

# Frictionless e-commerce and global growth

A research report on how businesses selling  
online can change indirect tax management  
from inhibitor to enabler

OPEN



# Executive summary

The last two years have seen accelerated growth for businesses selling online. Adapting rapidly to changing circumstances, these businesses have seized the opportunities to expand and are ambitious for more. However, the complexities of global trade can hold businesses back and stifle ambition. One particularly difficult area is indirect tax, where challenges increase in parallel with sales growth and geographical diversity.

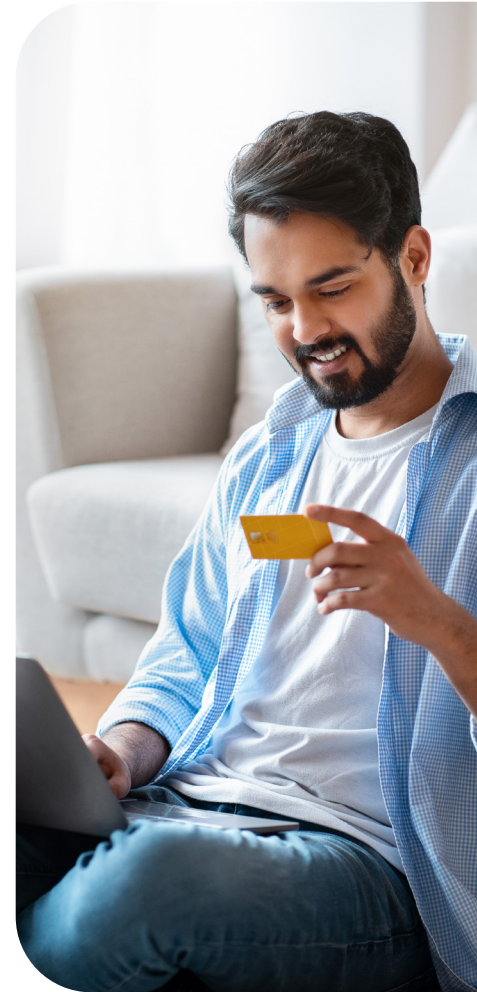
To be free to sell in any country, businesses must be confident that they are able to handle all the relevant tax calculations successfully and comply with the regulations of multiple tax jurisdictions worldwide – all while aiming for an increasingly frictionless customer journey.

And in today's crowded online spaces, simply being online is not enough. With competitors only a click away, a seamless sales experience is key to ensuring customers complete the transaction and come back again in future. This means it's vital to resolve any issues that may cause delays and obstacles during the checkout process.

Given the complexities involved, indirect tax issues have the potential to be a major cause of such delays and obstacles if not dealt with smoothly in the background.

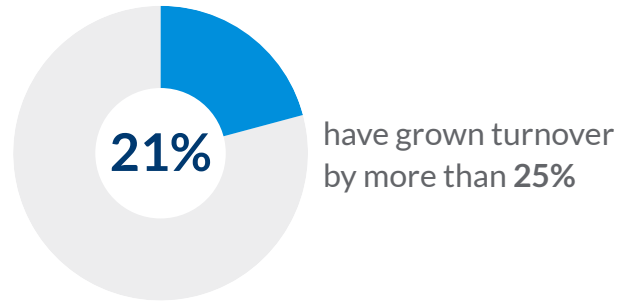
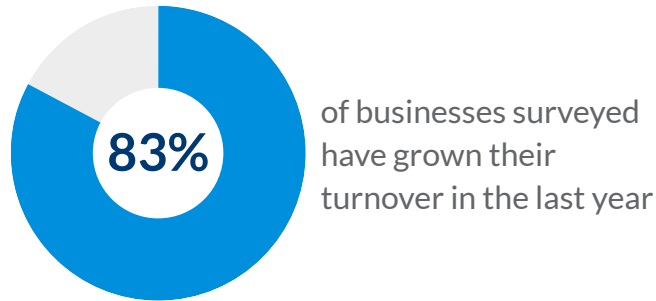
In a bid to understand how indirect tax issues are impacting growth and causing shopping cart friction, and how these challenges are being tackled, we spoke to 730 tax and finance decision makers globally from businesses making cross-border sales online.

We found that most businesses recognise that the way they manage indirect taxes affects their ability to expand globally without barriers. However, many still aren't following best practice and so are both compromising the quality of their customer journey and limiting growth potential. By adopting specialist tax technologies, business can transform their indirect tax approach and turn tax from a growth inhibitor to an enabler.

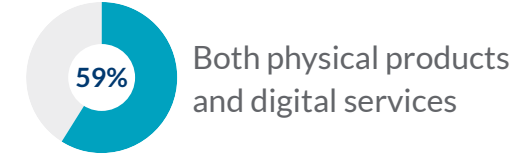


# Respondent overview

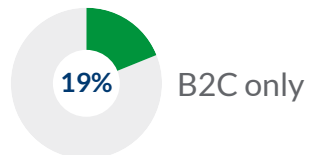
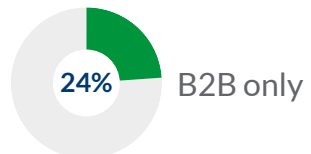
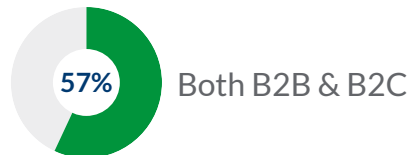
## Rate of growth



