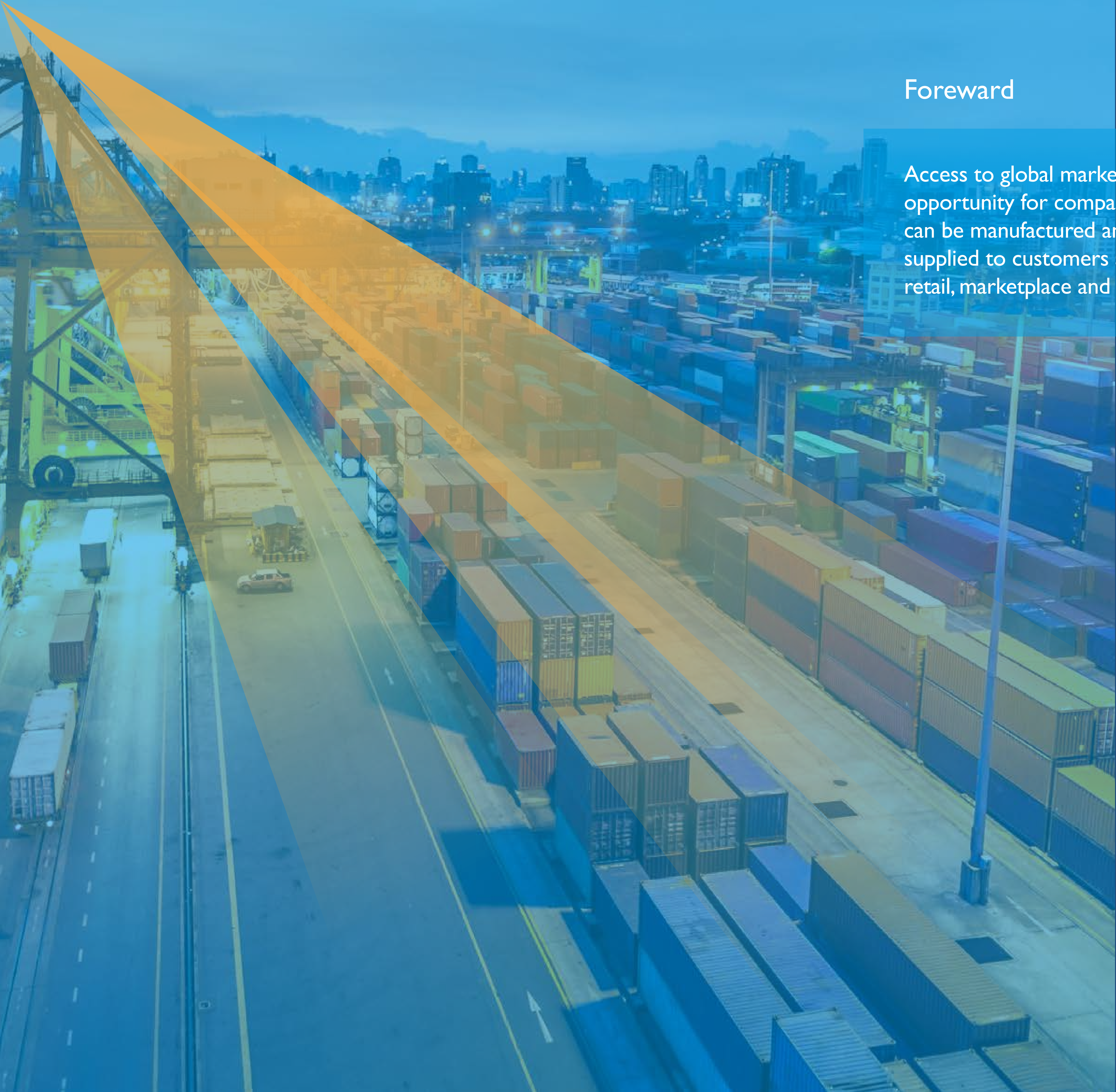
AMPLIFY

April 2020

Addressing supply chain challenges **in international commerce**

Sponsored by Avalara

In association with PerformanSC Supply Chain



Foreward

Access to global markets presents a significant growth opportunity for companies. We live in a world where products can be manufactured anywhere, distributed from anywhere and supplied to customers around the world through distribution, retail, marketplace and direct commerce channels.

Supporting international commerce requires a supply chain infrastructure that can meet local market expectations, ensure local and international trade compliance and manage complex tax and regulatory requirements.

