

GLOBAL E-COMMERCE

MARKET TRENDS REPORT 2024 / 2025

Industry survey, market analysis and recommendations for cross-border success

Produced in conjunction with







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FOREWORD

As the global e-commerce landscape continues to evolve, businesses face both unprecedented opportunities and significant challenges in the realm of cross-border selling. Valued at \$1 trillion in 2023, cross-border e-commerce remains a dynamic growth avenue for businesses worldwide.

Our latest survey of over 200 retailers, manufacturers and logistics service providers from North America, Europe and Asia Pacific delves into these opportunities and the hurdles that lie ahead.

In this report, we examine the current state and future outlook of cross-border e-commerce. An impressive 73% of respondents anticipate growth in this sector over the next two years, driven by the increasing global reach that cross-border selling offers. However, realising this potential requires meticulous attention to compliance and customer satisfaction, areas where automation can play a pivotal role.

As we explore the findings from our survey, it becomes clear that compliance is a major concern for international sellers and shippers, with costs and regulatory complexities cited as significant challenges. The findings underscore the importance of due diligence in international trade, where more accurate Harmonised System (HS) codes are vital for smooth customs clearance and cost management.

To counter these challenges, businesses are adopting a proactive approach to cross-border e-commerce. Embracing automation and leveraging expert tools are key strategies to overcoming the complexities of global trade.

Avalara is committed to supporting businesses in this journey, providing the tools and insights necessary to thrive in the dynamic world of international e-commerce.

Continue reading for more detailed insights and recommendations for cross-border success.

I hope you enjoy our research in partnership with Reuters Events, Supply Chain.



Craig ReedSVP, Global Trade
Avalara





EXECUTIVE SUMMARY

Key trends

The key trends encountered in our industry survey and analysis are:

- The top three markets for cross-border e-commerce are North America, Europe and Asia-Pacific
- Optimism remains high for cross-border e-commerce, with six in 10 supply chain professionals making or planning to make cross-border sales in 2024
- The cross-border space is becoming easier to operate in thanks to investments in tech as well as solid marketplace infrastructure. Confidence in the sector has risen to 46% compared to 42% in 2023
- Changes in legislation such as de minimis value thresholds are affecting cross-border growth, with sale costs exceeding the de minimis value in 33% of cases
- Only 20% of supply chain professionals are completely prepared for the ICS2 3 Release
- Carriers are increasingly seeing the value of outsourcing, with 55% automating invoicing for duty and taxes, and 82% using technology for processing documentation

Maintaining customer service in international markets

- Transparency is key for customer service, with 60% of consumers abandoning carts due to hidden costs
- Showing costs at the browsing stage will not be a priority for 58% of retailers due to the associated complexities
- Ninety-four percent say that showing the landed cost at browsing stage will provide a transparent customer experience
- One in five (21%) are showing costs at browsing stage because their competitors do so
- Almost two-thirds (62%) restrict sales depending on geographical IPs of customers

Growth stats in international e-commerce

- Almost three-quarters of supply chain professionals (73%) expect cross-border e-commerce transactions to increase in the next two years
- Almost one-quarter (24%) say that it will grow significantly in the next two years
- Nearly half (49%) sell cross-border via marketplaces
- Global reach is the main advantage of selling via marketplaces, according to 53% of supply chain professionals

Challenges of cross-border selling

- The biggest challenges for 2024 are costs, with delivery costs, returns costs, tariffs and duties, unforeseen costs and supply chain costs ranked at 55%, 48%, 43%, 32% and 32% respectively
- Shifting consumer patterns are one of the biggest leaps in concerns for vendors, affecting 38% of supply chain professionals compared to 28% in 2023
- Macro factors such as political instability (51%) and risk of recession (43%) rank highly for future concerns
- The main reason for not selling cross-border is that it is too complex, say 13%

The risks of poor compliance

- Compliance remains a challenge, with 44% struggling to comply with HS codes and 34% of sales delayed due to misclassification
- Incorrect classification and documentation means that 5% of sales are frequently delayed and 29% are delayed quite frequently
- Forty-one percent say that they experience fewer errors when outsourcing HS classification





