAT.

For marketplace sales of goods already in the U.K., it's the marketplace operator's responsibility to collect and remit VAT. In this case, the seller will already have paid import VAT and duty when bringing the goods into the U.K. or paid VAT if they purchased the goods within the country. In either case, these fees can be reclaimed through a U.K. VAT return.

CHANGES TO EU REGULATIONS

On July 1, 2021, the EU eliminated its VAT exemption for orders under 22 euros. VAT is now due on all shipments to consumers in the EU. Duties on goods valued above 150 euros may also be collected, depending on their country of origin and other factors.

The EU also introduced the Import One-Stop Shop (IOSS) scheme to simplify VAT collection for non-EU online retailers. Companies that choose to take advantage of IOSS only have to register in a single EU nation and can report all VAT on shipments to the EU in a single return. Retailers using IOSS must report all their sales to EU consumers through the IOSS system.

These changes in both the U.K. and the EU are designed to bring in more revenue for governments, increase their visibility into cross-border activity, and reduce their enforcement costs.

These changes may impose new burdens on online retailers, but Avalara's automated VAT solutions can help manage them.

FOUR KEY REGULATORY HURDLES TO CROSS-BORDER ECOMMERCE

Understanding when to collect VAT, and how much to collect, is just a starting point for retailers selling internationally. There are nuances to every aspect of cross-border regulation, which is why merchants doing a significant amount of business internationally are well-served by working with a company like Avalara that specializes in compliance with taxes and customs duties.

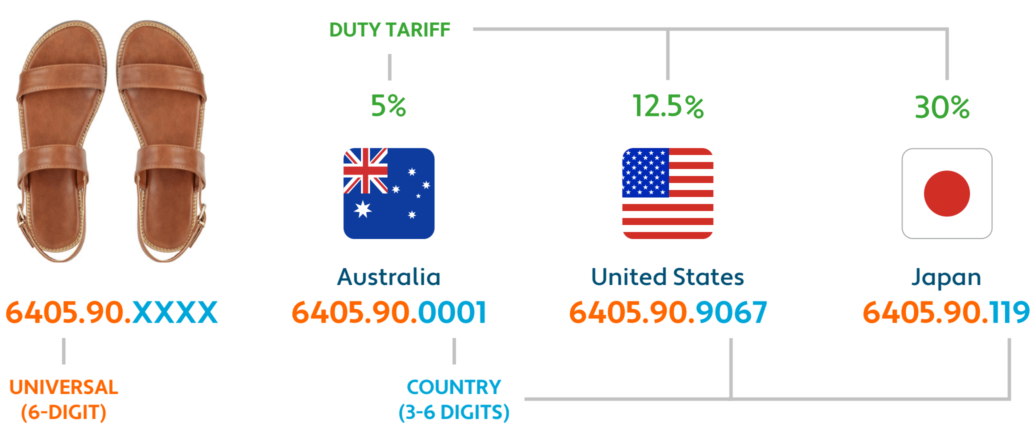
Four areas that require in-depth expertise are:

- Properly classifying goods for import
- Understanding national restrictions on imports
- Registering with each country, obtaining tax ID numbers, and filing regularly
- Correctly calculating customs duties and taxes owed on cross-border sales

This section provides examples of common issues that arise in these four areas and explains how Avalara helps retailers clear these hurdles.

CRACKING THE HARMONIZED SYSTEM CODES

Retailers selling across borders must master the country-specific codes that identify the products being shipped. These are commonly referred to as HS codes, which is actually a misnomer. HS codes are



six digits long, but all countries append additional digits to the codes that determine what tariffs will be charged. The U.K. uses a 10-digit code and Japan uses a 9-digit code, for example. There are also different names for these codes, with the U.S. calling them HTS codes while in the EU they're referred to as TARIC codes.

Many retailers make the mistake of using the same code for every country, which can result in paying higher tariffs than necessary. If a retailer assigns the generic 6-digit code to a product instead of the 8- to 10-digit code the country requires, the carrier will assign it to the highest tariff level.

