

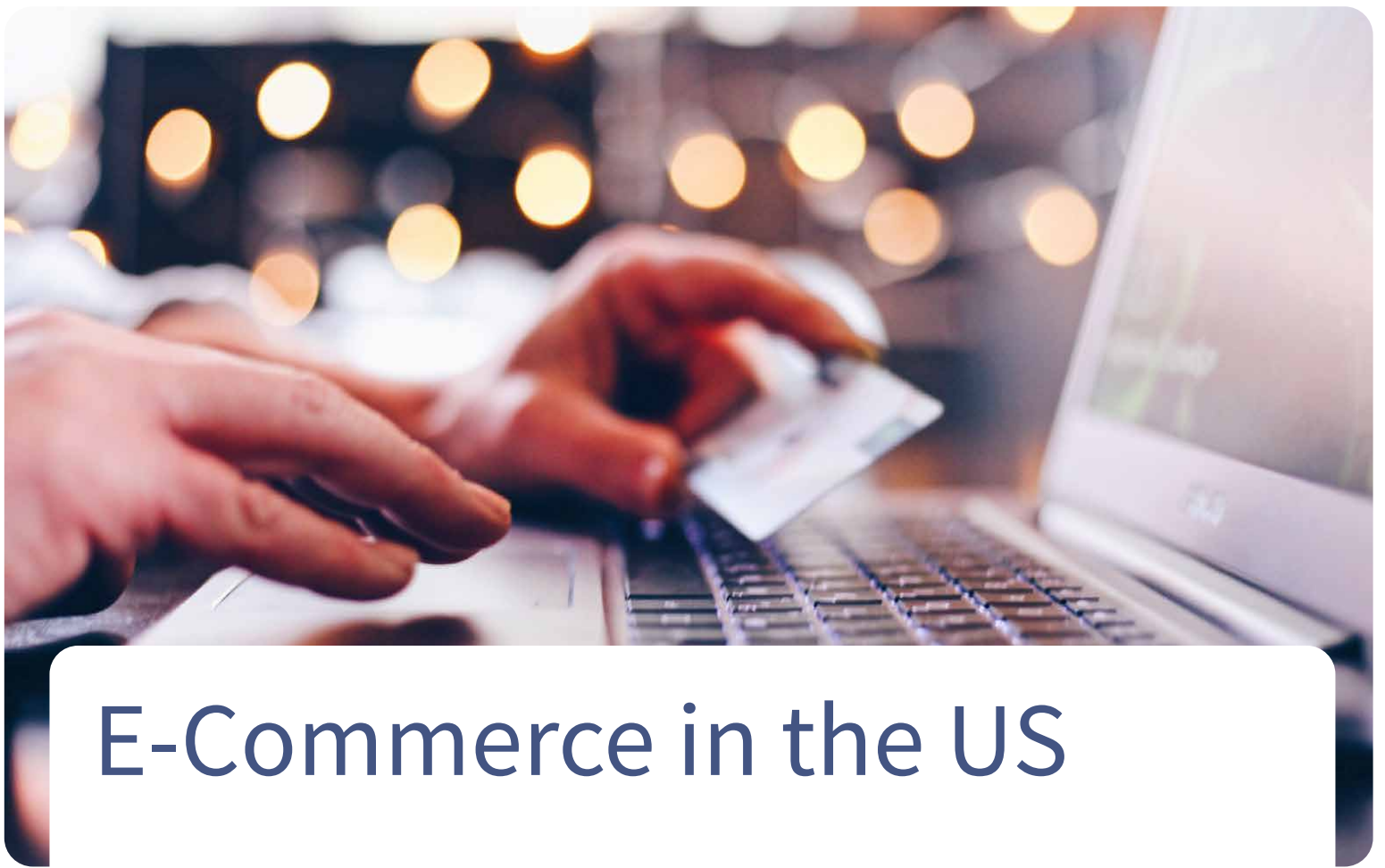


E-Commerce in the US

A Guide For German Companies



German American
Chambers of Commerce
Deutsch-Amerikanische
Handelskammern



E-Commerce in the US

Whether selling to businesses (B2B) or directly to consumers (B2C), the most important recent trend in global commerce is purchasing products online. In the coming years, worldwide e-commerce sales are predicted to approach \$5T. Needless to say, e-commerce is becoming more and more important for attracting new customers and adapting to a modern business environment. And with the global pandemic and shifting shopper behavior, online shopping is of paramount importance for companies.

