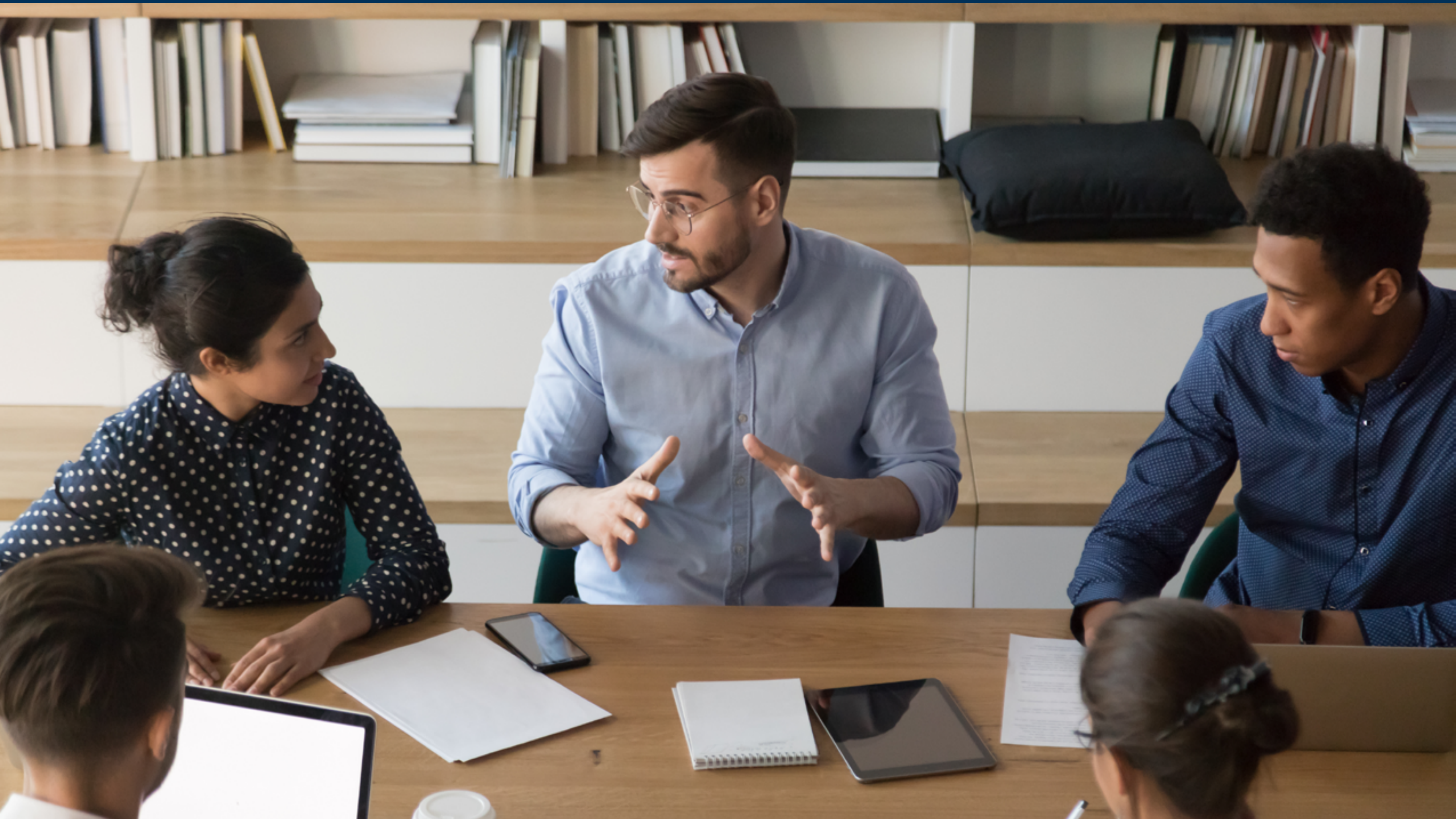
5 Steps to Manage Business Risk as You Expand Online Sales



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INTRODUCTION

Midmarket business financial leaders are scrambling to expand their organization's ecommerce capabilities in the face of soaring customer demand for new digital services. But tax, reconciliation, compliance and, international trade requirements create a minefield of complexity that puts these initiatives at risk.

Organizations are speeding up ecommerce plans – especially direct-to-consumer strategies – to meet customer demand for new digital services. In the Gartner CIO Agenda 2021 survey, 76% of CIOs said there was increased demand for new digital products and services due to COVID-19; 83% said they expect demand to increase again in 2021. Also, 65% of CIOs reported increased use of self-service by customers/citizens; 79% expect that usage to still grow more in 2021.

But financial leaders, and IT teams, frequently lack up-to-date knowledge and direct experience with the host of tax, legal, and compliance details in new markets—including domestic markets. Without this knowledge and experience, organizations sooner or later will run afoul of tax codes, credit card brand regulations, trade laws, international custom duties, and much more. Financial reconciliation, especially with foreign currencies, can turn into a nightmare. The business risks are potentially crippling.