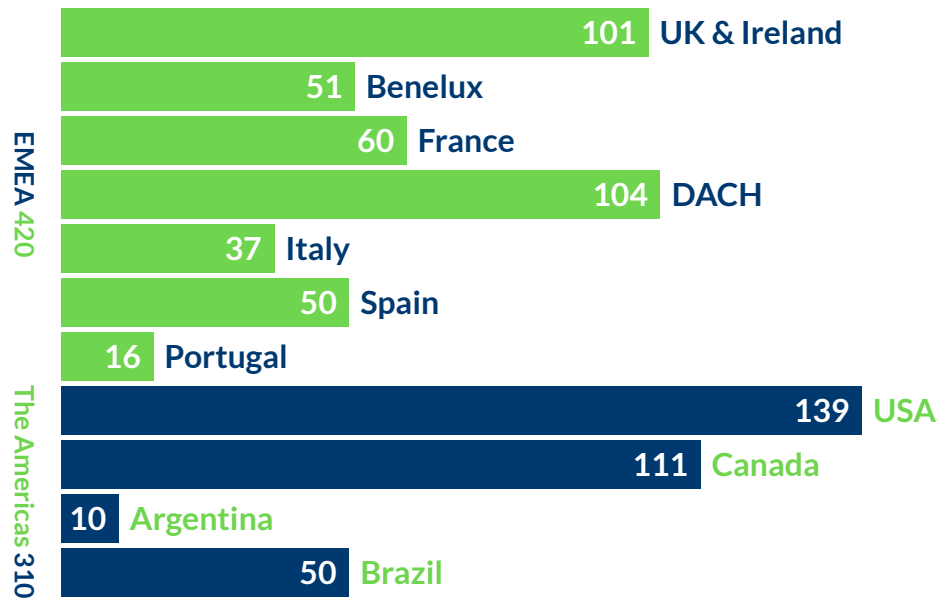
## What they sell



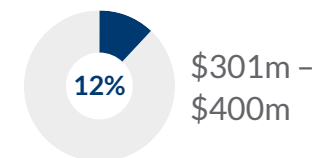
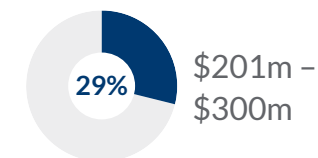
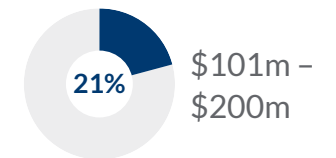
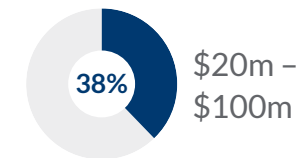
## B2B or B2C?



## Respondent location



## Revenue



# The online sales landscape: opportunities, challenges, and risks

With online sales booming, businesses see a range of opportunities to further maximise growth. However, as sales strategies, markets and products become more diverse, indirect tax complexity increases.

## Opportunities

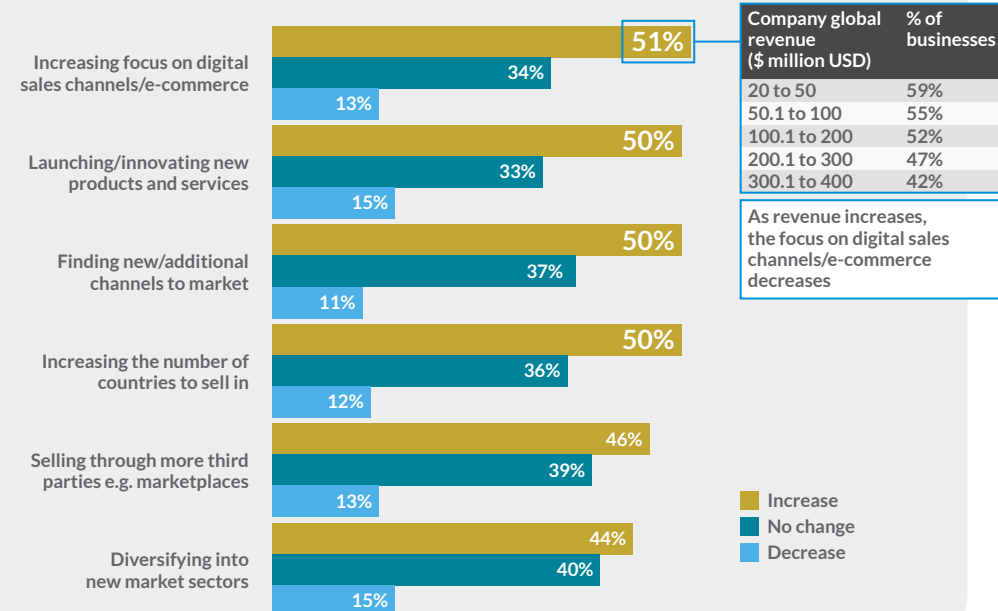
### Expanding and diversifying products and channels to market, while minimising customer journey friction

A clear majority of survey respondents reported that the number of countries they sell to online has increased over the last two years. Only 2% reported a decrease. This expansion presents big opportunities for those able to incorporate geographical diversity without introducing obstacles to sales.

Alongside geographical expansion, businesses are diversifying at pace, opening new routes to market, planning product/service launches and innovations, and exploring new market sectors.

For a majority, the development of omni-channel (a single, integrated customer buying experience across multiple channels) is a top strategic priority.