Market Entry Through E-Commerce

For small companies beginning international operations in particular, e-commerce represents an excellent opportunity. Without physical infrastructure or employees abroad, companies entering the US market can avoid many financial risks. With an estimated revenue of over 340 billion US dollars in 2019, the United States is the second largest market for e-commerce in the world behind China.

As new markets are emerging and companies are disrupting established business models

with new online offerings, the number of businesses that are expanding their virtual marketplace is increasing. This process is also propelled by recent developments caused by the COVID-19 pandemic as well as between companies fighting for additional market share.

The Rise of E-Commerce

One of the industry's pioneers was Amazon by disrupting the market for books. When Amazon started selling more than books in the late 1990s, it suddenly became a rival to the biggest names in retail. Since then, many companies have extensively invested in the e-commerce space. One example was when Walmart – the world's largest company by revenue - acquired the discount online retailer Jet.com in 2016 for \$3.3 billion. This was an indicator that the biggest brick and mortar player in the US is now heavily moving into the online retail sector to compete with Amazon. Other companies have followed since, including Target or Nordstrom. Since the acquisition of Jet.com the number of products sold on Walmart.com has grown 10-fold and the number of sellers doubled in size just in the last year.

Emerging Trends in E-Commerce

One notable trend in the e-commerce is the grocery sector. Experts say that digital grocery is the next big battle ground in e-commerce.

Online Grocery Sales

The percentage of all US grocery sales happening online is set to double from 20% in 2019 to an estimated 35-40% in 2020 and 2021, also heavily supported by current circumstances. According to industry experts, this one trillion-dollar retail category is today the least penetrated category online. It comes without a surprise that all the big e-commerce as well as brick and mortar players have invested in or partnered with companies in the recent past to keep or gain additional market share in this category. Target acquired the same-day delivery platform Shipt for \$550 million and fully integrated it into their service portfolio. Other players such as Walmart are partnering with Instacart to offer same-day delivery options, making Walmart the latest major grocery chain to team up with Instacart in its fight against Amazon and Whole Foods. Instacart also partners with or delivers goods from Aldi, Costco, Albertsons, and Kroger, along with smaller grocers and drug stores.

Pet Industry

Another industry sector to closely watch when it comes to e-commerce is the pet industry. Not only is the US pet industry famously recession resistant but due to store closures and safety measures, consumer shifting more and more to purchase their pet supply and services online. According to a survey by Packaged Facts nearly two-thirds of US pet owners (64%) are ordering/buying more online. Another indicator that this segment will continue

to grow is the fact that since the beginning of the pandemic, there has been a notable surge in pet adoption and fostering. The increased numbers in pet ownership will boost the pet industry market in the coming years. In addition, this trend will also strongly influence downstream categories such as pet tech and related products.



E-Commerce as a Service

Shopify Inc., a multinational e-commerce company, offers online retailers a suite of services to run their online store while supporting their customers with shipping and customer engagement as well as payment and marketing tools. Shopify has become the next big unicorn in the industry, helping more than 1.4 million small businesses with their e-commerce activities. The company has also partnered with Amazon and Walmart, allowing their merchants to also sell from their Shopify stores. Further services in the e-commerce sector will provide growth opportunities for companies.