The international trading environment is itself undergoing significant challenges with:

- Changes in global trade agreements and tariff structures
- Changes within EU market structures that will be triggered by BREXIT
- External market disruptions from COVID 19 and climate related disruptions
- Growth in consumer privacy and sustainability regulatory requirements
- Shifting retail, marketplace and eCommerce landscape

This research looks to understand how companies prepare their supply chain to meet the challenges of international commerce.

The research is being conducted by Amplify (www. amplify-global.com) in conjunction with independent supply chain consultancy PerformanSC Supply Chain (www.performansc.com).

The research is being sponsored by leading global tax compliance services provider Avalara (www.avalara.com).

Executive summary

We live in a world where a global market of consumers is available to brands through a variety of direct and indirect commercial channels.

Despite the ubiquitous nature of international trade, supply chain teams continue to struggle to meet channel and local market requirements and the assurance of trade and taxation compliance – particularly, in the aftermath of market shocks.

At the time of writing, markets around the world are dealing with a rolling wave of issues arising from the spread of COVID-19. Aside from the consumer health impact, supply chains face extraordinary shocks in manufacturing, logistics capacity, retail and consumer channel availability and ultimately, consumer demand.

In the previous 18 months, companies faced disruptions from global tariff and trade disputes, the exit of the UK from the EU and continuous shift in consumer purchase behaviour to digital and online channels.

In March 2020, Amplify Global, in conjunction with Avalara (a provider of automated tax compliance software) and PerformanSC (an international supply chain consultancy), conducted a survey of 120 executive and supply chain leaders across Europe. The survey explored the supply chain challenges associated with international trade and strategies employed by companies to deal with these challenges.

98% of respondents confirmed that they already trade internationally, with 90% servicing two or more distribution channels (distribution, retail, marketplaces, B2B and eCommerce).

eCommerce represents the most common channel for international trade (73%) and reflects a continuous growth in online sales. Importantly, this also represents the greatest opportunity for growth (74%).

Reflecting the importance of the direct customer channel - understanding local market delivery expectations (83%) and ensuring export and trade compliance (39%) - were listed as the two greatest challenges in managing international trade.

The findings highlight a significant dependence on third-party logistics and outsource providers in understanding market needs (83%), in executing international trade compliance (43%) and in the calculation of appropriate VAT and Sales taxes (76%).

Companies need to be cautious about 'blind' reliance on third-parties, with only 43% reporting that they are self-sufficient in how they have structured their trade compliance requirements, while 82% were unable to identify the partner being used for cross border tax compliance.

International trade and, in particular, eCommerce, are set for continuous growth. The longer-term impacts of BREXIT and COVID-19 are still unknown, and companies should ensure that they have both the internal skills and external partner capabilities to navigate the inevitable international trade shocks and disruptions.

International trade - current and future channels

The level to which international supply chains serve multiple channels was reflected with over 90% of companies managing at least two channels and 35% of companies managing three or more channels.

Each channel has its own distribution requirement and this multi-channel approach reflects an increase in complexity that has developed in modern supply chains.

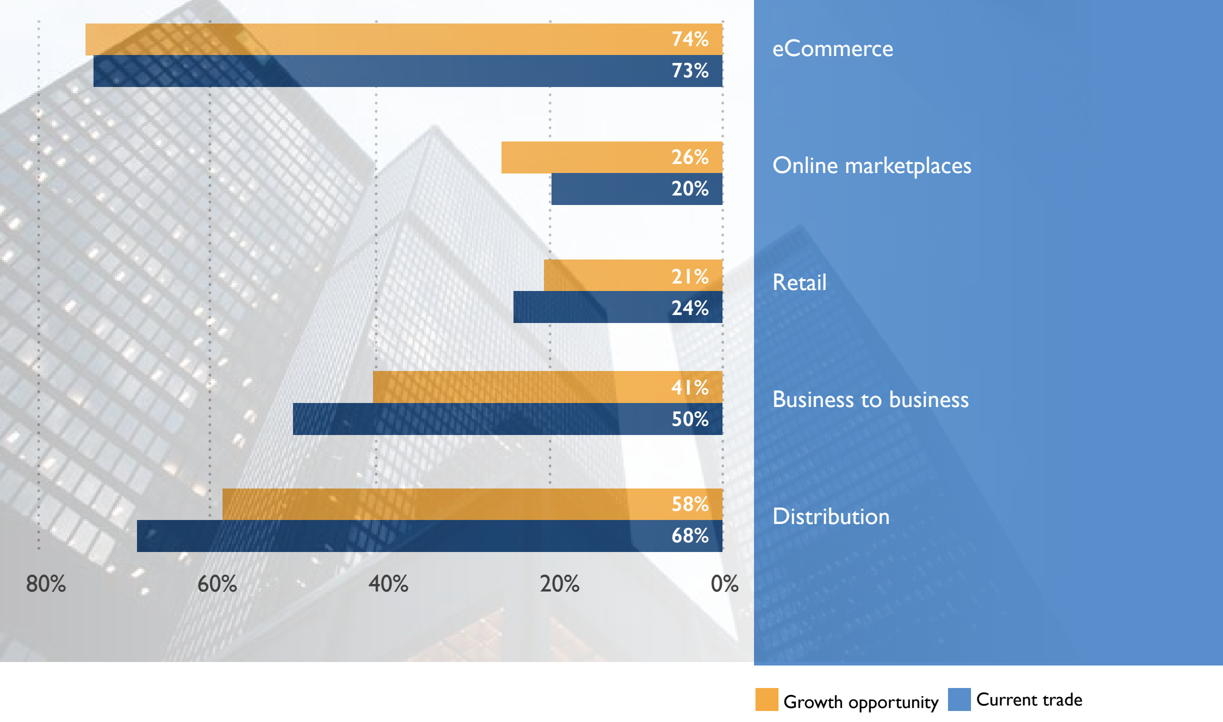
With each step closer to the customer, the brand assumes a greater level of supply chain and compliance responsibility.

