THREE OBSTACLES TO B2B AND D2C SALES SUCCESS – AND HOW TECHNOLOGY CAN HELP

A GUIDE FOR MANUFACTURERS

GUIDE

Avalara Tax compliance done right + Acumatica The Cloud ERP

Manufacturers embrace digital solutions to automate

and simplify tax compliance, deliver memorable customer experiences, and scale operations as they grow.

Digital transformation revolutionizes the way we do business across every industry and geographical border. The COVID-19 pandemic and its global disruption caused a sharp acceleration in the transformation rate for many organizations. Manufacturers, like businesses in most other industries, were suddenly faced with finding new ways to stay profitable. For many that meant upgrading their legacy systems and increasing sales channels to include new or expanded business-to-business (B2B) and direct-to-consumer (D2C – also referred to as business-to-consumer, or B2C) sales.

This guide explores the three main challenges that can arise with these new sales channels and what manufacturers can do to overcome them.

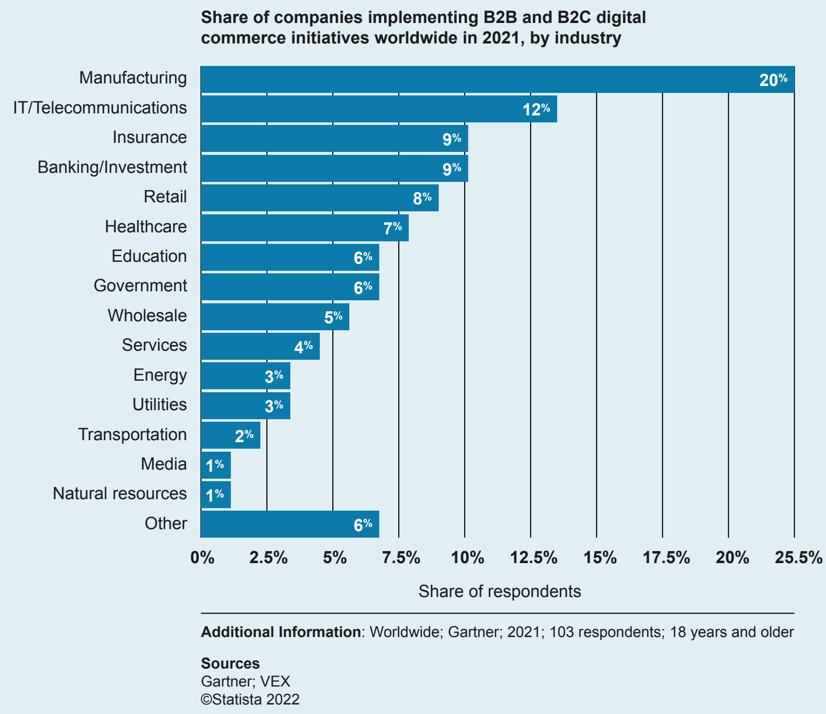
With new sales opportunities come new risks and challenges

Thanks to recent economic pressure and supply chain disruption, manufacturers are increasingly exploring new sales channels, such as B2B and D2C. Instead of selling solely through distribution networks, wholesalers, or retailers, manufacturing companies are now choosing to do more business directly with other businesses or individuals.

A recent survey by Avalara found that as ecommerce sales increased from 2019 to 2021 organizations across all industries began doing more business online. As a result, 70% of surveyed manufacturers said they have a B2B sales target and 30% are now selling D2C. In fact, manufacturing took the number one spot in a recent list of industries that embraced B2B and D2C digital commerce initiatives in 2021 (Figure 1).

Figure 1.

Manufacturers are turning to new sales channels more than any other industry.

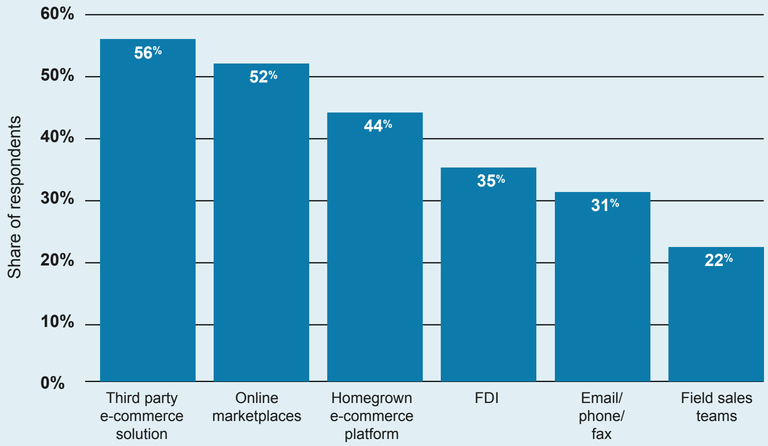


The Avalara survey also revealed that D2C ecommerce sales are growing faster than all other channels. More than a third of manufacturers surveyed said they had seen "an increase in D2C brick-and-mortar sales over the last two years, while over half have experienced an uptick in D2C ecommerce sales during that period."