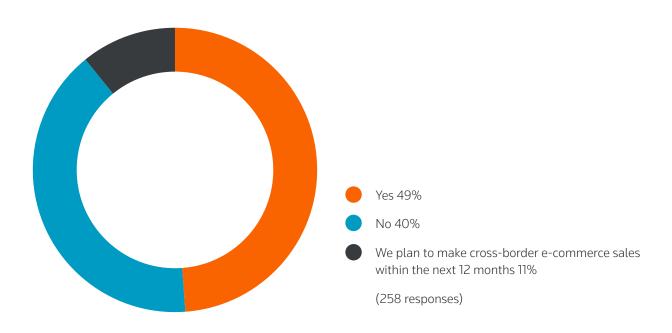
1: THE STATE OF CROSS-BORDER SELLING IN 2024-25

Valued at \$1 trillion in 2023, cross-border selling continues to offer retailers untapped growth opportunities. In our latest survey of more than 200 supply chain professionals worldwide, we explore these opportunities in more detail – and the challenges ahead.

In spite of these challenges, the outlook remains optimistic for international e-commerce. Participants from 31 countries across Asia-Pacific, Europe, Latin and North America and the Middle East and North Africa shared their thoughts.

Among them, retailers, manufacturers, technology providers and LSPs noted the growth in this sector. Six in 10 respondents are making or planning to make cross-border e-commerce sales, citing global reach as a key motivator. Our findings showcase the need for due diligence to reduce delays and improve customer service – aided by automating compliance processes.

FIGURE 1: DOES YOUR ORGANISATION MAKE CROSS-BORDER E-COMMERCE SALES, OR PLAN TO IN THE FUTURE?



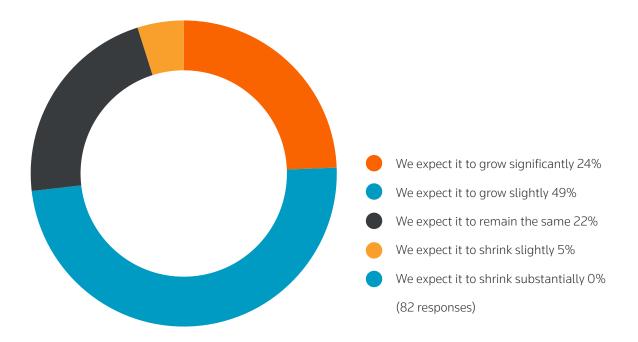
1.1 Almost three-quarters expect international growth

Almost three-quarters of respondents making cross-border sales (73%) noted that they expect this to grow, with 22% responding that it will remain the same and just 5% expecting it to shrink 'slightly' over the next two years.





FIGURE 2: HOW DO YOU EXPECT THAT FIGURE TO CHANGE IN THE NEXT TWO YEARS?



Patrick Frith, Senior Director of Growth Cross-Border EMEA at Avalara, commented: "It's encouraging to see that three-quarters of supply chain professionals think cross-border selling will grow. Customers are looking outside of their domestic and regional markets. We enable this international growth by providing quality tools to assist cross-border transactions."

1.2 Optimistic outlooks for easier cross-border selling in future

With tools such as <u>Avalara's Tariff Code Classification and AvaTax Cross-Border</u> making selling easier, professionals feel positive about the future.

Almost half (46%) described the business environment as easy to operate in. Even more encouraging, 46% think it is going to become easier in the next 12 months.

In terms of markets, North America and Europe saw the most growth potential, with 25% of respondents each citing these as their top regions. Asia-Pacific came in at a close second with 22%, followed by Latin America and the Caribbean at 13%, and Middle East and North Africa at 12%.

46%

described the cross-border business environment as easy to operate in.

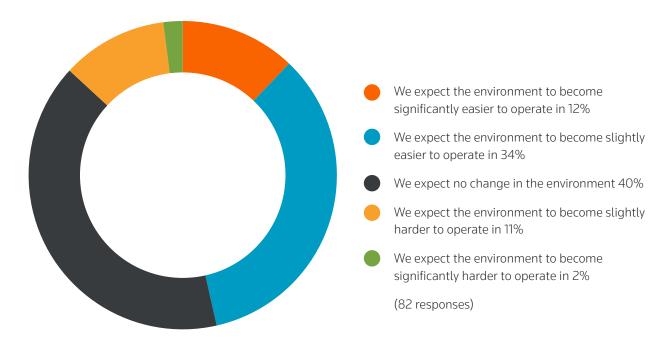
How do you find the business environment for cross-border e-commerce transactions today?