Both eCommerce and marketplace channels (Amazon®, eBay®, etc.) show future opportunities for growth ahead of their current level of usage which is an indicator that complexity will continue to rise.

According to Statista, global e-retail revenues are projected to grow from 2.8 trillion U.S. dollars in 2018 to 4.88 trillion U.S. dollars by 2021.

Channels will continue to evolve. In maximising their revenue opportunity, companies need to be prepared to support a broader range of business-to-business, distribution, retail and direct to consumer routes to market.

Through which channels do you currently trade and which channels represent the greatest growth opportunity?



Key challenges in international commerce

As companies grow their direct consumer business, a key challenge is understanding the local market needs and delivery expectations.

When international brands roll out their eCommerce strategy across markets, they quickly find that it is not one size fits all.

Delivery time frames, willingness to pay for shipping, home delivery vs drop-off location, desire for same day, next day, weekend deliveries and sustainability are all variables that emerge from local market dynamics.

Global and regional retailers influence the market expectation and market initiatives such as Amazon Prime® shift consumer expectations over time.

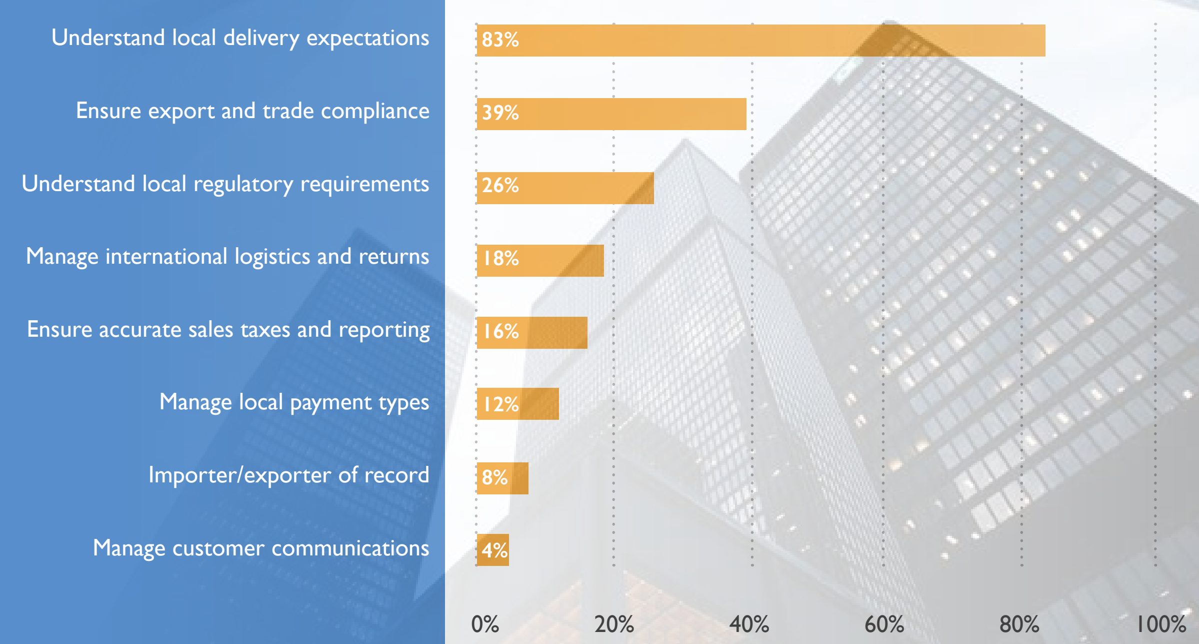
75% of respondents benchmark local marketplaces to establish delivery requirements, while custom research (35%), partner experience (22%) and benchmarking of other providers (17%) are also used to gain intelligence.

