

Digital River®



Maximising Your Global Ecommerce Potential

What You Need to Know About
Selling into the United States



The Opportunity

What seemed too big a challenge even just a few years ago, borderless business – truly cross-border commerce – has grown to be too large of an opportunity to ignore. And because the United States represents the second largest ecommerce market in the world, only surpassed by China, it stands to reason that European brands of all shapes and sizes want to capture a share of this lucrative and evolving market.

However, as the opportunity of international ecommerce has become too big to ignore, so too have the risks, challenges, complexity and confusion around how to do so successfully, particularly when selling into the United States.

The United States of Regulations and Jurisdictions

Much like any country, we often talk about the United States as one, monolithic nation. But especially when it comes to business operations, the U.S. behaves more like fifty separate sovereign states with nearly ten thousand unique legal, regulatory and tax jurisdictions operating at a local, state and national level.^[1]

Furthermore, there are numerous U.S. regulatory agencies with varying requirements, creating a convoluted compliance web that international businesses need to navigate successfully in order to take part in the U.S. economic opportunity.

As organisations consider expanding their direct-to-consumer (D2C) ecommerce strategy to include selling to United States-based customers, there are important questions to consider:

1. Are you selling physical goods, digital goods or services?
2. What are the import and U.S. Customs regulations related to your product?
3. Will you have inventory in-country, or will shipping be cross-border?
4. Is your business set up to provide a customer experience that matches American expectations?

Though just a sample of what businesses need to determine before engaging the U.S. market, each answer has implications for compliance, fulfilment, taxes and ultimately how your potential customers experience your brand. This guide highlights some of the pitfalls, opportunities, challenges and best practices that any European brand should be aware of as they consider ecommerce expansion into the United States.

THE CUSTOMER EXPERIENCE

Regardless of how you sell your products, improving the customer experience has increasingly become a differentiator as businesses today recognise the impact that experience has on securing a transaction and maintaining customer loyalty.

This reality is greatly magnified in the world of ecommerce, however, because of the sheer number of touch-points a potential customer can encounter on their path to purchase. Specifically, offering world-class customer experiences demands more attention to two key moments in the customer journey that can make or break the sale and the relationship: payments and fulfilment.

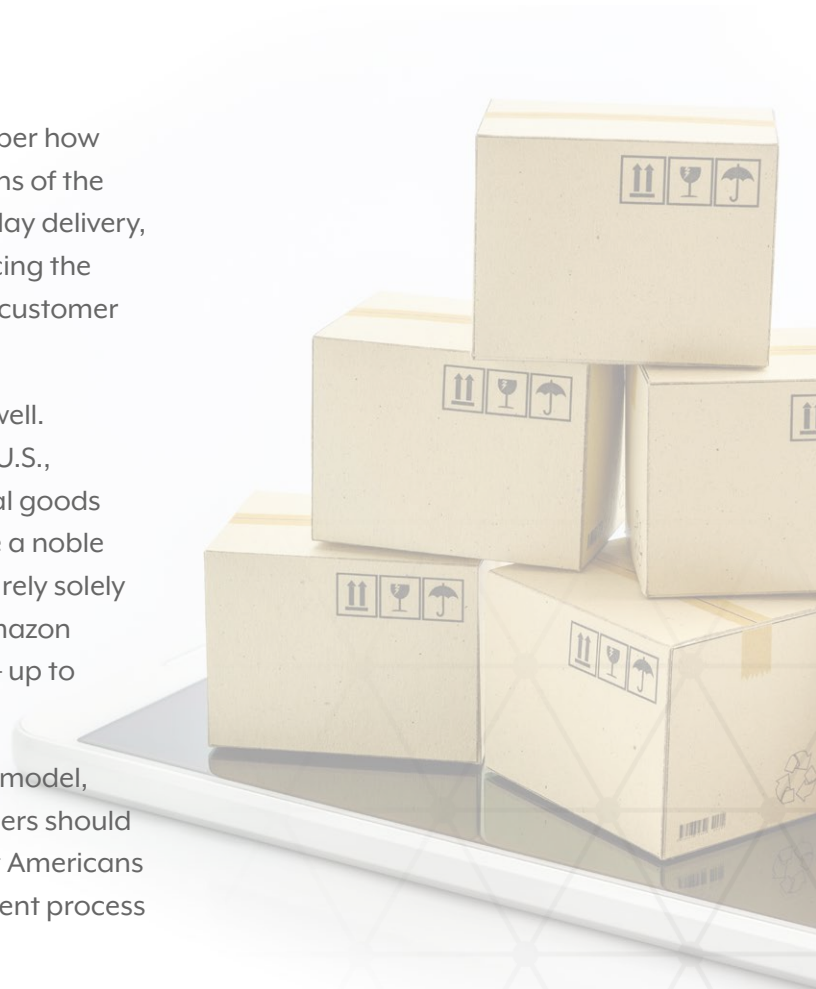
Ultimately, understanding the nuances of your customers' behaviour, mindset and expectations – and adapting your ecommerce strategy accordingly – can be the difference between merely opening sales to a new market and driving real growth for your brand.