(82 respondents)





FIGURE 3: HOW DO YOU EXPECT THIS FIGURE TO CHANGE IN THE NEXT 12 MONTHS?



1.3 More than half see the benefits of global reach through marketplace selling

Marketplace selling poses its own challenges due to shifts in marketplace facilitator laws. However, of the 119 retailers surveyed who use third parties such as Amazon and Etsy, more than half (53%) noted benefits, including global reach.

Second to this key advantage was marketplace infrastructure. One-third of all marketplace retailers (33%) said that marketplace infrastructure, including payment processing and marketing, made this type of selling more appealing. In third place was credibility and trust at 10%, and regulatory compliance at 4%.

While sellers can benefit from perks such as Amazon's speedy courier services, it's important not to overlook the obstacles. Factors such as limited brand control and fees can hinder the transition into marketplace selling. By automating key processes such as invoicing for duty and taxes, sellers can have a clearer view of what to expect. Looking at 2024 and beyond, supply chain professionals should consider third parties to help overcome some of the biggest challenges in cross-border e-commerce growth.





2: ADDRESSING CHALLENGES FOR CROSS-BORDER E-COMMERCE GROWTH

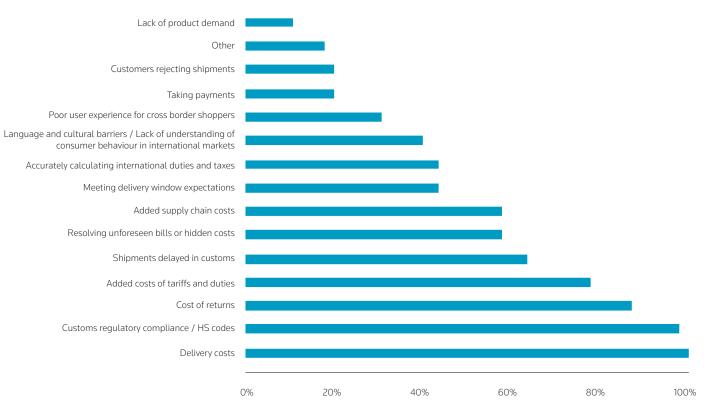
While cross-border selling will always have its challenges, technology evolves with it to speed up processes. "We cannot get away from the complexities of cross-border," says Frith. "The only thing we can control is the tools we use."

The root of many of these complexities is compliance. With legislation changing all the time, supply chain professionals are at risk of misclassifying products. In turn, using the wrong Harmonised System (HS) codes leads to delays, added costs and potential legal disputes. Avalara's <u>Tariff Code Classification and Managed Tariff Code Classification</u> tools automate this process to minimise these risks – one of the most significant being costs.

2.1 Costs named the biggest challenge for cross-border e-commerce transactions

When considering collective issues, costs were identified as the biggest challenge for cross-border e-commerce transactions. Delivery costs, return costs, added tariffs and duties, unforeseen bills and added supply chain costs were cited at 55%, 48%, 43%, 32% and 32% respectively.

FIGURE 4: WHAT ARE THE MAIN CHALLENGES IN COMPLETING CROSS-BORDER E-COMMERCE TRANSACTIONS?







Notably, customs regulatory compliance and HS codes ranked second at 54%, with the latter affecting the former cost issue. It's no surprise to see the correlation between the biggest challenges and the most significant reasons for not pursuing cross-border e-commerce.

When asked why they did not make cross-border e-commerce sales, 11% of supply chain professionals said they lacked the capacity to perform due diligence and/or risk assessments. Similarly, 13% said the process was simply too complex.

Richard Face, Senior Prospect Marketing Manager, Global Solutions at Avalara says:

"Many associated costs stem from misclassification, for example, unforeseen additional tariffs. The Avalara classification engine helps to automate this process and reduce surprises."

This also applies to professionals restricting sales in certain regions. One-third (33%) said sale costs exceed de minimis values, resulting in higher taxes, while 42% said shipping taxes were too high. Tools such as AvaTax Cross-Border deliver real-time calculation of customs duties to provide full transparency and encourage cross-border growth.

