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WHITE PAPER

Why Direct-to-Consumer Sales Require Integrated E-commerce Tools

Experts Agree a Solid Tax and Tech Foundation is Key to Achieving ROI and Fostering Loyalty

The DTC revolution has increased the complexity of the traditional commerce tech stack, requiring more integrated tools than ever before.

E-commerce experienced 10 years of growth in just three months in the early days of the pandemic, according to *McKinsey*. A significant portion of that revenue went to consumer packaged goods (CPG) companies selling direct to the consumer (DTC), many for the first time. As the market begins to reopen and consumers start returning to stores, CPG companies face two compelling reasons to add or enhance their DTC presence: new customer behaviors and increased sales and margin opportunity.

According to *Pymnts.com*, 73.2% of consumers who used DTC channels to purchase retail products during the pandemic plan to maintain some of their new habits. Consulting firm *BCPG* estimates e-commerce will drive more than 70% of sales growth across food and beverage categories through 2022. And *Forbes* reports that successful DTC companies are earning a gross margin of 50% to 85% via these channels.

DTC Success is All About CX

As e-commerce grows increasingly more sophisticated and seamless, so do consumers' expectations that new capabilities and features will become the de facto standard for their shopping experiences, regardless of the size and resources of the company behind a given brand. Research shows that brand loyalty diminishes in the face of poor CX. For example, *RSR Research* found that 9 out of 10 shoppers say they will abandon a site if it is too slow.

According to *Brizfeel*, the top factors influencing a consumer to make a purchase from a website are price (89%), brand (57%), delivery method and return policy (49%), shop reviews (47%) and the refund policy (44%).

However, CX is the top factor that drives customer loyalty for online consumers.

A great online customer experience is:

- Fast
- Easy
- Seamless
- Self-service
- Accurate
- Transparent about policies, costs, etc.
- Offers rapid delivery

But launching a viable DTC offering is about more than just adding e-commerce. Today's consumers expect an omnichannel experience. The expectation is for seamless transactions across all channels — phone, email, chat, social media, etc.

"CPG companies cannot afford to be anything but aggressive and proactive with e-commerce strategies and creative about their online presence."

- *BCPG*

According to *BCPG*, the 70% sales growth projected across food and beverage categories through 2022 "will be captured primarily by CPG companies that can develop the most sophisticated and effective omnichannel capabilities in order to both maintain their position in physical grocers and play a more active and innovative role in the digital sphere."

BCPG forecasts that once e-commerce CPG purchases reach 5% to 7% market share, the channel will hit a tipping point. "Once that threshold is reached, CPG companies cannot afford to be anything but aggressive and proactive with e-commerce strategies and creative about their online presence," BCPG said.

The Unexpected Complexities of Taxes

Adopting or expanding a DTC channel does take CPG companies into new territory, as many of them may only have experience with the B2B side of commerce. One area that comes as a particular surprise is the difference in calculating and reporting sales and use tax. In B2B, CPG companies deal with a limited number of trading partners in known locations, and these transactions often are exempt from sales and use taxes.

Accepting B2C transactions means rapidly calculating and applying sales and use taxes across a complex landscape. There are 11,000 separate tax jurisdictions in the U.S., each with its own constantly evolving regulations on what is taxable and what freight taxes may apply. While most calculate these taxes based on the shipping address, that's not the case in 10 states that calculate tax for intrastate transactions based on where the order is placed or shipped from, rather than where it's going to. It's also not the case in two other states that use ship-to, ship-from, and order placement addresses in calculating intrastate taxes.

Finally, complex economic nexus rules in the wake of *Wayfair* add an extra layer of complexity. Instead of only calculating and remitting taxes where a CPG company has physical locations such as stores or warehouses, sellers must now track the volume and value of transactions geographically, so they know when they must start calculating and remitting taxes and documentation in a given jurisdiction. Failure to apply taxes properly and accurately exposes CPG companies to audits and fines from tax jurisdictions and introduces friction into the consumer buying experience.

Tax calculation is a key decision point in setting up a DTC channel. Basic e-commerce platforms may employ rate tables for sales and use tax calculation. But if they're not updated regularly, they become outdated quickly. Some platforms also limit access to automated solutions.

Retailers can directly integrate an expertly managed third-party tax solution such as Vertex into the ERP to manage this complexity and rapidly produce accurate tax calculations. However, the CPG company is still missing out on the benefits of a fully developed e-commerce platform with that approach.

How to Ensure a DTC Rollout Meets Its Goals

Thanks to the seamless integrations implemented by technology companies, consumers may not be aware that a simple transaction on a website may involve as many as 10+ applications behind the scenes. Arguably the most important part of the consumer journey is the checkout, and checkout cannot happen without tax calculation and payment. Larger-scale complex organizations embarking on DTC transformation are likely to have some type of tax calculation in place through their ERP before implementing a digital commerce storefront. By having multiple selling channels across ERP and digital commerce storefronts, sellers can leverage Vertex pre-built integrations to ensure that the correct tax is being calculated based on which system the sale is happening in.