Similarly, manufacturers expect B2B sales to be their number one source of revenue over the next few years (Figure 2).

Figure 2.

U.S. manufacturers said they expected B2B sales to be their number one source of revenue through 2026.



Additional Information: United States; Sapio Research; Sana; Q4 2020; 802 respondents; manufacturing

Sources
Sana
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Both B2B and D2C sales open new opportunities for manufacturing companies, but they also create three core obstacles to success:

Ensuring tax compliance

Tax compliance is critical for every sale, whether to another business, an individual consumer, or a wholesaler. It can be challenging for manufacturers to become familiar with the ever-changing, widely varied tax laws, not to mention added complexities such as exemption certificates and audits.

Delivering exceptional customer experiences

A great customer experience is essential in all sales channels, but each set of customers can have varying expectations and demands. Manufacturers need to be able to understand those customer needs and meet them.

Seamlessly scaling business operations

Growing the business can become more of a challenge with multiple sales channels and target customers. Manual, paper-based processes can keep manufacturers from building their customer base and scaling operations. They need the right tools and technology to scale the right way.

In the following three sections, we'll take a closer look at each obstacle to sales success.

Obstacle 1: Ensuring tax compliance

As ecommerce skyrocketed, tax laws responded. While most people wouldn't consider sales tax compliance simple or straightforward before the internet, the whole topic has become more complicated. But complex or not, tax compliance is critical to lasting business success – whether your sales are B2B, D2C, ecommerce, or through online marketplaces or in physical retail locations.

There are a few factors that make sales and use tax laws challenging.

The Wayfair decision

In 2018, the U.S. Supreme Court's decision in South Dakota v. Wayfair, Inc. overruled the physical presence rule, which had formerly been the gold standard for determining whether tax was collected. Now companies can be required to collect and remit taxes, whether the company has a physical presence in that area or not.

Since the Wayfair decision, most U.S. states have created rules that define a business's sales and use tax obligations, also referred to as nexus (learn more about nexus on the next page). There are more than 13,000 sales and use tax jurisdictions in the U.S. today, including states, cities, counties, and other government entities.

The Wayfair decision affects manufacturers and other businesses significantly, complicating the requirements of how and where they must be registered for sales tax, where they must file tax returns, and how they manage exemptions. Even nontaxable sales can create nexus. In B2B and D2C sales, manufacturers must consider whether they need to collect and remit sales tax. Sales tax can apply based on where an end customer is located, or where the business has physical inventory, employees, or warehouses. Depending on where a company is located and what kind of sales it does, it might be required to collect and remit sales taxes in multiple states.

It's all about nexus

Nexus defines the level of connection between your business and a taxing jurisdiction (such as a state) that requires you to register, then collect and remit sales tax in the state. There are different types of nexus:

- **Physical nexus** – Your business has a physical presence in the state, such as an office, warehouse, or remote employees.
- **Economic nexus** – Your business meets a set level of sales transactions or gross receipts activity within a state, such as 200 separate sales transactions or $100,000 of taxable sales. In 41 of the 46 states that charge sales tax, there is some type of exempt sales included in these thresholds.
- **Click-through nexus** – Your business meets sales thresholds in a state from the activities of an in-state referral agent.
- **Affiliate nexus** – Your business holds a substantial interest in, or is owned by, an in-state retailer that sells the same or a similar line of products under the same or a similar name.
- **Marketplace nexus** – Instead of your business, a marketplace facilitator may be required to collect and remit sales tax if it operates in a state and provides ecommerce infrastructure, customer service, payment processing services, or marketing on your behalf.

To stay compliant, it's critical to understand nexus triggers for each state. Find out how sales tax nexus applies to you – try the Avalara Free Sales Tax Risk Assessment today.

Tax-exempt sales management

Complying with exemption certificate regulations entails the collection, validation, storage, and periodic renewal of sales tax exemption certificates on behalf of tax-exempt customers. The Wayfair decision made tax-exempt sales management much more complex. Just like tax obligations vary significantly from state to state, so do exemption certificate requirements and processes.