2.2 Logistical obstacles and brand control via marketplaces

When considering marketplace selling, the biggest disadvantage was logistical challenges, with 37% of 51 respondents citing this. Evan Wright, Senior Director of Growth, Cross-Border at Avalara, says:

"These logistical concerns include restrictions, as well as setting clear expectations on the total cost of international shipping. This is especially important for customer service, as HS codes are crucial to enable Delivered Duty Paid (DDP) shipping, saving any hidden costs for the customer."

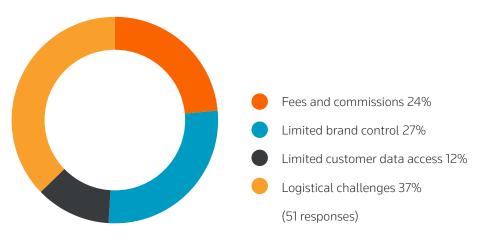
Frith adds that concerns over logistical delays can be allayed with transparency.

"Our tools can help transit time through customs. It's even possible to get updates via text message to quicken the customs clearance process."





FIGURE 5: WHAT IS THE MAIN DISADVANTAGE OF SELLING CROSS-BORDER VIA A MARKETPLACE?



With all of these issues affecting the end consumer, it's important to address brand control too. More than one-quarter (27%) of supply chain professionals worry about brand control when selling via a marketplace (see Chapter 3).

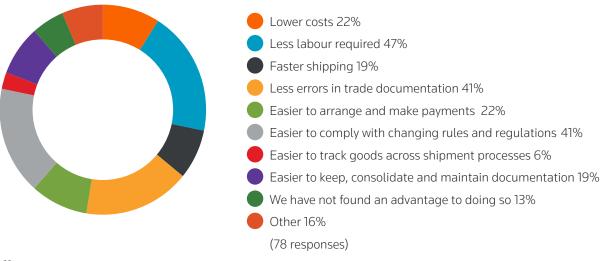
"When retailers sell with a third party, they have no control over the follow-up. Our product puts the power back in the retailer's hands to control the brand experience," says Wright.

2.3 Advantages of outsourcing

Hearteningly, many supply chain professionals are turning to outsourcing to overcome compliance obstacles. Almost one-third of our respondents said that they outsourced HS classification, duties and tax calculations to a solutions partner or provider.

Within this, 47% cited less labour as the biggest advantage of working with a third party. Further, 41% noted fewer errors in trade documentation, while another 41% stated that automation helps to comply with changing rules and regulations.

FIGURE 6: IF YOU OUTSOURCE HS CLASSIFICATION, DUTIES AND TAX CALCULATIONS TO A SOLUTIONS PROVIDER OR PARTNER, WHAT ADVANTAGES DOES THIS PROVIDE?







This is particularly pertinent when we consider the new changes being introduced in 2024, including the ICS2 Release 3 (see Chapter 4). Likewise, duty free thresholds on de minimis values are changing, while new restrictions and prohibitions continue to cause problems.

Working with a third party helps supply chain professionals to stay one step ahead. Frith says:

"In 20 years, Avalara has learnt from political tensions, economic downturns and changing legislation. Issues like items getting held up in customs, de minimis values and entity representation will always exist. It's the ability to adapt and scale quickly to these situations that helps our customers."

Avalara's Tariff Code Classification and Managed Tariff Code Classification solutions use AI, machine learning and expert analysis to classify products. In turn, this allows businesses to trade in over 180 countries, calculating costs in real time to maintain flexibility with changing taxes and regulations.

It also allows supply chain professionals to enhance the customer experience, building brand trust and long-term retention.







3: ENHANCING THE CUSTOMER EXPERIENCE

Though supply chain professionals must consider legislation and costs, they must also not overlook the customer experience. When asked what they saw becoming more problematic for cross-border e-commerce in 2024, 38% of our respondents noted shifting consumer consumption patterns.

Supply chain professionals must remain flexible to changing consumer trends while maintaining compliance. Once again, this can have a huge impact on costs, as well as revenue. Common patterns such as abandoned baskets continue to plague online retailers – often because the final landed cost is not available at the browsing stage. Products such as Avalara's AvaTax Cross-Border calculates customs duties at the point of sale to reduce this friction.

3.1 Transparency is key for the customer experience

For today's price-conscious consumers, a <u>DDP approach</u> is preferable to Delivered at Place (DAP) – allowing them to see exactly what they need to pay. This includes product prices, pre-calculation of taxes, delivery fees and customs duties.