### Diversification is taking many forms



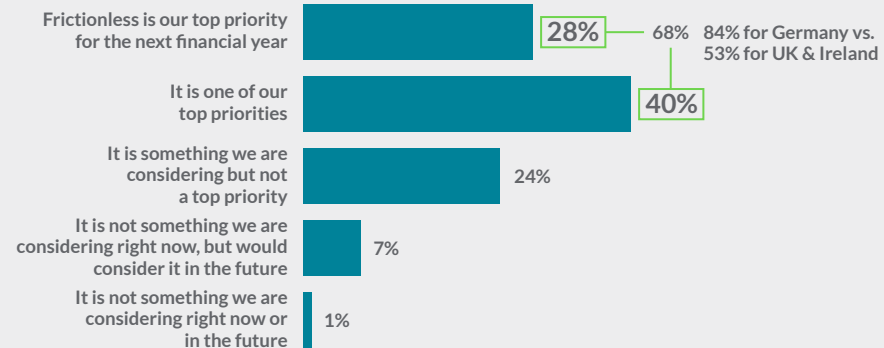
Half have increased their focus on digital sales channels, or are looking to increase or introduce online subscriptions and a similar percentage to increase or introduce either their own or third party marketplaces.



The sheer amount of change happening at speed brings added complexity. But by keeping a focus on the customer experience throughout, businesses can spot and overcome issues that may cause friction and so maximise the potential of new strategies and approaches.

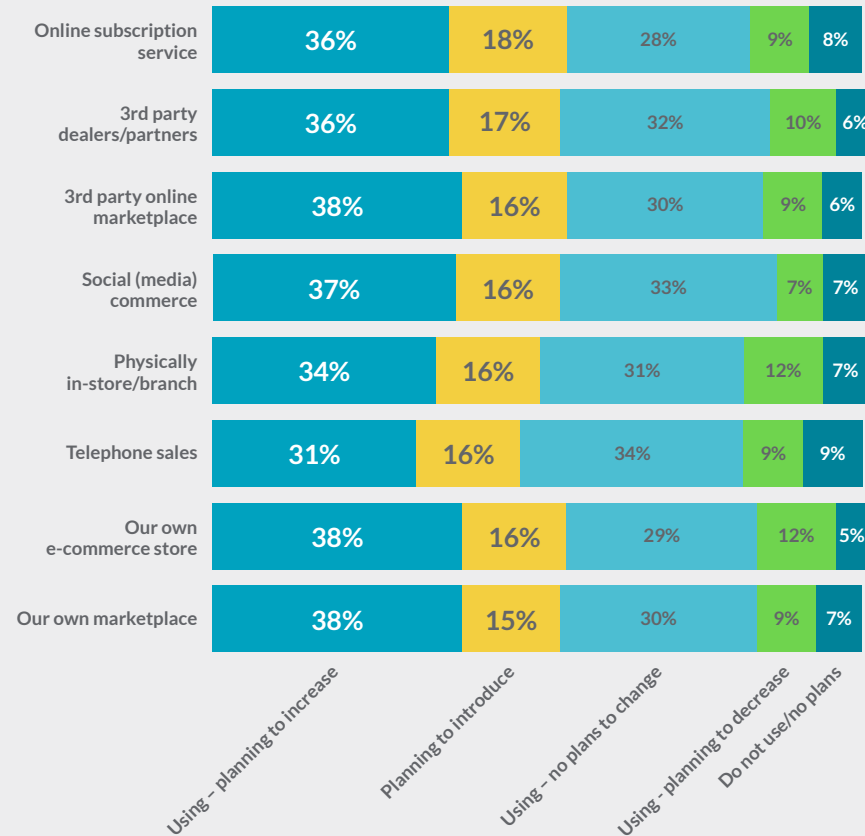
Encouragingly, 68% consider frictionless commerce a strategic priority, with only 1% saying they are not considering it at all. Our question defined frictionless commerce as seamless, convenient buying experiences that integrate as naturally as possible into a customer's everyday activities. Similar thinking applies to omni-channel – it's a high priority for 58% of businesses with only 12% not considering it at all.

#### Frictionless commerce and omni-channel are top priorities for many



The importance of omni-channel is demonstrated by the increase in diversity of routes to market. As new ways of reaching customers are adopted and expanded on, the strongest brands will be those that provide a consistent, high quality customer experience across all channels. When a customer knows that however they choose to interact with you, they will get a smooth, streamlined service, you have a far better chance of turning them into repeat buyers and loyal brand advocates.

### Multiple routes to market provide huge opportunities for the omni-channel approach



Due to rounding to the nearest whole numbers, occasionally, question answers total 99% or 101%



# Streamlining systems and processes to support efficiency and drive growth

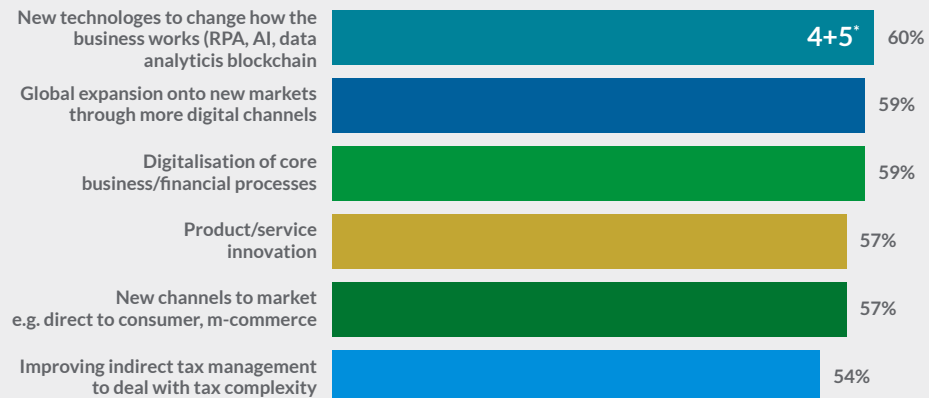
It's no surprise that a high percentage of respondents also cited new technologies and digitalisation of core business and financial processes as a top growth opportunity.