Consider this example: If a tax-exempt B2B customer has manufacturing locations in more than one state, you need to get an exemption certificate for each state. Some states allow you to use a multijurisdictional uniform sales and use tax exemption/resale certificate (MTC certificate), where the customer can use one form to list all the states instead of creating a separate certificate for each state. However, only 37 states allow the use of the MTC certificate, and each one has guidelines for how to validate the form.

Most businesses that don't adequately manage these exemptions only discover their mistakes when they're being audited. Failure to comply with a state's exemption regulations can result in back taxes or even possible civil or criminal penalties.

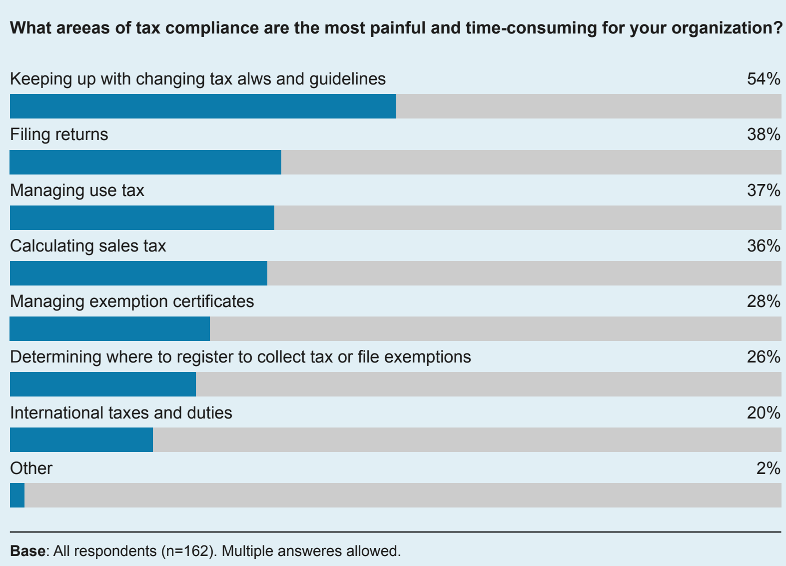
Manufacturers admit they need help

In the previously mentioned Avalara survey, manufacturing respondents said their biggest tax compliance challenges are, as follows (Figure 3):

- Keeping up with changing tax laws and guidelines
- Filing returns
- Managing use tax
- Calculating sales tax

Figure 3.

Manufacturers reveal their biggest tax compliance challenges.



It also turns out that manufacturing companies expend significant resources on tasks to handle any issues that arise. For example, 89% of respondents said they have employees dedicated solely to filing tax returns. Other functions that require extensive employee time and effort include exemption certificate management, audit preparation, and researching tax rates, rules, and regulations.

Stay compliant – or pay the price
65% of manufacturing companies said they have been audited during the last five years, and 45% have paid penalties or fines due to these audits. (Source: Avalara)

Smart manufacturers are using technology to overcome tax compliance challenges

As manufacturers increasingly adopt B2B and D2C sales models, many will struggle with highly complex and evolving tax regulations and compliance. But there is a solution, and it all comes down to technology and automation.

Manufacturers don't need to rely on manual or paper-based processes for managing tax compliance. They don't need to memorize pages of rules and regulations. What they need is a tax compliance automation solution. Through automation, manufacturers can do more with less – handle more tax compliance issues faster, with less need for human intervention. Employees are freer to work on more critical business, and businesses can increase compliance with less effort, reduce tax risks, and rest assured that they have more accurate and updated information.

Avalara delivers automated solutions for manufacturers' tax compliance needs, including real-time tax rate calculations for 13,000+ U.S. sales and use tax jurisdictions. Learn more.

Obstacle 2: Delivering exceptional customer experiences

Today's customers expect a lot when it comes to shopping experiences. They're more accustomed than ever to convenience, simplicity, and personalized recommendations and want to find what they need, get answers, and check out quickly.

Manufacturers can deliver what customers want by creating a true omnichannel experience. Consumers are used to shopping in various ways, from their smartphones and tablets to their laptops or desktops to buying in person at a physical location.