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Tax Considerations for E-Commerce Activities

Foreign companies are often surprised to find out that some activities thought non-taxable in the U.S. may trigger taxes at federal and state levels. The U.S. has a multi-layered tax system which varies based on the way a foreign seller enters the marketplace. Selling and distributing goods or services directly into the U.S. from a foreign country, or establishing a U.S. subsidiary to sell and distribute goods or services, can create income and non-income tax obligations at the Federal, State, City, and Local levels, which includes sales tax obligations when specific nexus creating activities are met. Additional state compliance requirements can follow if sales cross state lines.

Remote Seller Sales Taxes

Direct sales made from a foreign country into the U.S. usually receives treaty protection only for income tax if no permanent establishment is created. State non-income-based taxes and sales taxes still apply. These “remote” sellers include any activity conducted through direct and indirect e-commerce, wholesale, distribution and fulfillment centers.

In the U.S., sales tax is a tax paid for by the consumer of goods and services which is administered by the varying states. A U.S. or foreign e-commerce remote type seller has the responsibility of collecting and remitting sales tax collected for all remote taxable sales provided such company has nexus in a specific state. Nexus or taxable presence standards for physical and economic presence vary by state.

The Wayfair Decision

Prior to June 2018, sales tax obligations only applied to sellers with a physical presence created generally by having employees or property in a state. The decision reached in *South Dakota v. Wayfair* in June of 2018 added complications for remote sellers doing business in the US by abandoning the physical presence requirement and enabling states to charge sales tax based on economic presence. Accordingly, foreign companies can now be subjected to U.S. state sales taxes based on varying economic presence thresholds.

Economic Nexus Thresholds

The majority of states quickly enacted economic nexus thresholds for total revenues (ranging from \$0 - \$500,000) and/or number of transactions (ranging from 0 - 200) rules that when exceeded in a state determines whether a remote seller has a legal obligation to register, collect, and remit sales taxes. Total revenue threshold generally includes both retail and wholesale sales and are sourced to the destination state. These standards extend to foreign e-commerce companies selling into the U.S.

Retail and Wholesale Sales

Once nexus is established, sales tax filings are necessary for taxable and exempted goods and services. Tax is only required on taxable retail sales made to the consumer of goods or services, the end user. Sales of goods made to businesses at wholesale that will be resold to consumers are not subject to sales tax if a resale certificate is collected from the purchaser by the seller. Resale certificates are issued by each state where the transaction takes place. The purchasing wholesaler is generally required to be registered with the state to obtain a resale certificate that can be provided to the seller.

Marketplace Tax Facilitation

Economic nexus standards also apply to e-commerce companies using fulfillment warehousing centers such as Amazon among many others. Most states have shifted the sales tax collection and remittance obligations to the marketplace facilitators such as Amazon through their e-commerce platforms. This means that Amazon works with sellers to collect and remit sales taxes on behalf of the seller, of course at an additional cost to the seller. It's important to note that these marketplace facilitators do not cover all states. In these situations, it is the seller's

responsibility to ensure compliance in those states. If the seller is also making sales on their own without a marketplace facilitator into the same states assisted by the facilitator, the e-commerce remote seller is required to comply directly by registering, collecting and remitting the sales tax on their own for these transactions.



Sales Tax Returns

Sales tax rates vary by state and local jurisdictions. The delivery address dictates the exact state and local sales tax rate that apply to a taxable sale. Collected tax gets remitted by the seller to the state and local jurisdiction by filing a sales tax return. Filing frequency varies by state but tend to be on a monthly, quarterly or annual basis.

Sales tax for e-commerce businesses can be very complex, but you don't have to figure it out on your own. We encourage foreign companies looking to sell goods and services into the U.S. to consult with a specialized State and Local Tax professional. PKF Mueller can give you peace of mind that you are in compliance with each states tax law requirements.

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Gebrüder Weiss Enhances E-Commerce Offerings During US Expansion

Gebrüder Weiss has been on an aggressive growth trajectory during the last few years in the United States. This year, despite a global pandemic and massive supply chain disruptions, the international transport and logistics company has opened a new warehouse in California's premier logistics and distribution hub, the Inland Empire. Additionally, the company has helped many burgeoning businesses embrace an explosion in e-commerce and expand their distribution to the US market.