Streamlining processes (and boosting integration between processes and platforms) makes sound business sense. Not only do streamlined and integrated back-office systems support a smooth customer journey, but they also deliver a range of benefits across the business. By driving down costs and increasing productivity, you release funds to spend on proactive growth activities. In addition, more efficient technology allows you to improve controls, reduce errors, and produce more reliable and timely data – all of which are essential in both driving and managing growth.

## Better indirect tax management means better growth

Improving indirect tax management to deal with growing complexity was seen as a particular top growth opportunity by 54%. This is positive and shows that many people recognise their current approach to indirect tax management could be holding them back and want to make improvements. However, the fact nearly half of respondents did not cite such improvements as a key opportunity suggests a possible lack of understanding of the tax obstacles. The urgency of tackling these obstacles is likely to become more pressing as expansion continues.

### Improvements to internal processes present top growth opportunities



\*Respondents were asked to rate from 1 to 5 where 1 - no opportunity and 5 - large opportunity

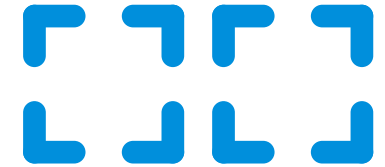


# Challenges and risks

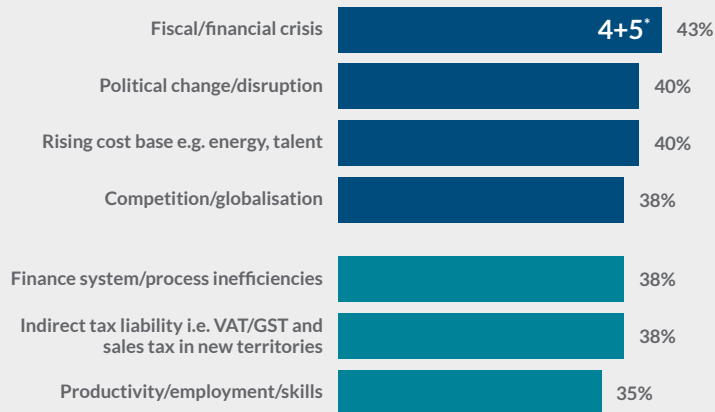
## Increased exposure to tax liability and friction during checkout as global reach grows

Every ambitious business is aware that change and growth bring risks – and that many risks are currently magnified by today’s uncertainties. As you would expect, the top risks to growth in 2022 were identified as macro issues such as fiscal crisis, political disruption, and rising costs.

However, growth presents substantial business risks, as complexity increases and change leads to growing pains within the organisation and with organisational processes. Finance system/process inefficiencies and indirect tax liabilities were seen as key potential risks. Over half of respondents were concerned about the complexities of entering new markets and geographies (e.g., indirect tax). Manual processes becoming burdensome and burdensome indirect tax management and compliance were also substantial concerns.



### Macro issues including indirect tax liability are key concerns for 2022



### Growth and diversification lead to operational growing pains



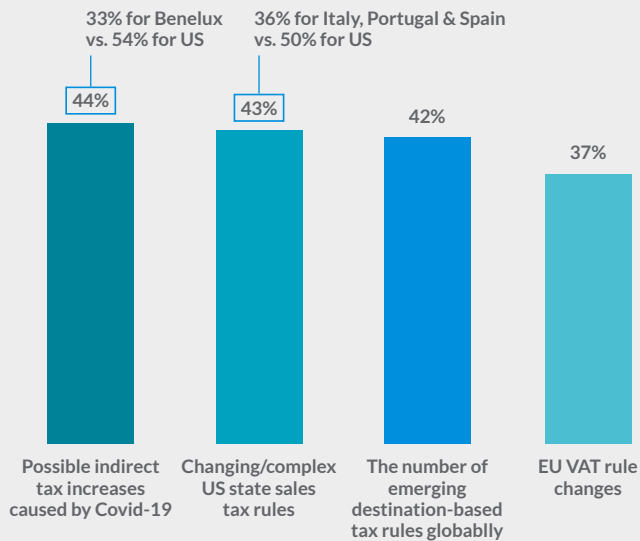
\*Respondents were asked to rate from 1 to 5 where 1 - no risk and 5 - large risk





Looking at indirect tax, the two biggest concerns highlighted were possible indirect tax changes introduced as a result of Covid-19 and the changing/complex US state sales tax rules.

#### Covid-19 has added to the already complex indirect tax agenda



Anxiety about post-Covid changes is likely to reflect two core issues. First, the difficulty of keeping on top of rates and rules that change rapidly; second, the technical difficulties and costs associated with updating internal systems accurately and often at short notice.

Concerns over US rules are also more than justified. With every state making their own sales tax decisions (covering rates, when tax is liable, product categories, reporting, filing and more), selling to US customers presents businesses with a potential tax minefield. And across the globe, more and more countries are bringing in destination-based rules furthering indirect tax complexity for global sellers.