The previously cited real-world example of the bicycle manufacturer paying tens of thousands of dollars in extra import duties came about because the company's supplier in Vietnam used the wrong code on the documents that accompanied its shipments to the U.S. Once Avalara corrected the error, the import duties fell sharply – and the U.S. company was able to begin recovering some of its overpayments.

The WCO administers the 6-digit HS code system so customs officials all over the world can get a general understanding of what is being imported by reading the HS number on an import document. In all, there are more than 40,000 HS codes in use and many, many more country-level 8- to 10-digit codes.

The WCO updates HS codes every five years, and the latest update took effect January 1, 2022. These revisions allow the import code system to incorporate new products, such as drones, which have come into more common use since the last update. Each country then must adopt the new HS codes, and that process typically takes several months, and, in some cases, years. A retailer selling abroad must keep up with the current HS codes in each country to which it ships.

Getting the HS code right is important because it determines the tariff and taxes that may be charged: A particular country may charge a 30% tariff on silk blouses but only 5% on cotton blouses. And if the import documents use a 6-digit HS code that's open to interpretation, such as a generic code for women's blouses, the customs agency will invariably charge the highest tariff.

Relying on a freight forwarder – or in the case of the bicycle maker, its supplier – to fill out the customs documents can lead to expensive errors.

NEW AND COMPLEX PRODUCTS

Certain products can be especially complex to import. For example, importing a luxury watch into certain countries may require separate HS codes for the watch itself, its strap, and its battery.

And then there are new products. When the Fitbit activity tracker came along, some countries classified it as a health product and others as a fitness item. Similarly, drones can be categorized in many ways, and it's important for drone retailers to get the HS code right for each country they're selling into.

Not only can mistakes lead to paying higher tariffs, but they can also lead to underpaying customs duties or taxes. Underpaying can be a painful mistake, as governments can typically go back seven years to collect unpaid duties and taxes.

How Avalara helps: Avalara maintains a comprehensive database of country-specific HS codes. It sources its information directly from the customs agencies of each country and continually keeps the database up to date so that customers don't have to take on that responsibility. Given the complexity of HS codes and the variations for when each country adopts the latest update, there's a strong argument for partnering with a compliance specialist like Avalara with a research team dedicated to keeping up with any changes to HS codes, as well as country-specific nuances to the codes.

CAN THIS PRODUCT BE SHIPPED TO THIS COUNTRY?

Each country makes its own rules on which products can be brought into the country, and they vary considerably from one to another. For example, India bans parcels containing drones and e-cigarettes. You

Certain products can be especially complex to import. For example, importing a luxury watch into certain countries may require separate HS codes for the watch itself, its strap, and its battery.

can't ship most knives into Japan, or jewelry valued at over $500. Germany bans imports of lithium batteries, as well as the dietary supplement melatonin.

If customs officials spot prohibited items in imported parcels, they will likely seize the products and could impose fines. In any case, the consumer who made the purchase is sure to be disappointed.

Some online retailers automatically detect the IP address of visitors to their sites and only display items that can be shipped into the shopper's country. That's a best practice, as it helps to ensure the consumer won't be disappointed, but it requires the online retailer to have accurate information about which products are prohibited by which countries.

How Avalara helps: Avalara tracks product restrictions by country and provides that data to online retailers so they can avoid selling items that can't be shipped to a customer's address.

REGISTERING AND FILING WITH TAX AUTHORITIES – HARDER THAN IT LOOKS

Stuart Cohen thought he could handle filing for a tax ID in the U.K. on his own. "You can do it online, it's in English, and it's only eight lines, so I thought I'd take a run at it," says Cohen, founder of Invisible World, a U.S.-based online retailer of apparel such as alpaca sweaters from South America and cashmere garments from China.

"It quickly became a mess – and that was in English," he says. "If you're going to sell in other countries, you need someone to help you."

Cohen engaged an accounting firm to help him remit taxes and file needed documents in the seven European countries where he sells – and ran into numerous problems. For example, it took a year to get registered in Spain, which led to a fine of more than 1,000 euros for not filing tax documents on time.

