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# *AN ECOMMERCE SHIFT*

Amid the Recent Boom in Online
Alcohol Sales, Compliance Has
Become Increasingly Important

# An Ecommerce Shift

Over the past few months, both wineries and retailers alike have witnessed a significant shift toward ecommerce and delivery. While some of that growth can be attributed to people stocking up in the early days of the pandemic, or cooking at home a lot more than ever before, we also know that a portion will be sustained long beyond the pandemic. In fact, data from research firm Kantar has indicated that as many as 30% of new customers will remain long-term buyers.

If you own or operate a winery or retail operation, ensuring that you are running a compliant ecommerce and delivery program has become an imperative. The mechanics of operating a compliant program extend far beyond the basics of acquiring state permits, registering products, and checking orders against state volume limits. Fortunately, Boxcheck is here to help.

## Evaluating your state reach

Step one is to evaluate your current state reach. Market access for wineries shipping direct-to-consumer has increased tremendously over the past fifteen years while remaining limited for retailers.

However, in light of the 2019 Supreme Court decision in Tennessee Wine v Thomas, where the Court ruled that the principles of the 2005 Granholm v. Heald Supreme Court decision apply to wine retailers just as they apply to wineries, the tides may be turning.

The chart below shows the number of states currently available to retailers, marketplaces, and wineries.

| | RETAILER | | MARKETPLACE | WINERY | |
|---|---|---|---|---|---|
| | Inter state | Intra state | | Inter state | Intra state |
| Limited | 2 | 10 | 31 | 1 | |
| Open | 14 | 17 | 9 | 44 | 43 |
| Prohibited | 35 | 24 | 11 | 6 | 8 |

Are there states available to you that you are currently not permitted in?   If yes, an ROI analysis is warranted. Here are a few of the things you should consider when conducting your analysis:

1. What are the costs of obtaining the permit?

2. Are there other costs involved, such as product registration or tax bonds?

3. How burdensome are the reporting requirements? For example, how frequently are direct shipping, sales tax, and excise tax reports due? Are there product restrictions such as label registration requirements?

4. What are the benefits of shipping to this state? To determine that, look at things like state demographics, total DTC shipments, and per capita alcohol consumption.

# Managing your compliance requirements

Once you've determined your ideal state profile, it's time to evaluate your compliance program. How are you currently managing things like product registrations, in-cart compliance checks, reporting, tax remittance, and renewals?

Do you manage in-house, use automated compliance software, outsource to professional service providers, or use a combination of the above? Will you be able to manage an increase in ecommerce volume with your current mix?

# Software can make an appreciable difference

While many companies use in-house staff or compliance professionals for things like managing permits and registering labels, automated solutions become more of a necessity when it comes to compliance checks and reporting.

# Checking orders against state volume limits

A strong technology partner will monitor all relevant compliance rules and ensure that your product isn't shipped in violation of those rules.

**The downside of handling this in-house**

- Rules change frequently and if your compliance team isn't keeping up with those changes, you could be putting your business at risk.

- If not checked at the point-of-purchase, it is difficult, if not impossible, to prevent non-compliant orders from slipping through, resulting in customer frustration if they are then held at fulfillment or cancelled.

If you are looking to increase online sales, or even sell online for the first time, we recommend using software for point-of-purchase compliance checks for the best possible customer experience.

# Address verification

Inaccurate address information can result in delays and even delivery to the wrong address, causing frustration, missed sales opportunities, and higher shipping costs.  In 2020, both major carriers increased their address correction fees to $17 per occurrence. These charges are applied for a myriad of reasons, from missing information (a company name, apartment number, unit, or floor number, for example) to incorrect information (misspelled street names or a missing digit in the zip code).

To understand the full cost to your business, check your carrier invoices.

Just 25 address corrections per week could result in as much as $22,000 in additional cost per year.

### Dos and Don'ts

- Do implement address validation software to eliminate errors upfront. For maximum benefit, address checks should occur at the point-of-purchase, not at the point-of-shipment.
- Do use a service that regularly updates its database.
- Don't forget to update your member lists to speed up order processing.

### How we can help

Boxcheck performs address validation on all orders at no additional cost. We let you know if adjustments are needed to ensure the smoothest delivery path and help reduce carrier address correction charges and returns.

# Sales tax

For alcohol producers and retailers, sales tax regulations are complex and frequently changing. Depending on the jurisdiction, they can be applied at the state, county, or city level, and amounts vary greatly from one jurisdiction to another. To further complicate the matter, state requirements vary depending on the sales type (whether interstate or intrastate) and the entity (whether winery, retailer or marketplace.)