There has been some improvement since 2023 in displaying the complete landed cost of imported goods at the checkout stage:

FIGURE 7: DO YOU KNOW AND DISPLAY AT CHECKOUT THE COMPLETE LANDED COST OF IMPORTED GOODS?

Displayed at checkout	2023	2024
Yes	61%	63%
No	39%	37%

Some retailers are taking this one step further – with 42% stating that they do display, or plan to display, the complete price of goods (including shipping and taxes) at the browsing stage. Among the reasons for this, the 33 respondents quoted:

- To provide a transparent customer experience: 94%
- To reduce abandoned orders at checkout: 61%
- Our competitors have started to do so: 21%

"Showing the total cost builds trust with both providers and customers," says Face. "Avalara offers the tools to build duties and taxes into pricing at the browsing stage, which saves customers from wasting their time."





In a <u>2024 consumer study by Avalara</u>, almost 60% of consumers worldwide said that they experienced surprise costs. Within this, 30% described this as "shocking" – leading to a risk of abandoned carts. Three-quarters said they would reconsider shopping with this brand again, highlighting the long-term risks of not being transparent.

3.2 Customer experience challenges

Another source of frustration for end consumers is lack of shipping capacity to particular regions. Almost two-thirds (62%) of respondents stated that they restricted certain products based on the geographical IP of their e-commerce customers.

As noted in Chapter 2, this comes down to shipping taxes and sales exceeding de minimis values. With these thresholds changing in 2024, this will likely continue to restrict cross-border sales. However, other reasons cited include under-developed logistics infrastructure in certain regions, product compliance, government restrictions, and sanctions.

3.3 Solutions for building brand trust

For the 58% who are not yet showing the full landed cost at the browsing stage, the team at Avalara can offer solutions. Frith says:

"Some retailers may not have the means to calculate the cost. High-end brands might be able to see where the customer is based on IP, but they need to have shipping rates and duties loaded in advance.

Other solutions include caching the data to produce an all-in-one landed cost, but the bigger challenges lie with the merchant. They need to know how to process it, including uploading the data and understanding where users are browsing from."

Avalara AvaTax Cross-Border and Avalara Tariff Code Classification helps merchants of all sizes calculate final costs in advance. In turn, this improves brand reputation – reinforcing the need for brand control, particularly when third parties are involved.

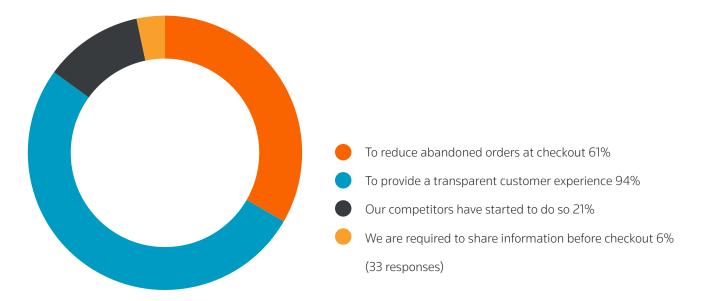
Frith adds:

"Our tools enable more accurate HS classifications for DDP shipping. By not passing these costs onto the customer, we can reduce the risk of reputational damage to brands potentially caused by third-party carriers."





FIGURE 8: WHAT IS YOUR REASON FOR DISPLAYING THE COMPLETE PRICE AND COSTS (INCLUDING SHIPPING AND TAXES) AT THE BROWSING STAGE AS OPPOSED TO JUST AT CHECKOUT?



While merchants need to be cognizant of the customer experience, they also need to understand the risks of non-compliance. This is particularly important when we consider new regulations, including <u>ICS2 Release 3.</u>







4: COMPLIANCE AND THE IMPACT OF CHANGING REGULATIONS

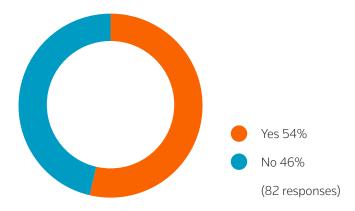
While one-third of supply chain professionals are reaping the benefits of outsourcing their classification, others remain at risk of non-compliance. Our research shows that almost half of supply chain professionals (44%) find it difficult to comply with HS codes. This poses far-reaching business risks including reputational damage, legal disputes and added costs.