When asked which specific indirect tax issues impacted on their ability to grow confidently, over half cited each of the challenges around calculation at digital point of sale, difficulty ensuring registration with all tax authorities, and untenable manual tax processes.

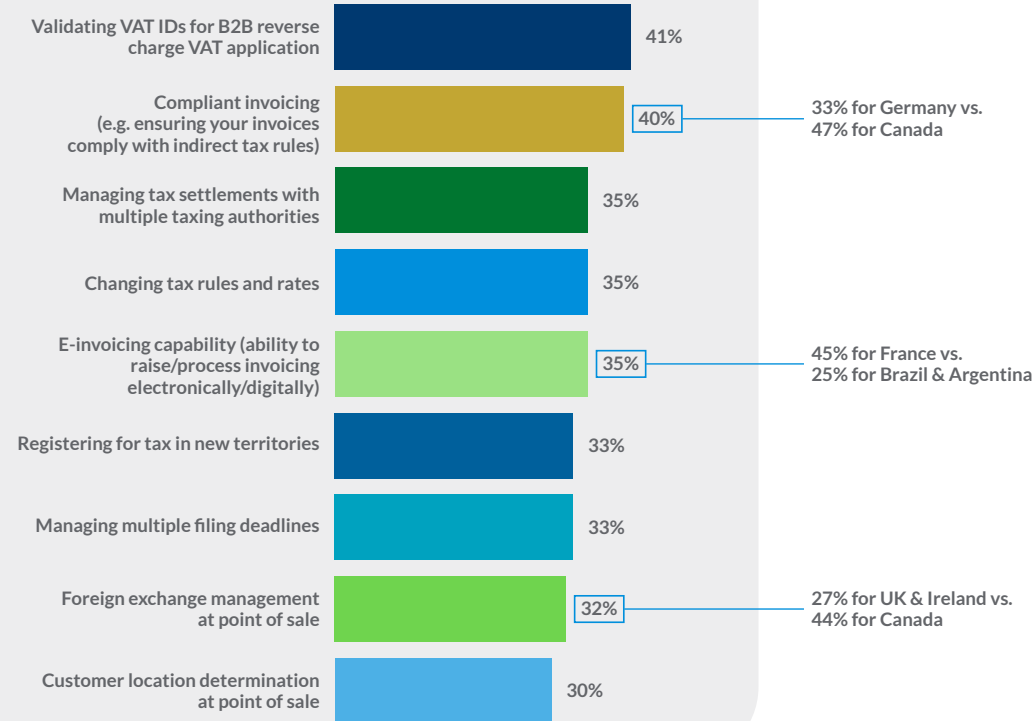
### Growth confidence links directly to indirect tax capability



\*Rating scale 1 to 5 where 1 = no risk and 5 = large risk

Asked which issues had a direct impact on their ability to trade globally without barriers, 41% cited validating VAT IDs for B2B reverse charge VAT application, 40% cited compliant invoicing, and 35% cited managing tax settlements with multiple tax authorities.

### Global selling impacts indirect tax in many ways



The more varied your customer locations, routes to market, and products and services, the more diverse the tax calculation and compliance requirements. As diversity increases, so in turn does complexity and the potential for friction and obstacles.

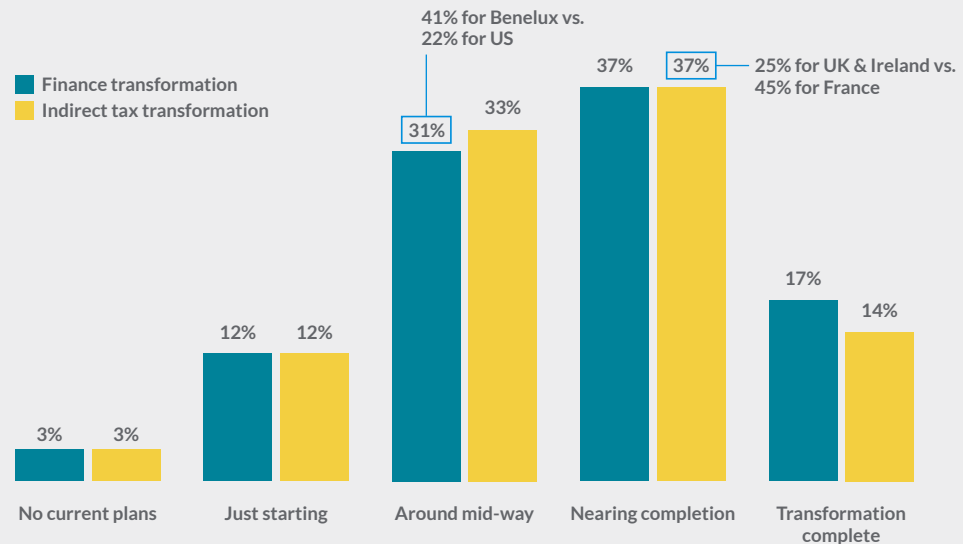


# Is indirect tax management prepared for a frictionless future?

To move towards frictionless commerce, it's vital to be able to identify where the complexities lie. With a clear picture of the challenges, you can then make effective decisions about the way forward and put appropriate changes in place.

Our findings show that most organisations have introduced finance and indirect tax transformation programmes – but that for many, the transformation is still a work in progress. This suggests that there is substantial work yet to be done in making sure systems and processes are being improved in line with current exponential growth and the related complexities. And, given the constant shifts in the indirect tax landscape, it is vital that plans have the flexibility to adapt to ensure systems meet evolving requirements.