Trade and compliance responsibilities also increase as brands shift their reliance from distribution towards dealing with local businesses and consumers that expect the complexities of cross-border trade to be managed seamlessly as part of any trading relationship.

Local regulatory requirements highlight the differences in approach to product safety, consumer information requirements, packaging and sustainability initiatives between markets.

Companies look to industry bodies (72%) and government agencies (47%) to educate themselves where possible on regulatory compliance but for many companies (27%) they seek professional help in the form of custom research or specialist consultancy providers.

What are the greatest challenges in managing international trade?

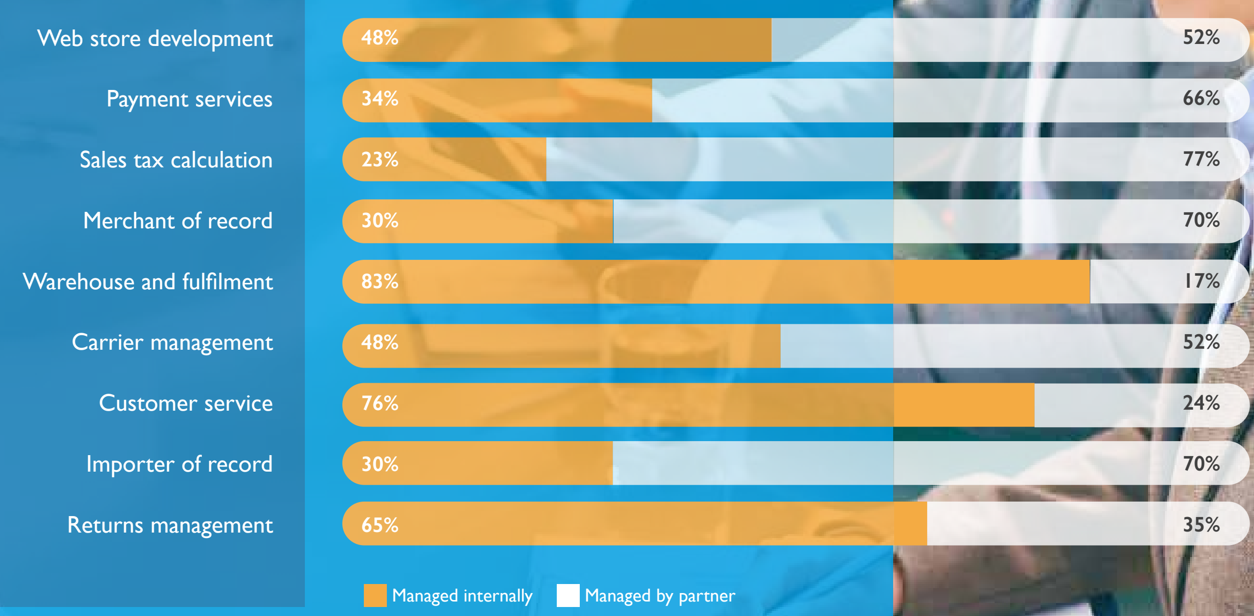


The eCommerce ecosystem

The multiple customer touch points in eCommerce supply chains extend to the web, payment solutions, taxation, warehousing and fulfilment, carrier management, customer service and regulatory.

A seamless customer experience requires speed and consistency across each of these touchpoints which are configured to meet expectations by market.

eCommerce ecosystem
- Internal vs Partner Infrastructure



Respondents illustrate the mix of internal vs partner resources that are used to manage each of the functions within the eCommerce supply chain. While there are individual partners that manage the entire eCommerce process, this is frequently a portfolio approach with web platforms or providers, third party logistics providers, payment services providers and specialist software providers that manage cross- border taxation compliance.

The reward for managing this complex ecosystem is a highly configurable commercial channel that can interact directly with end-consumers.

Companies make decisions on where they add most internal value to this ecosystem with warehousing and fulfilment (83%) and customer service (76%) ranking highest in that regard.

Sales tax calculation (23%), importer of record (30%), merchant of record (30%) and payment services (34%) highlight areas where companies prefer to rely on specialist service providers.

Marketplace and **remote seller shipments**

One of the main advantages of marketplaces such as Amazon®, eBay®, Taobao® and others, is the digital footfall and access to customers that they can provide.

With shipping programs such as Prime® and distributed fulfilment options these marketplaces also influence the market expectations around delivery lead times and costs.