Warehousing and Fulfillment - West Coast Grooves

The new 100,000 square foot warehouse, located in Jurupa Valley, is twice the size of Gebrüder Weiss' existing warehouse in Torrance, California, which employs approximately 20 workers. The company expects to add an equal number of employees at its additional warehouse facility in the Inland Empire. The expanded capacity will provide both storage and fulfillment solutions aimed at supporting the company's established strategies and new initiatives, such as support for e-commerce businesses, to satisfy today's changing logistics landscape.

In the face of a volatile economy, Gebrüder Weiss remains bullish about growth in the United States.

Global business continuity programs have ensured the company's ability to maintain service levels at its logistics sites, as well as across their air, sea, and domestic trucking services. The company is continuing its original growth strategy by expanding on the West Coast.

Mark McCullough, CEO of Gebrüder Weiss USA, points out, "Many of our customers are already looking closely at nearshoring supply chains and increasing safety stock levels of critical materials and products. With our new warehouse at Inland Empire and an increased interest in e-commerce at home and abroad, we are well-positioned to help companies incorporate these strategies."

E-Commerce Expansion: Surf's Up!

For businesses interested in expanding into the US market, Gebrüder Weiss has enhanced its e-commerce solutions. As a full-service logistics provider with standardized global logistics processes and a deep understanding of how to support businesses as they expand, Gebrüder Weiss has embraced changing consumer behaviors with tailored e-commerce services. One example is with a client in the surfing industry based in Australia.

"We found a partner who could provide a solution – with freight forwarding services from ports of origin in Asia to destinations ports in the US and full

3PL fulfillment services for our business to business and business to consumer sales channels. Gebrüder Weiss USA is now an integral part of our surfboard business in the US,” shared Lachlan Kekwick, Managing Director at The Surfboard Agency.



New to the Global market, The Surfboard Agency chose Gebrüder Weiss to help them conduct business internationally. Orders have grown by 33% since the partnership began.

Some of the challenges growing businesses encounter include finding a logistics and supply chain partner that offers integrated solutions for inbound, fulfillment and outbound needs. Those services are the bare minimum an e-commerce business will need to successfully grow in the United States. Customers may require multiple fulfillment sites to accommodate reliable and quick fulfillment while adhering to standards for transport packing. Gebrüder Weiss does this successfully and provides clients with a single point of contact for all USA logistics requirements.

“Something I learned after spending more than two decades working with all types of businesses,

including e-commerce companies, is you don’t know what you don’t know,” offered McCullough. “This is where our value as advisors to clients is invaluable. Our experience provides peace of mind for customers as we help them navigate potential obstacles while growing their business,” he added.

From management of inbound shipments from overseas ports, including integrated air and sea solutions as well as storage, inventory management and fulfillment services, Gebrüder Weiss has experience in B2B pick/pack and US retail compliance as well as B2C e-commerce solutions. The company also supports final mile delivery options and single Warehouse Management System in the US; which includes visibility for multiple sites in one online portal.



With its strong presence in the US, Gebrüder Weiss ensures cost-effective delivery of all of The Surfboard Agency shipments to the customer.

Gebrüder Weiss has its US headquarters in Chicago and key US locations in Atlanta, Boston, Dallas, Los Angeles, New York, and San Francisco. For more information about Gebrüder Weiss USA, its services and locations, please visit www.gw-world.com.

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US Marketing & Localization for Successful E-Commerce

The pandemic accelerated an ongoing mutation. Any company entering the US market needs to be ready for e-commerce, electronic transactions, and drop-shipping.

Let's see how to build a thriving e-commerce business in the USA.

New Distribution Model

27% of retail transactions are now done online, an enormous increase from 16% in 2019. The world where distributors and retailers controlled access to customers is over and new concepts are gaining momentum: direct to consumer is now key to success.