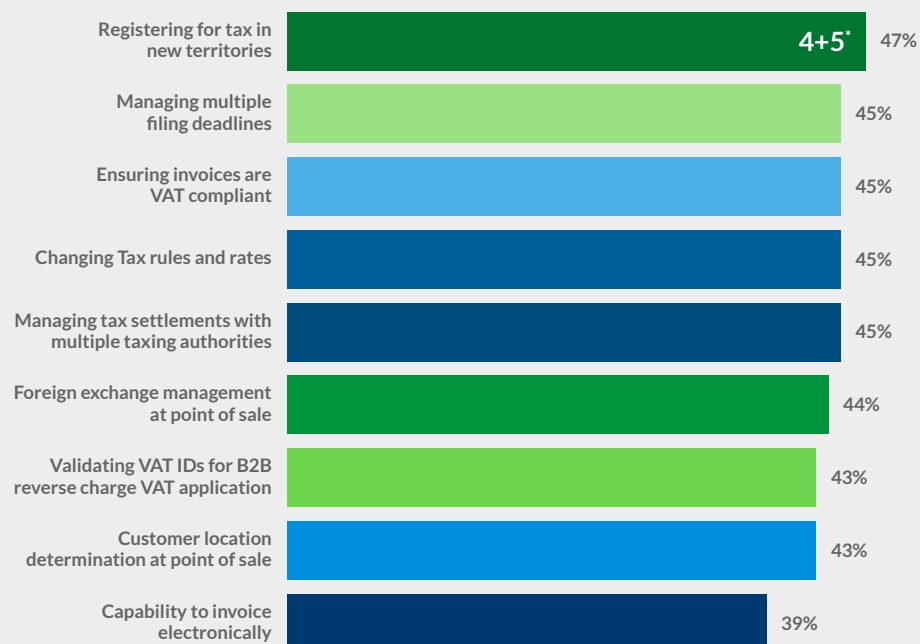
Finance and tax transformation is still work in progress



The aspect of indirect tax management businesses found most complex was registering for tax in new territories. Not far behind came keeping track of changing tax rules and rates, managing multiple filing deadlines, and ensuring VAT compliant invoices. Other key issues included foreign exchange management at point of sale, validating VAT IDs for B2B reverse charge, customer location determination at point of sale and the capability to invoice electronically.

The substantial percentages of respondents citing each issue as complex for their business suggests current indirect tax management methods may not be as effective as they could be.

#### Business face multiple indirect tax obstacles



\*Rating scale 1 to 5 where 1 = not complex at all and 5 = highly complex

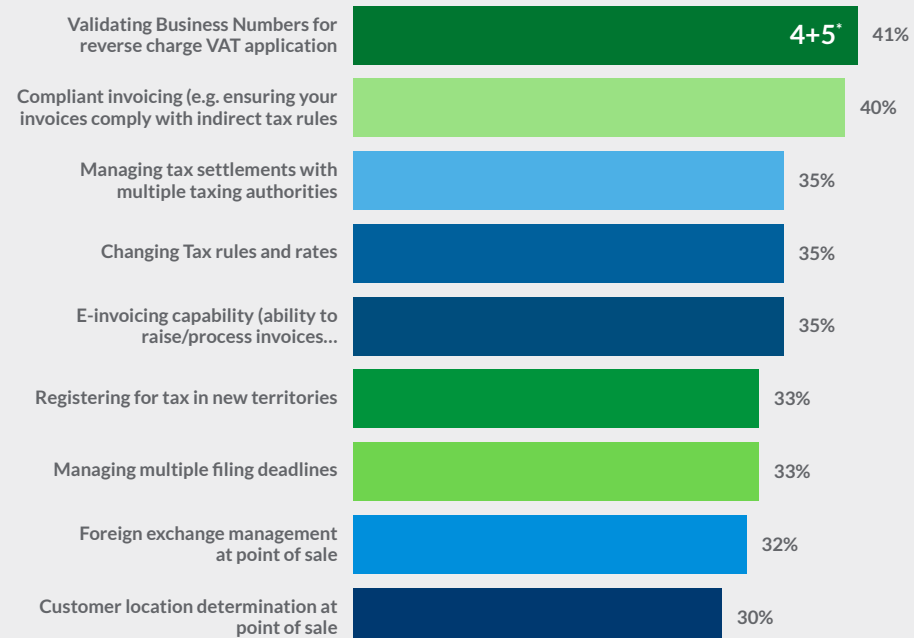


Our questions also revealed that businesses would benefit from improved understanding of the detail of indirect tax issues. Given the complications involved this appears to be a priority.

Respondents were most confident about their level of understanding for compliant invoicing, but even here fewer than two-thirds rated their understanding as high. Only 58% rated their understanding of point-of-sale foreign exchange management at this level. For registering tax in new territories and managing multiple filing deadlines and the respective percentages were just 56% and 54%.

On average, only 20% see themselves as 'expert' in a particular area.