Up to the year 2019, there were also some sales tax advantages from marketplace shipments and for remote shippers – particularly in the US. Following a US Supreme court decision in 2018, over 40 US states have changed their sales tax compliance laws for remote sellers and marketplace facilitators – compelling them to collect sales taxes.

Whether it is VAT in Europe, or sales taxes in the US, the calculation of appropriate taxes is determines by a complex set of rules based on product, customer, origin and company structure.

There are many specialist information providers (including Avalara) that provide solutions for managing cross-border tax compliance.

Although critical for compliance, the awareness of these suppliers is low (82% unable to identify the solution in place).

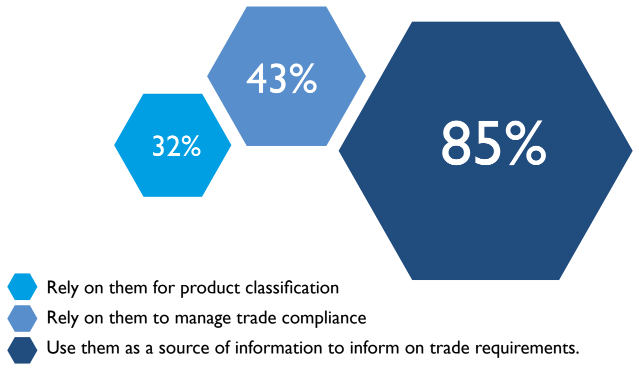
As enforcement actions become more visible, we expect this awareness to grow.

Tackling **customs and trade compliance**

Younger generations could be forgiven for truly believing that 'The World is Flat' as declared by Thomas Friedman in 2005. Growing up in a world where products can be ordered-from and shipped-to anywhere in the world, belies the complexity in the management of international trade rules.

Many European companies have also been sheltered as they trade across the EU in a market where the free movement of goods has been central to the European project for many decades.

Concepts such as product classification, origin, valuation, customs procedures, quotas, tariffs and export controls were not mainstream and, for many companies, were something that third-party logistics providers managed on external market imports and exports.



This is still reflected in participant responses where a continued reliance on third-party logistics providers is evident.

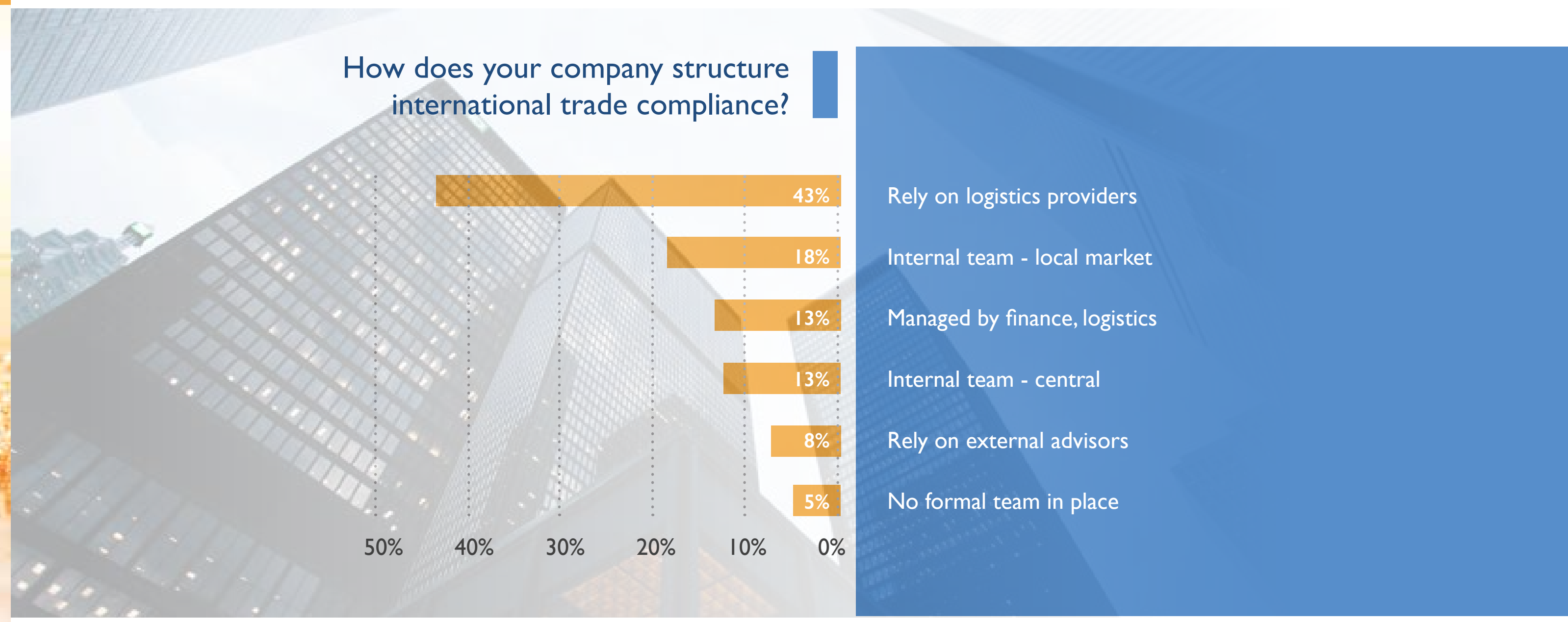
- 43% rely on them to manage trade compliance
- 32% rely on them for product classification, and
- 85% use them as a source of information to inform on trade requirements