But the biggest problem was in Germany. His accounting firm filed the required monthly and quarterly reports but neglected to file the required annual report. That, and other factors, led the government to notify Invisible World that it owed more than 25,000 euros in back taxes and fines – Cohen says in the end it turned out he owed 1,800 euros – and it quickly notified marketplaces like Amazon that the retailer was not in compliance.

One such complaint from the German tax authorities led to Invisible World being kicked off Amazon.de, Amazon's marketplace for Germany and German-speaking countries, for several weeks and another blocked the retailer from all of Amazon's marketplaces for 13 days. "It can definitely happen," he says.

And resolving these problems isn't easy. The German government sent a letter in German that was in the form of an image, which meant Cohen couldn't copy the text into an online translation tool to understand what it said. Cohen says he spent more than 100 hours resolving his problems in Germany, and that dealing with foreign tax authorities is always difficult.

"You'll spend dozens or hundreds of hours straightening out problems with people who don't answer the phone, aren't in your time zone, and don't speak English," he says.

"You'll spend dozens or hundreds of hours straightening out problems with people who don't answer the phone, aren't in your time zone, and don't speak English."

STICKLERS FOR DETAILS

Kevin Mahoney, president and founder of online retailer FindTape.com, also recently encountered problems with Germany. He had been shipping his adhesives to an Amazon warehouse in the U.K. that would fulfill his orders throughout Europe, but Brexit forced him to choose a warehouse in a country that was still in the EU. He chose Germany. To ship products in bulk into Germany required a different kind of registration, and that forced Mahoney to send German authorities a screenshot of every product he was selling on Amazon.de, showing each price. "But we change prices every day, and we got an email saying our prices didn't match up," Mahoney says. After his first shipment to Germany was sent back, Mahoney switched to sending products to a warehouse in France. "France is a bit easier," he says.

As Invisible World and FindTape.com found, just registering and filing properly can be challenging. Many countries require online retailers shipping to their residents to get a tax ID number so they can remit sales taxes or VAT. In addition, a retailer selling to consumers in the EU has to obtain an EORI number – that stands for Economic Operators Registration and Identification number – to do business there.

Then there are the requirements for filing, which vary by country in terms of timing and what information must be provided. If you don't think it can be daunting for the uninitiated, just ask Stuart Cohen and Kevin Mahoney.

How Avalara helps: Avalara provides customers with detailed help on how to register and provides assistance in ensuring retailers file necessary tax documents and remittances on time to avoid penalties. That allows retailers to manage these tasks internally, and not rely on other companies who may make costly mistakes.

LETTING SHOPPERS KNOW HOW MUCH THEY WILL OWE IN DUTIES AND TAXES

An important decision for each retailer selling across borders is whether to collect applicable duties and taxes when the customer checks out or leave it to the shopper to pay those fees when the package is delivered. How retailers handle this choice is evolving. Before governments began paying such close attention to cross-border online shopping, many retailers and consumers took their chances. Frequently, the retailer would not collect duties and taxes, and shoppers hoped the parcel would escape inspection and they would avoid paying those fees.

But as customs enforcement became stricter, more cross-border shoppers found themselves facing demands from their own governments for payment of duty and tax when the parcel arrived – which led many shoppers to refuse the parcel or at least complain to the retailer. Clearly, it was not an excellent customer experience. This has prompted more and more web merchants to collect duty and tax when the customer checks out on the ecommerce site so that the customer need not pay anything when the parcel arrives. This option is called DDP, Delivered Duty Paid, in international shipping jargon. The alternative of leaving it to the recipient to pay is known as DAP, Delivered at Place, or DDU, Delivered Duties Unpaid.

In a 2018 survey of retailers with $10 million or more in annual sales, 95% of the retailers said they were collecting duty and tax when consumers check out or were planning to do so. That study of 141 retailers was conducted by NAPCO Research for Avalara. While that survey has not been updated, Craig Reed of Avalara says DDP – collecting duty at checkout – is increasingly the norm in global ecommerce.

In a 2018 survey of retailers with $10 million or more in annual sales, 95% of the retailers said they were collecting duty and tax when consumers check out or were planning to do so.