Manufacturers now talk directly to customers as the traditional distributor role diminishes, creating opportunities for foreign companies as they enter the United States, promising better margins, but also adding new costs.

Retailers, reluctant to carry new products in their stores, are more prone to advertise them on their website and ask the manufacturers to drop-ship products directly to the consumers. This is an opportunity for newcomers to easily reference their products with renowned retailers.

As marketplaces (Amazon, Wayfair, Walmart, Google, etc) gain strength, shortening delivery time and increasing customer expectations add more complexity to this environment. Whoever enters the US market must be prepared to warehouse and fulfill orders coming from different sources, each with different requirements.

E-commerce is rapidly morphing into a broader e-business, covering all the internet business processes: buying and selling products and services, servicing customers, processing payments, sharing information with partners, etc.

Selling online goes further than building an e-commerce website and involves managing several online channels. A successful e-business strategy must include a multichannel approach, one step at a time.

Starting an E-Commerce Business in the US

Selling from a German website holding stock in Germany is not sustainable in the long term. You need a local structure to help you drive your US e-commerce operations.

Localize your Website

Commonly, European companies try to sell online to Americans as they sell in Europe. US consumers love straight-to-the-point websites, where the product features and price weigh more in the buying decision than the history of the company, for example.

Choose US Shopping Cart, Payment, and Shipping Solutions

Prestashop dominates in Europe, Shopify is King in the US. Additionally, you need to take payments, calculate tax rates and evaluate shipping. It is always better to opt for US based service providers.

Don't Forget the B2B Market

Consider a B2B section on your US e-commerce platform to work with retailers more conveniently. They will have instantaneous visibility of your catalog and can drop-ship missing items from you directly to their customers. You reduce customer service workload when processing orders.

Locate your Stock and Operations in the US

You need 3 things for an e-commerce business: a warehouse, a team for operations and an IT system that manages inventory, and exchanges data with your partners. The cost-effective solution is to partner with a local company that can guide you every step of the way to reduce costs.

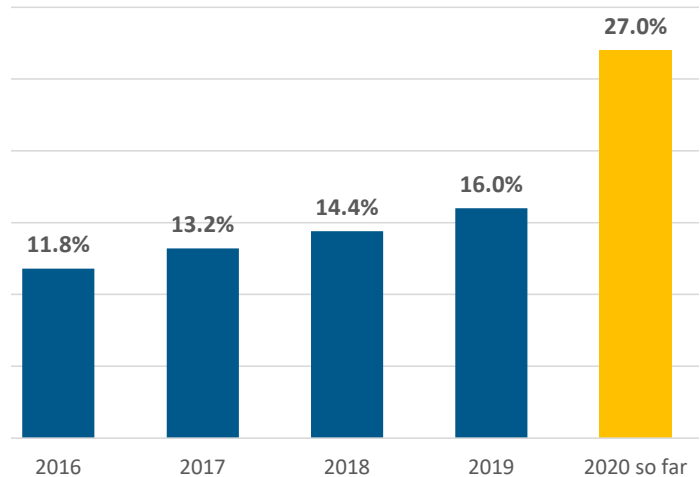
Consider Local Digital Marketing

A well targeted budget can go far. Hire a US agency to manage your online ad campaigns, social media, and overall online marketing. The US is a sum of regional markets that native e-marketing specialists will be better able to decipher.

Protect your Brand, Prices, and Products

Always register your brand with the Patent and Trademark Office. This will allow you to register your brand with Amazon and retain control of your listings. You will want to establish a Minimum Advertised Price that restricts your retailers from selling at a lower price and to also control which retailer sells your products on what marketplace.

e-Commerce sales compare to total retail sales



Source: US Secretary of Commerce.

Conclusion

Doing e-commerce in the US is becoming mandatory. By following certain rules and with reasonable investments, you can market your products on several online channels. Following a well thought strategy has helped foreign manufacturers reach skyrocketing online sales. The first step toward success is to partner with a reliable company that will handle your local stock and operations while backing your e-commerce development with its expertise and know-how.