The Amazon Effect

When selling to the United States, it is critical to remember how much of an impact Amazon has had on the expectations of the American consumer. From one-click ordering to same day delivery, Amazon has spent an incredible amount of effort reducing the barriers to completing transactions and delighting the customer with efficiency.

There are downsides for brands selling via Amazon as well. During the early days of the COVID-19 pandemic in the U.S., Amazon supported the response by prioritising essential goods and high-demand items over general commerce. While a noble decision, this emphasises the risk for brands when they rely solely on retail partners to sell their products. Additionally, Amazon charges a significant percentage on each transaction – up to 45% in some cases.^[2]

Instead of trying to learn from or replicate the Amazon model, European brands looking to engage American consumers should conform their D2C ecommerce strategy based on what Americans value from their Amazon experience: a simplified payment process and transparent fulfilment and delivery.



Fulfilment Efficiency

Does the Amazon effect mean businesses based in Europe looking to sell direct to American consumers need to offer free and next-day delivery? Not necessarily.

Amazon's bold approach set consumer expectations for their service, on which the tech giant then delivered. But offering transparency around fulfilment and updates to keep the customer engaged achieve the same effect. Setting realistic expectations and meeting them should be the objective, not keeping up with Amazon.

It's also critical to understand how your brand compares to the competition you're up against. Are your closest competitors providing free or next day shipping? If so, and if you're conducting cross-border transactions with longer shipping times, you're already experiencing a real competitive disadvantage.

Working with a global ecommerce solutions provider can help address a number of the logistics challenges inherent in running a global business. First and foremost, having inventory in the U.S. that is free of tax and duty is critical for European brands looking to engage and satisfy American customers. The challenges of cross-border commerce without that Onshore Advantage™ create barriers to purchasing and fulfilment that could delay delivery, create pricing confusion, and ultimately lower sales conversions.

To better understand how to prepare for fulfilling customer orders in the United States, European brands should consider how quickly products need to reach the end customer. Brand fanatics will wait longer for delivery. For example, loyal fans will wait much longer for next year's Bayern Munich kits than most products. Commodity products, however, demand speed, which means implementing a multiple, distributed warehouse approach for faster fulfilment at scale across the United States.

A woman with long dark hair, wearing a dark t-shirt and a light-colored shoulder bag, is smiling and looking towards the camera. She is holding a large cardboard box in front of her. The background shows a wooden structure, possibly a window or door frame, and some outdoor greenery.

The D2C Advantage

Having a direct-to-consumer sales channel, regardless of your fulfilment model, is increasingly becoming a question of survivability in the increasingly global, increasingly digital and increasingly fragmented world. Single-channel approaches are much more vulnerable to economic disruption, whereas channel diversity not only helps with stability, but also helps fulfil more varied customer demands and expectations. Unlike working with retailers such as Amazon, your brand owns the customer experience, and that can be an irreplaceable differentiator.



Transaction Simplicity Through Payments

Conducting business in the United States means receiving payments from U.S. consumers and businesses – groups that are accustomed to transparent pricing and direct payment processes. European brands designing a payments strategy for the American customers' expectations should have an onshore, local entity in the United States in order to deliver on those expectations.

Beyond offering a familiar experience for your customers, using a local entity increases payment authorisation rates, eliminates cross-border fees and enables localised payment methods. American buyers are turned off when asked to take extra steps during the transaction process. So, creating a clean, streamlined purchase path is no longer “nice to have” – it’s now a best practice for any global brand.

However, setting up a local entity can be a large undertaking for a brand to handle themselves. It means owning and managing the transactional, tax and regulatory complexity of international business. Alternatively, working with an ecommerce solutions provider that can represent your brand as your seller of record in the United States means your team can focus on your customers and your products instead of taxes and compliance.



Setting up a robust ecommerce ecosystem with the right payments partners can help European brands stay ahead of trends, new developments and market disruptions in the U.S. that affect how consumers shop today:

Digital Wallets

Ecommerce wallet functionality – e.g., PayPal, Apple Pay, Google Pay and others – is one of the fastest growing payment methods in the United States, up nearly 86% in users from 2018-2020.^[3] Selling to American consumers, traditionally less concerned with privacy and more interested in convenience, means offering all of the payment options they expect in order to make it easier to complete the transaction.

Millennials and Instalments

Millennials, the largest demographic purchasing power in the States, are also the most diverse consumer group. What they all share in common, however, is weathering the Great Recession of 2008 only to be faced with the economic reality of the COVID-19 pandemic. These realities are driving strong interest for brands to offer the option of paying in instalments. Brands that accommodate this demand stand a better chance of converting price-conscious American consumers.