A BETTER CUSTOMER EXPERIENCE

In some cases, collecting duty and tax in advance is becoming mandatory. Some online marketplaces are requiring sellers to go the DDP route and collect all fees in advance so that their customers are not disappointed. Amazon's U.K. marketplace, for example, is requiring DDP on sales to customers in the EU.

Some venture capitalists insist the digitally native brands they're investing in adopt DDP, says Kent Allen, co-founder of the Global Ecommerce Leaders Forum (GELF), an organization devoted to international online sales. By digital natives, he's referring to companies that design their own products and that sold initially online, although some may now operate stores.

"The venture capitalists are pretty much requiring their companies to ship DDP because DDU can be a bad customer experience," Allen says. "The post-order experience is what's driving the smart money in this direction."

He says this approach is particularly important for these born-on-the-web brands because many of them rely on social media to gain attention, which allows them to reach consumers all over the world who use networks like Facebook, Instagram, and Pinterest. As social networks increasingly enable direct sales by retailers to their users, social media becomes a bigger part of cross-border ecommerce, Allen says. Thus, it makes increasing sense to avoid hitting these consumers with unexpected fees upon delivery, since many will vent their frustration on social media where it's amplified globally.

Kevin Mahoney has seen for himself the difference in customer response when he collects duties and taxes in advance versus when he does not. Mahoney, who sells a wide variety of adhesive tapes and sprays, says he ships 90% of his orders through a freight consolidator, and all of those are DDP – with fees collected in advance. However, when customers opt for expedited shipment, he ships DAP because the express carrier's fees for handling duty and taxes are high.

His checkout page made clear that the buyer choosing fast delivery would be responsible for duty and tax payment, and yet those DAP shipments still produced many complaints. In response, FindTape.com added a requirement that buyers choosing expedited shipping initial a statement accepting responsibility for those fees. "After adding that acknowledgement, I haven't had any issues," Mahoney says.

Bottom line: Consumers aren't going to be happy to learn they have to pay additional fees upon receipt of an online order. Online retailers that charge duty and tax upfront may take a small hit on conversion from the higher price, but they are more likely to turn international customers into repeat buyers.

How Avalara helps: For an online retailer to include duties and taxes on the checkout page it must have accurate data and rates for every country it ships to and must know the correct HS code to use to get the correct tariff. Avalara continuously updates its content data related to those fees with information directly from governments around the world. And it has large, dedicated teams of researchers and engineers who create stable pipelines of content and make that content machine readable for Avalara's rate engines. And, if a retailer decides to ship DAP, leaving the recipient to pay any fees, Avalara can offer up the correct duty and tax so that the customer knows what to expect.

CONCLUSION: A BIGGER OPPORTUNITY THAN EVER BEFORE

In a sense, cross-border ecommerce is a marketer's dream: More shoppers around the world want to go online to buy North American products, and half of the retailers and brands that compete for that business domestically are not competing for those international sales. Thus, the opportunity becomes more appealing.

There are complexities to be sure, but the growth of cross-border ecommerce has led technology providers, fulfillment services, online marketplaces, accountants, and advisory firms to beef up their services for retailers selling globally.

Avalara can handle all your company's tax, duty, and regulatory compliance issues. And it integrates with the most common ecommerce platforms and financial systems.

The coronavirus pandemic caused a surge in online shopping worldwide, and there is no sign that consumers are returning to their pre-pandemic shopping habits. Now is the time for retailers to get started selling to these hundreds of millions of international online consumers, or for those already selling across borders to reach into new markets.

For many retailers, selling internationally may represent their biggest opportunity to quickly drive revenue growth – and service providers like Avalara are ready to help you succeed.

Let's talk cross-border compliance

AVALARA INTERNATIONAL TAX SOLUTIONS

Avalara helps businesses of all sizes scale globally and get tax compliance right. With international tax solutions from Avalara, businesses can manage duties and cross-border tariffs, calculate VAT and GST, automate item classification for shipments, obtain registrations, and manage returns so they can grow globally and serve customers around the world. Headquartered in Seattle, Avalara has offices across the U.S., and in Brazil, Europe, and India. More information at **avalara.com/goglobal**

Avalara