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Successful E-Commerce in the US: A Checklist

In order to establish and maintain a successful e-commerce business in the US, make sure to think about the following key aspects:

Demand: Conduct market research to determine if there is sufficient demand for your products or services in the target market.

Liability: Assess the legal framework of your product in the US and research policies. The insurance industry has created new policies to respond to liability risks in e-commerce.

Certifications: Even if your product has all of the certifications required in the EU, additional certifications might be required for the US. Find out which certifications your products require, on federal or state levels.

Taxes: Familiarize yourself with the tax system for the different US States. Since the 50 States have different sales tax rates, rules and regulations, it can be overwhelming to tackle this topic without the help of local tax specialists.

Shipping: Review your logistics processes and potential tariffs if you ship from overseas. If needed, line up efficient logistics partners for shipping, brokerage, warehousing etc

Marketing & Localization: Adapt your marketing and sales to the US audience. Your existing product descriptions and marketing might be perfect for Germany, but the US has its own requirements for effective marketing.

Advertising Compliance: Comply with the applicable regulations for online advertising. The Federal Trade Commission offers valuable guidelines on US compliance, disclosures, etc.

Credit & Social Security: Without an established credit history or social security number it can be challenging to find a way to process credit card payments. Establish your payment methods for your online store

Customer Service: Quick and effective customer service is key in the US: be available via a US phone number.

How GACC Midwest Supports You



GACC Midwest supports German companies in their US market entry and assists to create sustainable success in their German-American business. Our professional consulting services are tailored to German companies in the US market. All offerings have been developed by GACC Midwest to support German companies' market entry, recruiting, marketing, and events.

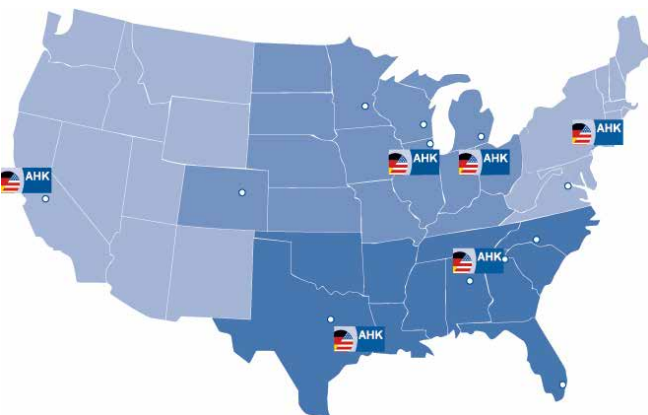
As a member of our network, you enjoy a multitude of benefits. Our team can leverage our extensive network to connect you with experienced service providers for all aspects of your US market entry or expansion.

Other GACC Midwest Services

GACC Midwest, with its offices in Chicago and Detroit, has broad experience and knowledge of the market conditions in the US and in Germany. In our role as an advisor, we help German companies identify opportunities for cooperation and growth in the US market. Our team is specialized in effectively setting up your subsidiary for success in the US.

- Market Research USA
- Site Selection USA
- Virtual Office USA
- Business Partner Search USA
- M&A Services
- Event & Trade Show Services
- Recruiting Services and Apprenticeships in the US
- Intercultural Coaching
- Marketing and Localization
- Publications, Webinars, and Social Media
- Collection Services & Credit Checks

About GACC Midwest



The German American Chamber of Commerce® of the Midwest (GACC Midwest) is headquartered in Chicago with a branch office in Detroit and has an extensive chapter network across the American heartland. Founded in 1963, GACC Midwest is an integral part of the global German Chamber Network (AHKs) with 140 offices in 92 countries. Our continuing mission is to promote, and assist in the expansion of bilateral trade and investment between Germany and the United States, especially the Midwest. Our organization combines elements of a trade commission, a membership association, and a professional consultancy - quite a unique concept in international trade promotion.

www.gaccmidwest.org

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