THE COMPLEXITY OF COMPLIANCE

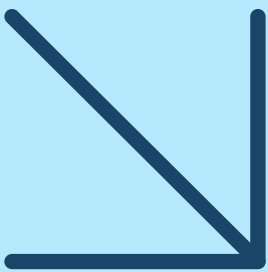
The complicated nature of compliance in global business can feel expensive and cumbersome, but the alternative – mistakes, mishaps and misses that lead to non-compliance – can be catastrophic. Businesses can be caught trying to balance short-term cost savings against the longer-term risks of non-compliance while not realising that the true cost of non-compliance is nearly three times higher on average than the cost of compliance.^[4]

Expanding an organisation's D2C ecommerce strategy to include selling into the United States presents several regulatory challenges, but the right ecosystem of ecommerce solutions can help an organisation focus on what it does best: its core business.

Following (All of) the Rules

Thousands of tax jurisdictions, overlapping and potentially contradictory requirements, exceptions to rules – the compliance challenges when selling to the United States can seem overwhelming. Businesses looking to reach American customers need to understand the depth of their tax and compliance implications:

- Is this transaction taxable?
- For physical goods, where does the product originate and where does the final sale take place?
- If I'm shipping my product directly into the United States, does it comply with labelling, materials and U.S. Customs requirements?
- How prepared is my business to adapt to continuously evolving regulatory developments?



Global businesses are understandably hesitant to invest in the staff and training required to fully address compliance complexity, but fortunately, there's a better way. Working with partners who understand international ecommerce requirements can help brands get answers to the questions above and remove the headache of doing it yourself while minimising compliance risk and tax burdens.



Working with and implementing the right ecosystem of ecommerce solutions can help businesses stay ahead of the constantly evolving regulatory landscape:

WAYFAIR AND THE 'ECONOMIC NEXUS'

A recent court decision in the United States ruled that states may require businesses to collect and remit sales tax even if the business doesn't have a physical presence in the state. No longer does a remote seller have to ask, "do I have a physical presence?" – now, businesses must ask "how do I comply with all state and local jurisdictions where my products or services are delivered?"^[5]

ON THE HORIZON FROM THE OECD

The Organisation for Economic Co-operation and Development (OECD) has made it a priority to address the confusion around taxes in the digital economy as well as ensuring that "large and highly profitable Multinational Enterprises, including digital companies, pay tax wherever they have significant consumer-facing activities and generate their profits."^[6] Within the next 12-24 months, we can expect there to be clearer guidance and perhaps newer global standards for businesses conducting ecommerce operations.

GDPR'S AMERICAN COUSIN: CCPA

European consumers today are more data privacy conscious than American consumers, but that landscape is beginning to shift. As of January 2020, California's California Consumer Privacy Act (CCPA) is now in effect, the first regulation of its kind in the United States that covers how businesses all over the world are allowed to handle the personal information of California residents. Though the first, CCPA certainly won't be the last, so it'll be important to stay ahead of future regulations around data privacy for U.S. customers.

A WORLD OF OPPORTUNITY

Deciding to open up your business to the U.S. market is an exciting time for any organisation. The promise of increasing revenue, global brand visibility, and new market opportunities are hard to ignore. So too are the challenges of embarking on that journey. But there's a better way than learning as you go.

European brands looking to expand into the United States for the first time have a lot to think about, but partnering with an experienced global ecommerce provider can help minimise headaches, reduce confusion and accelerate entry to the U.S. market.

Regardless of the chosen approach, a partner like Digital River can serve as your merchant of record and seller of record to minimise risks and simplify processes when expanding into new global markets. Whether it's determining shopper location and preferred payment methods, confirming product compliance, managing tax implications or solving fulfilment challenges, Digital River can help you focus on your business so you can deliver a world-class customer experience while accelerating your growth as a global brand.

APPENDIX

¹ <https://taxfoundation.org/state-sales-tax-jurisdictions-approach-10000/>

² <https://sellics.com/blog-how-much-does-it-cost-to-sell-on-amazon/>

³ <https://www.statista.com/statistics/722213/user-base-of-leading-digital-wallets-nfc/#:~:text=Audience%20size%20of%20leading%20digital%20wallets%202018%2D2020&text=According%20to%20industry%20forecasts%2C%20Apple,million%20users%20each%20in%202020.>

⁴ <https://www.corporatecomplianceinsights.com/true-cost-compliance/#:~:text=Yet%2C%20a%20recent%20study%20from,difference%20of%20%249.35%20million%20annually.>

⁵ <https://www.bdo.com/wayfair>

⁶ <https://www.oecd.org/tax/oecd-leading-multilateral-efforts-to-address-tax-challenges-from-digitalisation-of-the-economy.htm>

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