When it comes to creating an effective omnichannel experience, analysts at MuleSoft (Salesforce) say there are three stages to keep in mind:

- **Make the customer experience consistent across all channels.** Whether buying through a phone, a third-party kiosk, or a social media page, customers want the experience to be fast and easy. Part of your responsibility as the seller is to ensure that all these different channels are connected to a centralized enterprise resource planning (ERP) platform that efficiently tracks and manages inventory, customer data, promotional information, personalized offers, and more.
- **Create a real connection between the online shopping and the physical location experience.** Your business should present a single, consistent brand regardless of how and where your customers shop for your products. A great example of how a physical, brick-and-mortar location can complement online shopping is the convenient, time-saving buy online, pickup in store, or BOPIS, experience. For BOPIS to work smoothly, your ERP system must be connected to your website, delivery partners, fulfillment centers, and so on.

- **Find innovative ways to create an extraordinary experience.** Differentiating yourself from competitors can be tough in today's marketplace, but the rewards are worth it. Creating delightful, personalized experiences for customers often entails bringing together a variety of mobile capabilities to provide a complete experience. One example is Uber: It brings in capabilities from other apps for mapping and routing, background checks, online payments, and text messaging to create a comprehensive ride experience for customers.

All three of these stages rely on a modern ERP platform connected to all the other critical components in your infrastructure. You can integrate your back-office operations and data with front-office customer experiences by deploying the right ERP system.

A good cloud-based ERP solution will not only benefit your customers, but it will also benefit your employees. They need fast, easy, often-remote access to your business-critical systems and seamless visibility into your data, whether they're in the office or working from home.

Things to look for in an ERP solution

There are a lot of ERP solutions out there today, but one size doesn't fit all. When it comes to finding the right ERP solution for manufacturing, you want one that will provide the following:

- A future-proof platform that connects modern technologies for meaningful insights into operations
- A high level of automation, especially for core processes
- Visual scheduling, rules-based product configuration, material planning, and native data collection with barcode scanning
- Efficient and simple inventory and production management
- A system for streamlining and simplifying data management
- Real-time performance analysis to help you optimize production processes
- Licensing that allows you to pay only for what you use

The right ERP solution helps you streamline operations by integrating administrative and operational data to improve omnichannel experiences for customers and employees alike.

Manufacturing

Boost manufacturing efficiency with a comprehensive, mobile manufacturing ERP designed for your industry needs.

The Acumatica cloud-based manufacturing ERP platform can help you manage your operations, ecommerce sales, and inventory to create a successful customer experience. Learn more.

Obstacle 3: Seamlessly scaling business operations

You should always plan for growth as you explore new sales channels such as B2B or D2C. Outdated manual processes can slow down your operations and make scaling difficult. They're also more prone to human error – and when it comes to tax compliance and your customers' experiences, every mistake could cost you a lot in terms of lost sales, noncompliance penalties, and wasted time and effort.

Aging technology platforms can swiftly become a liability. That's why today's most successful manufacturers are committed to their digital transformation journeys and adopt technologies and solutions to streamline and integrate previously siloed systems.

With a modern, cloud-based ERP platform, your business can become more agile and responsive to customer needs and market trends. Your employees can work more productively and efficiently, which allows you to grow and expand operations with fewer new hires.

Add to that a digital tax compliance solution that eliminates guesswork and manual research and simplifies sales tax collection and remittance, exemption certificate management, and determination of nexus obligations – and you've got a comprehensive solution that allows for smooth scaling and future growth.

Avalara and Acumatica can help you run and grow your B2B and D2C sales channel – and your entire business. Learn more.

Acumatica and Avalara work together to build B2B and D2C sales success

Avalara's tax compliance automation solution and Acumatica's cloud-based ERP platform can help you overcome the three main challenges to B2B and D2C sales: They help you stay tax compliant, deliver exceptional customer experiences, and seamlessly scale business operations.

But together, they're even better. Acumatica's ERP platform includes native integration with Avalara's tax compliance software. Most ERP systems don't include tax rates, much less a tax compliance engine. Combining Acumatica ERP with Avalara tax compliance creates a complete ERP and tax engine solution that enables sustainable B2B and D2C sales success.

Streamlined Sales Tax (SST) is a state-run program designed to simplify sales and use tax collection and administration for companies selling into multiple states without a physical presence. Twenty-five U.S. states will offset the cost of sales tax solutions for businesses that qualify. Find out if your business qualifies for sales tax services through SST.

Avalara and Acumatica take the pain and hassle out of tax compliance, streamline business operations for a better customer experience, and set up organizations for successful future growth and a world of achievable possibilities.

Talk to a sales rep today to learn more about how Avalara and Acumatica can support your success in B2B and D2C sales.

Tax rates, rules, and regulations change frequently. Although we hope you'll find this information helpful, this guide is for informational purposes only and does not provide legal or tax advice.

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