#### Indirect knowledge gaps could reduce effectiveness



\*Rating scale 1 to 5 where 1 = little to no understanding and 5 = expert level of understanding

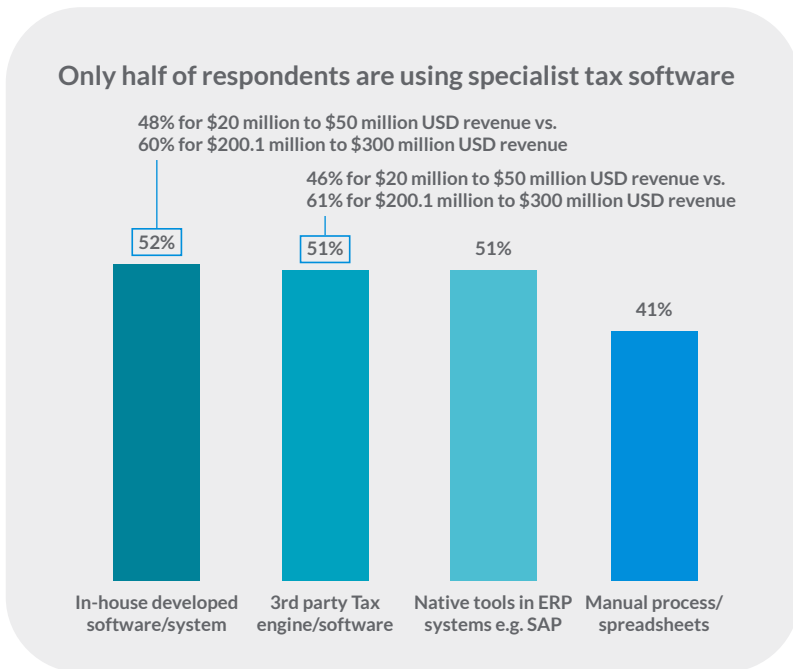
For additional expertise, 32% of respondents bring in a big 4 accountancy firm, 32% an alternative accountancy firm, 30% a specialist tax managed service provider, and 30% an independent tax consultant.



When it comes to technology, only half of respondents use 3rd party indirect tax engine – even though of the options available this is the method seen as delivering the best results by those using it. Despite the complexity of the challenge, around half are using in-house developed systems and/or native tools within their ERP system. 41% are still using manual processes and spreadsheets. Many use multiple methods which may lead to unnecessary friction and add complexity.

In-house developed indirect tax systems and native ERP tools were typically designed for times when tax was far simpler. As a result, they often lack the capacity to incorporate the additional rules and rates required for today's global sales scenarios. Making changes can also be costly – even if you can keep track of what's needed. And as we've seen, levels of internal expertise are typically low, making it hard to be sure outcomes are correct. This means errors hidden deep within the system can lead to compliance failure.

Manual processes and spreadsheets are time consuming, and prone to error. In addition, these manual methods will prove increasingly problematic as more and more tax authorities demand real-time reporting.



# Optimising indirect tax management for success

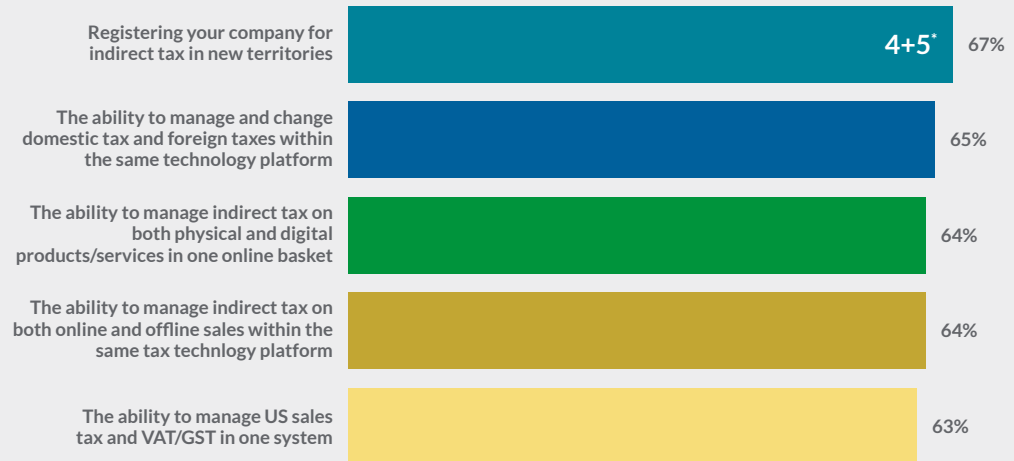
Respondents generally agree that broad indirect tax management capabilities are crucial for growth to be successful. Around two-thirds of respondents rated each of five key indirect tax capabilities as very important. Significantly, four of the five capabilities involved consolidating and streamlining tax management technology:

- Managing domestic and foreign taxes within the same platform
- Managing offline and online sales on the same platform
- Managing indirect tax on both physical and digital purchases in a single online basket
- Managing US sales tax and VAT/GST in one system

These technical capabilities are vital in underpinning seamless e-commerce across borders and enabling businesses to diversify and grow.

The fifth most important capability was registering the company for indirect tax in new territories (67%), which is of course essential in expanding global reach.