Financial and business leaders should enable digital ecommerce expansion by:

1. Identifying the organization's ecommerce and business risks.
2. Educating senior management and IT teams about the potential costs of these risks.
3. Creating an action plan to prioritize and address the risks in new ecommerce initiatives.
4. Ensuring continuous improvement and optimization of digital services. [Tied into DR's "customer success" business model.]
5. Assessing back-end ecommerce platforms that deliver the capabilities and expertise to manage ecommerce risks.

1. IDENTIFY THE RISKS OF EXPANDING ONLINE SALES

Expanding digital commerce carries serious risks for organizations, especially when they lack direct experience and knowledge of the tax, legal, and regulatory requirements that are present in new markets, each with its own distinctive culture and expectations. International transactions add still more complexity. Failing to identify and address these risks puts new digital commerce initiatives, and the organization itself, in jeopardy.

Financial leaders in many organizations with nascent or limited online sales already have experience with the complexities and risks. Quickly scaling or evolving these existing ecommerce capabilities acts as a kind of "risk multiplier" – it's easier to miss, overlook or minimize the associated risks.

The top risks that financial leaders must face squarely are:

Taxes

Midmarket organizations often operate at a disadvantage in ecommerce tax compliance compared to big, multinational enterprises. That's because they can lack the internal expertise, financial resources, and global experience to understand, track, and enable accurate tax collection and reconciliation in multiple markets. Anyone who has gone through a nightmare tax audit understands the implications of not understanding the tax laws of each jurisdiction where they sell, or plan to sell, online.

All too often, business and financial leaders simply do not realize that their online sales require collecting taxes from customers. They also often, and incorrectly, assume that the relatively small sales volumes will enable the organization to "fly under the radar" of government tax authorities. In any number of cases, the organization's IT group designs and implements the online sales initiatives. But IT groups rarely have expertise regarding current tax codes. A tax audit after a few years of online selling can result in a punishing tax bill, along with penalties and interest.

Financial Reconciliation

"How do I get paid?" is the fundamental question facing financial and business leaders in any digital commerce expansion. Online sales have the same amount of complexity – if not more – than retail sales: chargeback disputes, as well as accounting for seasonal discounts, gift cards, trial periods, free returns and flexible payment options. Staying on top of digital cash flows requires robust internal accounting controls. Every online transaction requires authorization or action by multiple parties: the customer, merchant, their respective banks, payment processors or credit card companies and delivery or shipping companies.

Without adequate planning and design, such complexity can turn the organization's financial reconciliation process – daily, monthly quarterly – into a never-ending ordeal.

Fraud

Covid-19 is driving not only greater consumer demand for new digital services, but also greater levels of online fraud. In the September 2020 "Fraud in the Wake of COVID-19: Benchmarking Report," the Association of Certified Fraud Examiners summed up its most recent survey results:

> "As of August 2020, 77% of respondents said they had observed an increase in the overall level of fraud, with one-third noting that this increase has been significant. The observed level of fraud has grown since our May 2020 study, in which 68% of respondents had seen an increase in fraud, with one-quarter observing a significant increase. Our findings indicate this uptick is likely to continue; 92% of respondents expect to see a further increase in the overall level of fraud during the next year, and nearly half expect that increase to be significant."

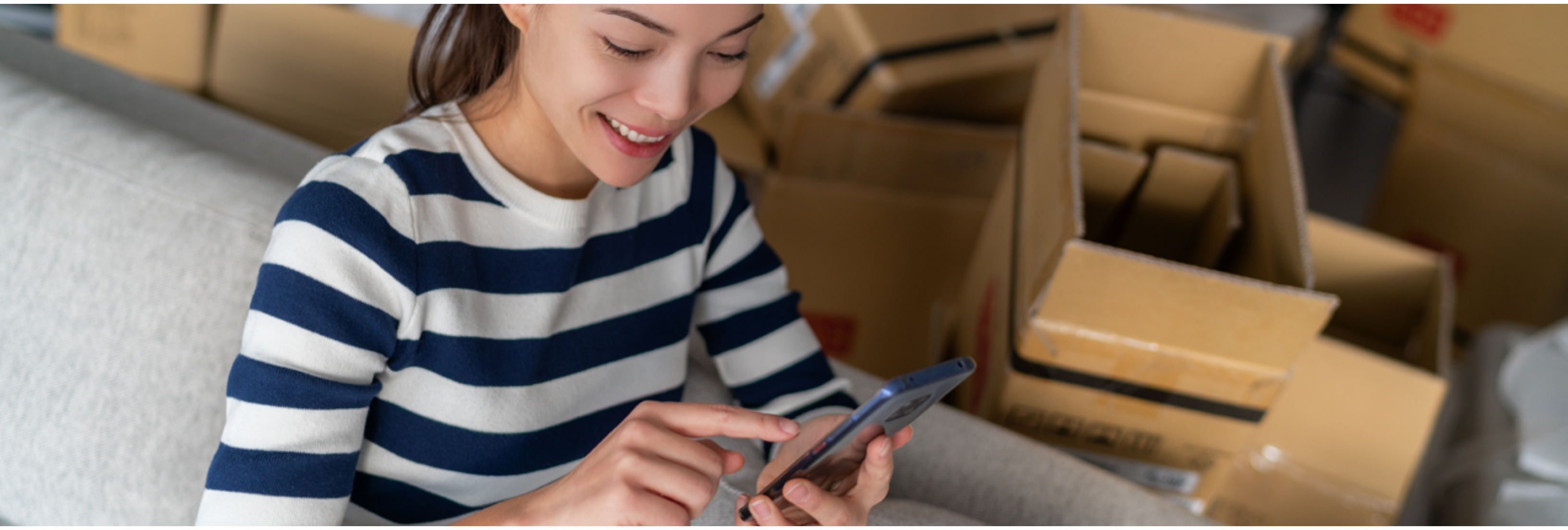
Expanding online sales means expanding the opportunities for sophisticated fraud activities, which mid-sized organizations often lack the resources to combat effectively. Customers' personal and payment information, revenue streams, and the organization's reputation are all at risk.