Independent audits carried out by PerformanSC on third-party logistics providers and customs declarations in Europe highlight declaration issues on approximately 20% of customs shipments with 37% of the issues resulting in a financial under or over-declaration on behalf of their clients.

Ultimately, the responsibility for compliance remains with the shipper. All too often, companies have not equipped their teams with the training and skills to manage potential trade compliance issues.

Only 31% of companies have a separate formal trade compliance team with a further 13% managing requirements through finance or logistics functions.

With trade compliance listed as a significant challenge (39%) for international trade, it appears that companies' investments to address this issue may be lagging.



Tariffs and classification

The Harmonized System (HS) is an international standardised system used to classify traded products, organised and maintained by the World Customs Organisation.

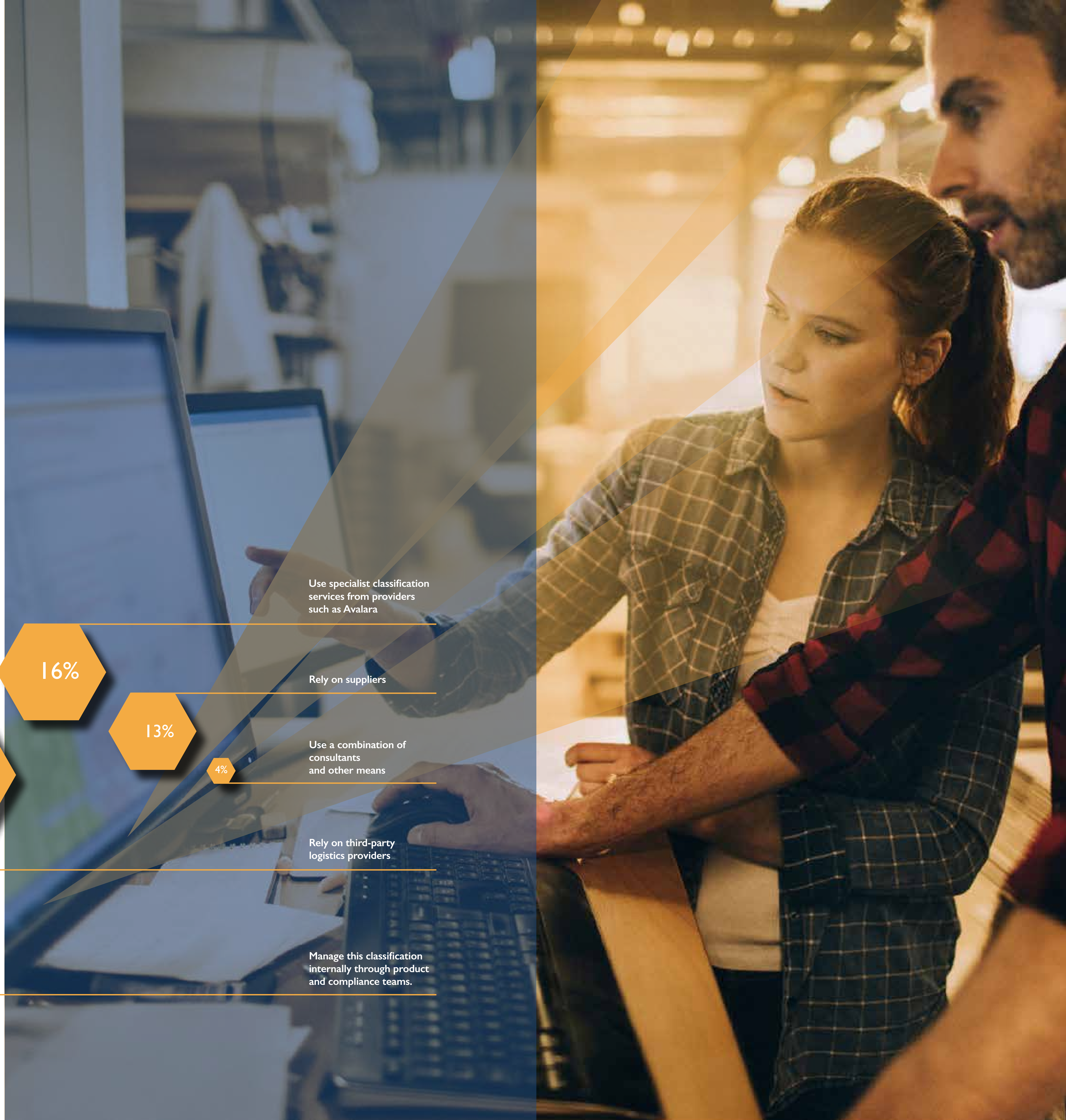
Since early 2018, product classifications took on added significance as the US adopted new trade policies with China and other countries including Europe. In a sequence of announcements in an escalating trade dispute, incremental tariffs of up to 10%, 15% and 30% were added to products within named tariff ranges from targeted origins.