## Managing indirect tax in online sales requires a comprehensive solution

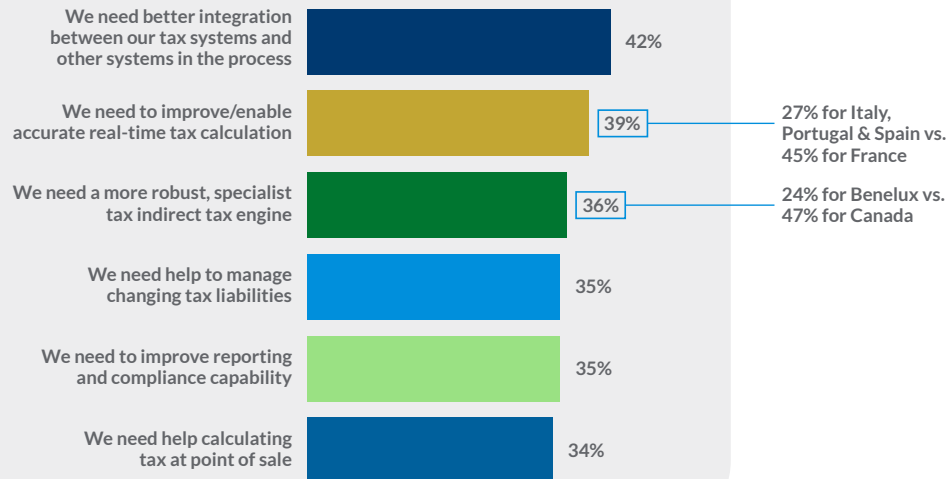


\*Rating scale 1 to 5 where 1 = not at all important and 5 = very important



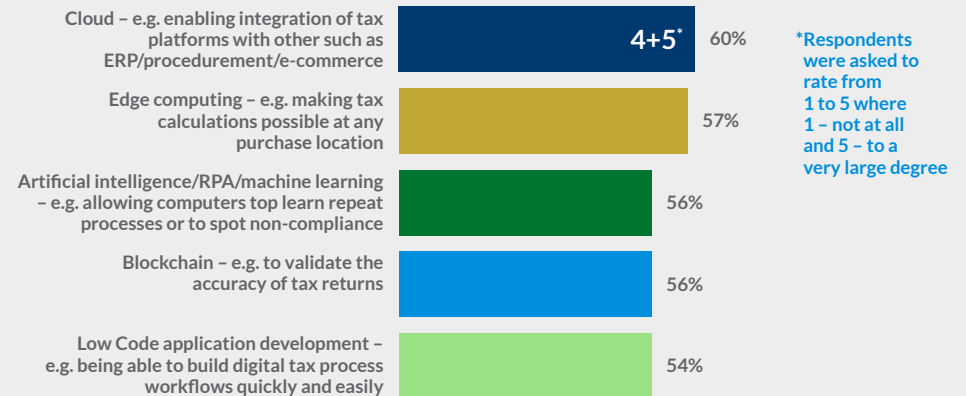
Many respondents reported that success in achieving strategic goals around omni-channel and frictionless commerce would require changes to their indirect tax management/systems. Top changes identified were improved system integration, improved accuracy around real-time tax calculations, and a more robust tax engine.

**Many organisations recognise they need to adapt their tax approach to meet omni-channel and frictionless commerce goals**



Technology plays a crucial role and respondents see multiple ways they can use it to improve their indirect tax management. Cloud based integration of tax platforms with other tech (for example, ERP, procurement, and e-commerce systems) was the top prediction (60%), closely followed by edge computing making tax calculations possible at any purchase location. Well over half also thought artificial intelligence/Robotic Process Automation and machine learning had potential, allowing computers to learn repeat processes and spot non-compliance. The same percentage think blockchain could be useful in validating tax return accuracy.

**Technology approaches that will improve indirect tax compliance in the future**





Identifying what's needed is a first step, setting goals and taking action is the essential second. Looking ahead, only 39% of respondents said they had a general aim of reducing indirect tax barriers to growth. Only 45% are specifically aiming to increase automation to reduce the indirect tax management burden, and only 44% expect to be digitalising tax as part of the customer journey. Similarly, only 43% are planning to find ways to reduce the risk of indirect tax non-compliance/fines. Yet optimising indirect tax management is a key building block in delivering the frictionless customer experiences so essential for maximising global growth potential.



# Conclusion

## Growth and indirect tax – it's all part of the same strategy

To stay ahead, businesses are increasingly open to new ways of reaching customers and keen to exploit all the avenues available. Standing still is not an option.

But every aspect of business growth and change brings potential indirect tax ramifications. Whether it's a new sales location, a new product or service, or a new route to market, extra tax processing and compliance issues are likely to follow. A frictionless future depends on being prepared to manage the associated complexities at every stage. Yet indirect tax is often an afterthought, with businesses instead implementing isolated solutions to fill each immediate need.

This short-term thinking slows down growth and risks tax complexity outpacing business capacity – which in turn introduces uncertainty and risk. You lose time trying to figure out what the issues are and how to deal with or fix them, and you increase your risk of being audited for non-compliance. Most importantly, you risk missing opportunities and allowing competitors to take a lead in the areas you have prioritised for your own growth.

To move forward with confidence means finding a comprehensive indirect tax solution that will meet all your needs rather than increasing your risks. The first step in identifying the right approach is to set your vision for tax success. Over the next 12, 24 or 36 months of growth, what will you need to do to support the business? The second step is to consider what indirect tax support you need to get the business to where you want it to be. The third and final step is to look at where you can streamline effort to promote profitable growth. At each of these steps, consider both the customer experience and your internal processes.

With the right solution in place, you will create an indirect tax environment giving both greater certainty and clarity and lower audit risk. This in turn opens new global growth opportunities free from tax barriers, helping you seize market share across new locations and routes to market.





## About Vertex

**Vertex Inc.**, is a leading global provider of indirect tax software and solutions. The company's mission is to deliver the most trusted tax technology enabling global businesses to transact, comply, and grow with confidence. Vertex provides cloud-based and on-premise solutions that can be tailored to specific industries for major lines of indirect tax, including sales and consumer use, value added, and payroll. Headquartered in North America, and with offices in South America and Europe, Vertex employs over 1,200 professionals and serves companies across the globe.

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