Additionally, new legislation such as Section 321 Type 86 in January 2024 and the <u>introduction of ICS2 Release 3</u> in June 2024 compel organisations to stay up-to-date.

4.1 Almost half of organisations do not handle their own customs and compliance duties

The difficulties of complying with HS codes may explain why 46% of organisations do not handle their own customs and compliance. Further <u>research conducted by Avalara</u> shows that almost 80% of businesses are impacted by cross-border compliance. This reinforces the importance of using a third party – helping to save resources and reduce risks caused by human error.

FIGURE 9: DO YOU HANDLE CUSTOMS COMPLIANCE AND DUTIES FOR YOUR ORGANISATION?



4.2 Risks of incorrect classification

With more than one-third (34%) of e-commerce goods delayed by incorrect classification or documentation, the merits of automation are clear. The case becomes more compelling when we consider the risks of incorrect classification.

Frith says:

"The world of classifications is complex. Every country has its own methods of classifying the same goods. Very often, companies rely on suppliers for classification codes without vetting them, or they use out-of-date databases. In some cases, they may use their own country codes, incorrectly assuming that theirs are the same as others."





Financial risks are the most significant for those who don't follow good compliance practices. Frith adds that those who evade tax, with or without knowledge, risk historical government statutes of limitation for up to seven years.

"There is a risk of being prohibited from importing into that country. In other cases, if vendors use the wrong codes, they could even risk paying too much duty."

Risks of incorrect classification

- Avalara

Reputational damage

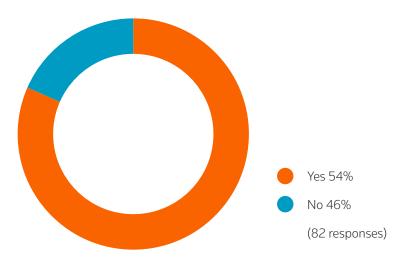
Tax and duty evasion

Penalties for avoiding taxes

Prohibition from importing into certain countries

Paying too much duty and compromising profitability

FIGURE 10: DO YOU USE TECHNOLOGICAL AIDS TO PROCESS AND/OR FILE TRADE DOCUMENTATION?



Beyond financial risks, poor compliance puts customer service in jeopardy. A survey of carriers revealed that 54% use technological aids to process and/or file trade documentation, while 55% automate this process.

Frith says:

"Not using tech means you have to ship Delivered At Place. This often results in customers receiving a text saying they have to pay import duties and taxes, resulting in a bad customer experience. In turn, this can cause delays, and ultimately, damage to a brand's reputation."





4.3 The impacts of Section 321 Type 86

Initially introduced in 2019, Section 321 Type 86 is seeing some updates in 2024 which will impact US import shipments. This customs entry allows goods under the de minimis value of \$800 to be imported without filing for formal entry and without paying duties or taxes.

To increase security and safety, the Customs and Border Protection Agency (CBP) is <u>increasing its visibility of these imported goods</u>, which previously went largely unnoticed. To reduce compliance risk and parcel delays, it is imperative that all trade parties have up-to-date and comprehensive solutions. This will ensure that they are adhering to the rapidly changing enforcement standards.

According to UPS, carriers or brokers that do not comply with these clearance requirements may face delays. If the shipments themselves do not meet requirements, they may be defaulted to an informal or formal entry. This could trigger duty and brokerage charges, despite the fact they are de minimis shipments. As ever, data and import documentation must be complete – which can be aided by automating the assignment of HS codes.

4.4 One-fifth of vendors are not prepared for ICS2 Release 3

Rolled out in phases starting in March 2021, ICS2 Release 3 regulations affect customs authorities, maritime and inland waterway carriers, maritime and inland waterway house level filers, and rail and road carriers. Customers must provide data elements including:

- EORI number or full address of the consignee
- Six-digit HS codes
- CUS code for chemicals
- EORI of self-filers
- House bill information
- Buyer and seller information for all cargo destined for the EU.

Despite these changes, one-fifth of supply chain professionals say they are not prepared for the rollout. Only 13% say that they are fully prepared, while half of all respondents said they were partially ready.

In response to this, Face says: "By not preparing for ICS2 Release 3, sellers and shippers of physical goods into the EU risk using the wrong HS 6-digit commodity code, resulting in customs delays and extra fees. It's more important than ever for businesses to get HS codes right and keep their goods moving through customs.





