

Performance-focused cycling company gets righted with Avalara Item Classification

Cross-border tax transactions move smoothly

Tax Challenges

- No standards for duties and tariffs within varying countries or across borders
- Margins impacted by incorrect classifications resulting in exorbitantly high customs duties
- Goods delayed due to misclassification
- Managing Harmonized System (HS) codes to compute duties and tariffs is time-consuming and complex

Business Systems

- ERP system

Avalara Products

- Avalara Item Classification

Results

- Confidence in duties and tariffs applied
- Increased margins due to correct custom calculations
- Assured that goods will flow as expected
- Less rework - time and energy repurposed

Athletes recognize the need for increasingly better equipment. So is true for the athletes that own and manage a leading line of cycling footwear specially made for aggressive mountain biking. Shortly after forming the company, they began designing and manufacturing their first line of cycling shoes driven by specific technical and performance demands of the sport.

Naturally, there were high expectations for the first wave of in-market products. But as the items arrived in the U.S. from manufacturing facilities in China, misclassifications of their inbound shipments not only caused disruption in their receipt of goods, but also significant overcharging of duties and tariffs that had to be recovered.

High stakes, lots of room for error

In 2019, with close to twenty thousand units inbound, they discovered their product was held up by wrong classifications. This became a very costly mistake.

Classifying items for duty calculations is highly complex. There are no universal standards from country to country, and the rules within any given country can be mazelike. In the case of footwear, the content and construction of the various parts of a shoe are key elements. An upper with more than 90% coated polyurethane is classified differently from one with an upper made primarily of textiles. Failing to classify a product correctly during import can cause disruption in the flow of goods and excessive duties and tariffs.

Duty rate went from five percent to upwards of twenty percent, resulting in a significant impact to margins. It was clear that having a resource that understood the product and how it was manufactured would be key to proper classification.

The Avalara solution

Using machine learning, Avalara Item Classification assigns the right Harmonized System (HS) codes for the applicable country based on a product's composition, form, and function. Accurate HS codes make it easier for a company to import and export goods confidently and quickly. Avalara classification experts are also part of the automated equation; scaling to augment and applying specialized knowledge where necessary before passing the data back to the customer. This unique combination of technological power and human judgment makes it easier to properly classify goods confidently and quickly.

Avalara was recommended by the manufacturer's freight forwarding company. During initial calls the Avalara Item Classification team invested time to understand the various products and manufacturing processes. The solution covered not only the codes for import into the U.S., but also for export to Canada, which was quickly becoming a new priority.

After the initial work was done, Avalara reviewed the full rationale of the codes they had assigned with the client. With confidence, the codes were loaded directly into the ERP system.

Greasing the gears of growth

After experiencing the delay of their goods in customs and the overcharge of tariffs due to misclassification, knowing that customs duties wouldn't be the source of any more surprises was true peace of mind. Now began the process of working with government agencies to clawback some of the duties from the 2019 mistake, a process that involved their manufacturing partners and moving a mountain of paperwork.

With a new product launch on the horizon—one with all-new construction and materials—this manufacturer could rest assured that there wouldn't be any problems at launch. Item classifications had been done and verified. And geographic expansion would be easier as well. Having confidence in item classification has assisted the company with expansion into thirty countries with more sales channels on the way.

“During the calls with the Avalara Item Classification team, they really dug in to understand our products and manufacturing processes. I could tell there was a real sense of urgency, and a serious commitment to understanding our needs.”



Avalara Tax Compliance Suite

A complete, end-to-end sales and use tax compliance solution - built to grow with your business.

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