Accurate tariff classification has always been a trade requirement, but the incremental tariffs increased costs and focus for companies. The imposition of tariffs drove significant changes in the global manufacturing and supply chain footprint.

The prospect of a 'hard' BREXIT without agreement of a future trade agreement has created a similar urgency for UK businesses trading internationally and those within the EU trading with the UK.

When asked how they managed product classifications survey respondents indicated that:

- 35% manage this classification internally through product and compliance teams
- 32% rely on third-party logistics providers
- 16% use specialist classification services from providers such as Avalara
- 13% rely on suppliers, and
- 4% use a combination of consultants and other means



Impact on trade

BREXIT

The UK's exit from the EU in January 2020 has yet to be felt in trade terms as we remain in a transition phase until the 1st of January 2021.

From that date, shipments between the UK and the EU will be 'third country' shipments that will require commercial invoices, customs declarations, product classification and valuation.

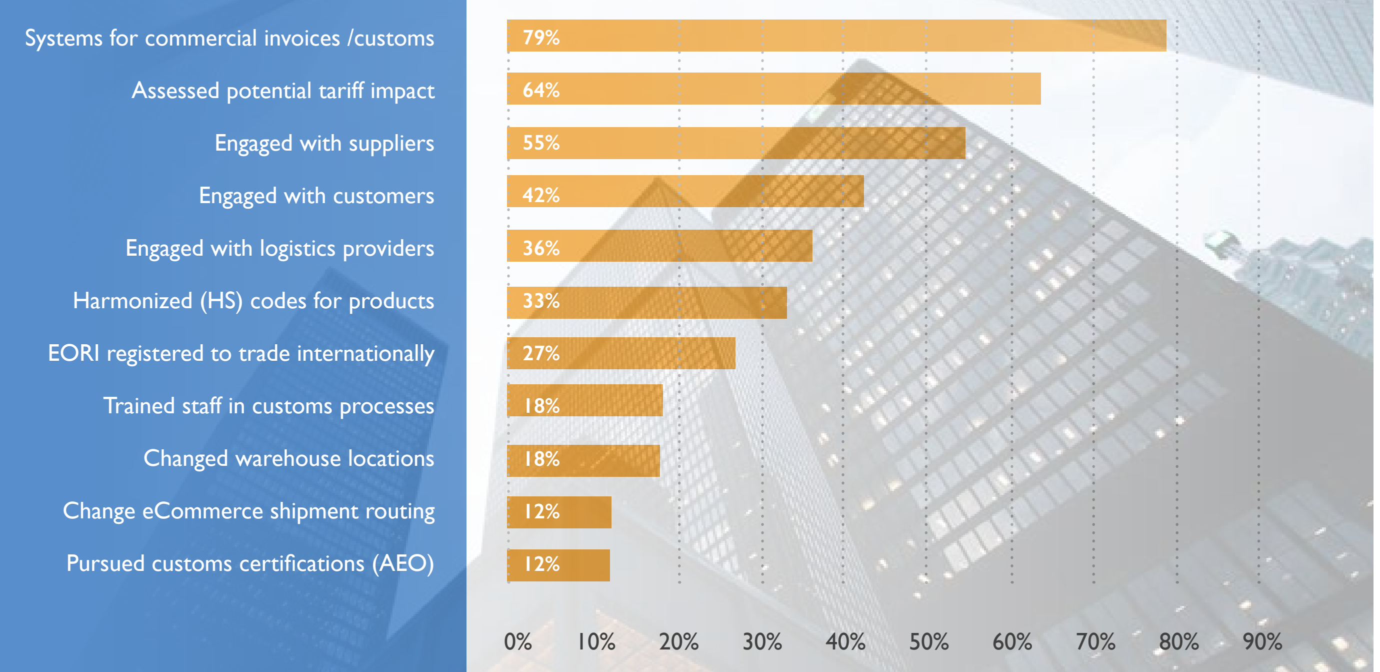
At a minimum, this will create an additional administrative burden on cross-border shipments and there is the potential for some short-term delays. Whether this is accompanied by quota and tariff restrictions will be determined by UK / EU trade negotiations which are currently due to conclude during 2020.