It's extremely difficult to keep up with tax laws from one jurisdiction to another, but penalties can be stiff in the event you're audited.

## Ramifications

Fees, penalties, and interest are collected for many reasons and some violations (such as collecting and not remitting) can result in jail time. As an example, California imposes fees for the following:

- Late returns or late payments
- Sending in a payment that doesn't cover the balance due
- Not reporting a taxable transaction
- Using the incorrect rate
- Failing to file
- Operate without the required permits or licenses
- Misusing a resale certificate or making sales without a valid permit
- Knowingly collecting sales tax and failing to remit it to the state

## Dos and Don'ts

- Don't overcharge. If states find you consistently doing this, you may face stiff penalties and interest.
- Do calculate based upon the full address to get the most accurate amount.

## How can we help

Boxcheck provides you with product level tax calculations for each state, county and city, taking into consideration laws, rules and jurisdictional boundaries. We also handle tax requirements for marketplaces, their sourcing partners, and state tax thresholds.

# Age verification

While all states require the carrier to check ID's at delivery, the following also require age verification at the point-of-purchase: Arizona, Georgia, Indiana, Kansas, Kentucky, Michigan, Oklahoma, Pennsylvania, and South Dakota.

Typically, this means that as the seller or licensee you're required to either use an approved Online Age Verification Service such as Thomson Reuters, LexisNexis, or IDology, or obtain a copy of the purchaser's government-issued ID before an order can be placed online. Thomson Reuters, LexisNexis, and IDology use public data to verify the age of the recipient before the order is placed.

**Ramifications if not performed**

Regardless of whether online age verification services are required in a given state or not, it's illegal to sell alcohol to minors, even if it's done inadvertently, and anyone who does can be charged.

**How we can help**

By enabling Age Verification for all states, you can enjoy the peace of mind that Boxcheck will guarantee the most accurate consumer age verification service. If you choose not to enable Age Verification on some or all states, the responsibility remains with you as the license holder to ensure alcohol is not sold to consumers who are under the minimum legal age of 21 years.

# Ensuring a flawless sales cycle

Using an automated system to check compliance up-front is one part of the equation, and a flawless **Post Order Delivery Experience** is the other.

With the channel shift from in-store to online alcohol purchases, many merchants are focusing on ways to improve the customer experience, because meeting, or better yet, exceeding expectations will go a long way toward converting today's new shoppers to loyal customers.

Providing a streamlined experience, from shopping cart to doorstep, is now more important than ever and making the sale is only the first step.

# Ensuring a flawless sales cycle (continued)

The final step in the purchase journey will leave a lasting impression. Today's customers expect quick delivery, options in the event they are not available to sign for their parcel, and full visibility into order and tracking status.

With this in mind, your customers should be provided with:

- An estimated delivery timeline at the time of checkout
- Periodic updates via email or text message
- Branded tracking updates that show what was ordered and when it will be delivered
- An opportunity to redirect their package to a UPS Access Point or FedEx Hold-at-Location in the event they are unable to sign for it

# What to look for in a technology partner

In summary, automation has become a necessity in today's ecommerce and delivery environment; providing you with the peace of mind that comes from an accurate and scalable solution. When researching various technology providers, we suggest you look for the following:

- A strong team with deep industry knowledge and experience
- A platform that covers your license type, whether producer, retailer, or marketplace
- A comprehensive rules engine to ensure compliant orders and shipments
- A modern interface and technology infrastructure that will grow with you
- Robust API's and integrations with (or the ability to connect to) your order management and operational platforms (ecommerce, POS, and fulfillment systems)

- A vibrant partner ecosystem to contribute data and expertise in areas such as address validation, fraud prevention, age verification, and tax compliance
- Solid carrier relationships
- A customer friendly experience, with features such as chat and post purchase tracking
- An in-depth knowledge base and training solutions

With all of the above and more, Boxcheck provides a complete view of your customer experience with a single data source for your reporting needs. We invite you to contact us for a demo of our compliance and shipping solutions.

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## About Us

For retailers, producers, and online marketplaces, who sell alcohol, Boxcheck, powered by 24Seven Connect, offers a proprietary compliance and delivery technology platform that is scalable, fully supported, and built to evolve with your changing needs. Our technology simplifies and streamlines your direct to consumer operations, so you can provide the exceptional experiences your customers demand in today's ecommerce landscape. Boxcheck clients trust us because we ensure fully compliant regulated alcohol shipments, allowing you to focus on the business of your business -- customer acquisition, the customer experience, operational efficiency, and profitability.

For more information, please visit:

## www.boxcheck.com