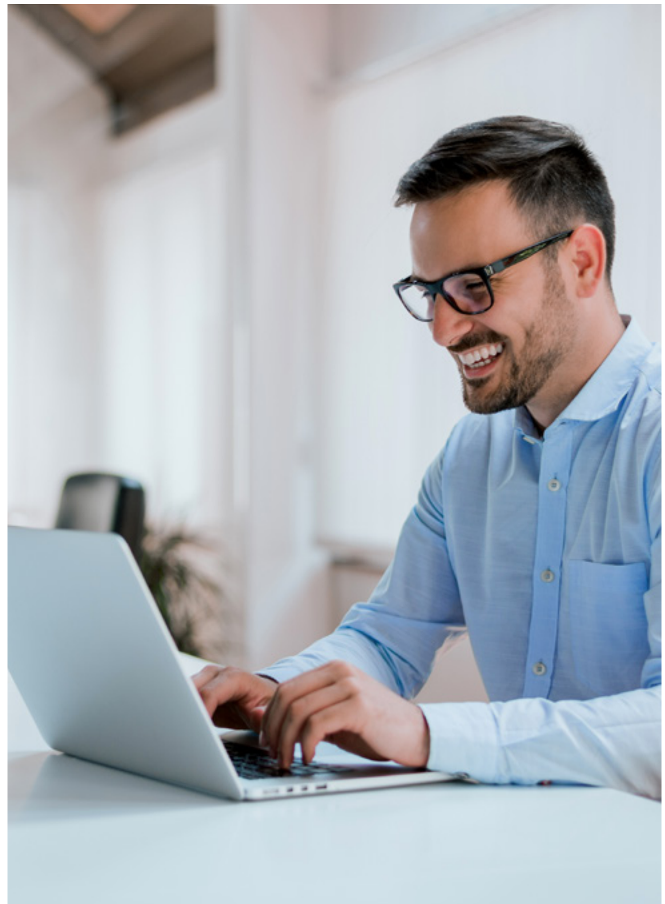
Complexities such as these may be one reason just 60% of CPG companies feel even moderately prepared to capture e-commerce growth opportunities, according to *McKinsey*. But it doesn't have to be that way. The secret to optimizing this new opportunity lies in making smart choices that allow a CPG company to start small and create a strong foundation for growth. This includes choosing a solid, robust e-commerce platform, selecting key add-ons like integrated tax calculators, and working with experienced integrators.

All decisions should start with CX at the center. DTC brands should provide a CX that connects to its shoppers, backed by people, processes and technology that they trust.

The most successful e-commerce sites run on robust, dedicated platforms that deliver the full end-to-end seamless experience consumers now expect in all of their digital shopping experiences. Industry-leading platforms such as Salesforce Commerce Cloud feature significant test-and-learn features and full omnichannel capabilities, as well as the flexibility to easily integrate with best-in-class solutions for key functions such as order-to-cash, supply chain, and tax management and compliance. That's key as a CPG company's DTC presence grows and its strategy evolves. A top-tier B2C site also positively impacts a company's B2B customers, creating more of a consumer-like buying experience they now expect.

Savvy CPG companies also choose experienced integrators to ensure that the foundation is solid and the implementation balances speed with diligence.

According to *BCPG*, "In the process of implementing an e-commerce flywheel strategy, CPG companies will no doubt find that they need to join with partners and ecosystems to efficiently acquire the expertise and capabilities they need for an online sales environment."



Salesforce, for example, vigorously manages the Salesforce Commerce Cloud integrators on AppExchange to ensure they meet the highest technical and customer experience standards. Vertex undertakes a similar approach in collaborating with implementation experts such as Grant Thornton to ensure CPG companies achieve optimal results when integrating Vertex tax solutions with Salesforce Commerce Cloud. Working with a skilled integrator enables a CPG company to access best practices gleaned from hundreds of similar deployments, and to shorten the timeframe a deployment takes, while speeding return on investment and enhancing customer experience.

DTC Relies on Choosing the Right Partners

Analysts are bullish on the future of DTC as a critical component of growth for CPG companies. They are equally convinced successful DTC initiatives stem from a strong focus on customer experience. That means meeting consumers' already elevated expectations, set by retailers with years of background in e-commerce. The difference is in the details, from offering the right shipping and payment options to ensuring customers don't receive after-the-fact invoices due to incorrect tax calculations.

While it may be tempting to repurpose ERP functionality for DTC, that choice can make it extremely challenging to meet consumers' elevated expectations. CPG companies that invest in full-featured e-commerce platforms like Salesforce Commerce Cloud, choose best-in-class add-ons such as Vertex to ensure fast and accurate tax calculation, and align with seasoned implementation teams from strategic alliances like Grant Thornton, lay a solid foundation to grow from DTC launch to maturity while attracting and retaining loyal, satisfied customers.

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844-321-3346
salesforce@vertexinc.com

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vertex@us.gt.com

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