5: CONCLUSION

Against a backdrop of wider economic challenges, the outlook for cross-border e-commerce remains similar to 2023. Vendors are generally optimistic, with almost two-thirds making or planning to make cross-border sales in 2024 and three-quarters expecting it to grow, maintaining 2023's trend.

More encouraging is that 46% say that cross-border e-commerce is an easy space in which to operate – up from 42% in 2023. We are seeing increased interest in marketplace selling, thanks to solid infrastructure and potential global reach. These upward trends are doubtless linked to more investment in compliance technology, helping to overcome cross-border challenges.

In particular, the biggest obstacle for 2024 is cost. This is a significant change from 2023, where shipment delays were named most significant at 42%, compared to 55% of supply chain professionals citing delivery costs today. In the marketplace space, vendors are still concerned about logistics and brand control, notably with how this impacts customer service.

This ties in to the advantages of outsourcing. In 2023, respondents named 'fewer errors' as their biggest incentive to outsource. In 2024, this was a close second to reduced labour – once again highlighting the benefits of working with third parties.

Vendors need to keep a close eye on customer trends for 2024 and beyond. Shifting consumer consumption patterns is now a concern for 38% of supply chain professionals – up from 28% in 2024. With statistics from consumer research such as Avalara's, we can see that consumers are fickle and will abandon baskets when confronting hidden costs.

This reinforces the need for transparency. Ideally, all costs should be available at the browsing stage, but challenges continue with calculating costs regionally. Other considerations like changes to de minimis thresholds are restricting retailers. Access to a broad tech suite such as Avalara's Cross-Border tools can help to provide visibility on these costs.

De minimis thresholds are not the only thing set to change for 2024. With the introduction of ICS2 Release 3, HS codes will become even more important. Brands risk financial damage, legal disputes and reputational backlash if they cannot follow new compliance requirements. As only one-fifth of brands are prepared for this new legislation, there may be penalties due to incorrect classification.

As international volumes increase globally, so will scrutiny and compliance standards from customs and government authorities on those imports. It is imperative that sellers, shippers, and compliance teams have the proper tools and solutions to ensure they are adhering to the rapidly changing trade environment and enforcement standards. A clear example of this is with the ICS2 Release 3 and heightened attention by the US CBP on imports under the de minimis threshold.

Working with an outsourced partner helps to allay these compliance concerns. As noted by Avalara, HS code classification is the cornerstone to a successful cross-border strategy, everything from costs to customer service comes back to classification. With due diligence and automated processes, we can navigate the complexities of cross-border e-commerce and grow our brands sustainably.





ABOUT AVALARA

Avalara helps businesses of all sizes get tax compliance right. In partnership with leading ERP, accounting, e-commerce and other financial management system providers, Avalara delivers automated, cloud-based compliance solutions for transaction tax, including sales and use, VAT, GST, excise, communications, lodging and other indirect tax types. Headquartered in Seattle, Avalara has offices across the US and around the world in Brazil, Europe and India. More information at www.avalara.com.

AVALARA CROSS-BORDER

Classify Harmonised System codes with confidence.

From self-serve capabilities to managed classification services, we automate the assignment of HS codes with a solution that can be implemented on its own or seamlessly integrated with Avalara AvaTax Cross-Border.

Avalara Automated Tariff Code Classification is an AI-based tool that utilises machine learning to classify large product catalogues quickly and efficiently to HS or Tariff codes, to calculate customs and duty taxes and comply with international shipment requirements in near-real time.

Avalara Self-Service Tariff Code Classification is an intuitive AI-enabled tool that allows you to classify codes more easily and requires no prior experience in HS classification. Streamline your classification process by adding Avalara Trade Compliance for batch classification functionality and expand your classification reach with Avalara Cross-Border Tariff Content.

Avalara Managed Tariff Code Classification combines AI and human expertise to quickly provide consistent tariff codes for consumer products going to 180+ countries.

Avalara Managed Tariff Code Classification Premium also combines AI and human expertise while providing additional background and rationale to support customs audits.

Avalara AvaTax Cross-Border calculates or estimates customs duties and import taxes at the point of sale, creating a transparent and frictionless online shopping experience for international customers.

Discover our full range of global compliance solutions.

www.avalara.com/goglobal