Global sales

Expanding online sales to international markets requires far more than localization tweaks to the online shopping experience. Many companies are surprised to learn that locally issued credit cards often cannot be used for international transactions. Foreign exchange rates and custom duties can result in unexpected and substantial fees for online customers, if not correctly and efficiently handled by the merchant.

Unfamiliarity with foreign delivery firms can lead to unnecessary delays. Lack of awareness about cultural differences can lead to embarrassing gaffes and reputational damage. And, again, foreign tax codes are a potential minefield of liabilities for online merchants.

Some of these issues can be addressed by capable front-end online sales tools and platforms. But many can only be fully addressed in back-end processes, including accounting and reconciliation.



2. EDUCATE SENIOR MANAGEMENT AND IT ON THE POTENTIAL COSTS OF ONLINE SALES RISKS

For diligent financial leaders, even initial and limited online sales projects underline the complexities and risks of digital commerce. Both will only increase dramatically when organizations make the move to scale their ecommerce operations to enter new foreign markets and reach new customers.

Financial leaders should leverage their existing online sales experiences to give senior management and IT leaders a realistic understanding of the organization's potential costs and liabilities in expanding digital commerce.

These costs and liabilities include:

- Unanticipated tax liability including legal costs, penalties, and interest
- Obscure or unfamiliar international trade regulations
- New or increased fraud risks
- Reputational damage
- Poor customer experience and service
- Derailed self-service initiatives

The intent of this proactive educational outreach is not to frustrate or delay digital commerce expansion, but to facilitate it by addressing known problems, avoiding unnecessary costs and managing the associated business risks.

3. CREATE AN ACTION PLAN TO PRIORITIZE AND ADDRESS THE RISKS IN NEW ECOMMERCE INITIATIVES

With a common understanding of risks and the costs associated with them, the organization can confidently set business and technology priorities, allocate adequate resources, and sustain an effective digital commerce expansion.

Financial leaders should collaborate and coordinate with operations, marketing, and IT teams to:

- Define and prioritize the requirements of expanding digital commerce
- Identify the specific risks facing the organization in the expansion
- Prioritize resources to address the risks
- Create an expansion spending plan to acquire and deploy the resources

Creating an effective action plan ensures that different business units can act in concert, mindful of the organizational risks.

4. ENSURE CONTINUOUS IMPROVEMENT & OPTIMIZATION OF DIGITAL SERVICES

Digital commerce is constantly evolving in response to technology changes, consumer behavior trends, customer preferences, and an array of regulatory, legal, and tax changes. Financial leaders should establish an internal process, collaborating with marketing and IT teams, to cope with these market shifts.

To achieve continuous ecommerce optimization, these leaders should:

- Identify and track consumer, government, market, and technology changes
- Assess their benefits, costs, and risks
- Adapt or optimize digital commerce channels as needed

This “early warning system” alerts the organization to potential new or increased risks and changes, heads off potential compliance issues, and fosters an orientation that constantly asks, “how can we make this better for our customers?”

5. ASSESS ECOMMERCE VENDORS FOR CAPABILITIES THAT ENABLE DIGITAL EXPANSION AND MANAGE THE RISKS

Cloud computing and software-as-a-service platforms enable a new breed of affordable global ecommerce capabilities. These capabilities, in effect, capture vendors' expertise and experience and apply them to customers' digital commerce requirements. As a result, these requirements – for back-end merchant services, payment processing, financial reconciliation, tax codes, custom duties and more – now can be offloaded to platform vendors who have the resources to handle them effectively.

Financial leaders responsible for expanding online sales should collaborate with marketing and IT teams to define the expansion requirements, which in turn become the criteria for evaluating the capabilities of global ecommerce platforms.

Vendors should be able demonstrate:

- Expertise in depth in tax, trade, and regulatory regimes
- Fast, accurate, and reliable financial reconciliation
- Ability to interface easily with front-end, customer-facing ecommerce platforms
- Commitment to the organization's ongoing ecommerce success

Verifying the vendor's capabilities creates a foundation for quickly and consistently expanding online sales in new markets without having to "re-invent the wheel" in each market. Verification also confirms that the prioritized business risks of online expansion are being addressed.