Awareness of BREXIT was high among those surveyed with 96% of companies reporting at least one action in preparing their supply chains. The profile of companies surveyed is weighted towards larger multinational firms, so it is possible that this would not be representative of a broader population.

The primary actions taken included preparations for the generation of commercial invoices and customs documentation (79%) and the assessment of potential tariff costs (64%).

Noticeably, at the lower end of actions, were items that built sustaining trade capability (training and AEO certification) within supply chain teams.

What preparations have you put in place for trade post BREXIT?



COVID-19

Likely, several quarters will elapse before the full health and economic impacts of COVID-19 is fully known. Without dismissing the tragedy of the human costs, its effect highlights several vulnerabilities that exist within international supply chains.

- Manufacturing capacity 'shock', initially in China, that disrupted component supplies and reduced manufacturing capacity
- Logistics disruption as output from China came to a halt, resulting in misplaced transportation assets around the world
- Rolling global consumer demand disruptions as the virus spread and government actions restricted social and economic behaviour
- Channel disruptions as 'non-essential' brick and mortar establishments were forced to close, and online channels struggled to scale
- Shift in consumption priorities with increased spend in healthcare and essential goods and a fall in discretionary items
- Restrictions in travel and hospitality that disproportionately impact these sectors
- Further logistics disruptions through the loss of 'belly' capacity on passenger aircraft and a surge in capacity demand to move essential goods
- Economic disruption as countries experience sharply rising unemployment, a lowering of consumer confidence and a legacy of debt from COVID-19 response actions
- Fallout as some suppliers and customers will not survive the economic shock
- Near-term potential for supply chains to overcorrect for 'temporary' peaks and troughs in global demand

Companies cannot feasibly plan for disruptions of the speed and global scale of COVID-19 but many companies have not learned the lessons of previous supply shocks; for instance - Hurricane Katrina (2005), Icelandic Volcano (2010), Japan Tsunami (2011), and Tariff Wars (2018/9).

Supply chain risk management is a topic that cycles through boardrooms in the aftermath of such shocks. As the impact of COVID-19 passes, and it will, we can expect renewed focus in this area. Experience tells us, however, that few companies remain committed to a long-term approach that balances cost and supply chain resilience.

About Avalara

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, GST, excise, communications, lodging, and other indirect tax types.

Headquartered in Seattle, Avalara has offices across the U.S. and around the world in Canada, the U.K., Belgium, Brazil, and India. More information at www.avalara.com

About Amplify

Amplify believes passionately in the power of value chain collaboration and collective action to address the most fundamental business, social and environmental challenges.

Amplify create platforms via which visionary leaders in operations can build the knowledge, connections and the integrated partnerships required to lead successfully through an era of unprecedented change and opportunity.

More information at www.amplify-global.com

About PerformanSC

PerformanSC is a specialist supply chain consulting firm with offices in Chicago, Dublin and London. They bring independent practitioner-led expertise to companies looking to achieve step-function improvements in their supply chain performance and enable their expansion into new channels and markets.

PerformanSC works with organisations across a variety of industry sectors with a particular focus on Healthcare, High Tech, Food and Drink, Consumer Goods, Retail and Logistics.

More information at www.performansc.com

About the survey

The survey administered to supply chain and executive leaders across Europe in March 2020.

120 responses from executives across the following sectors:

• Automotive and Assembly	18%
• Industrial Manufacturing	13%
• Retail	12%
• Technology & Telecoms	10%
• Pharma & Medical	9%
• Consumer Packaged Goods	8%
• Chemicals	7%
• Advanced Electronics	5%
• Aerospace and Defence	4%
• Semiconductors	4%
• Travel, Transport & Logistics	3%
• Agriculture	2%
• Other	5%

94% of respondents are based in Europe with 87% working for European headquartered companies.

This report was compiled by Lorcan Sheehan, CEO PerformanSC on behalf of Avalara and Amplify.

Notes:

[1] Results from sample customs broker audits performed by PerformanSC across a portfolio of clients over a 2 year period – 2018, 2019.

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