

IDC MarketScape: Worldwide SaaS and Cloud Value-Added Tax Software 2021 Vendor Assessment

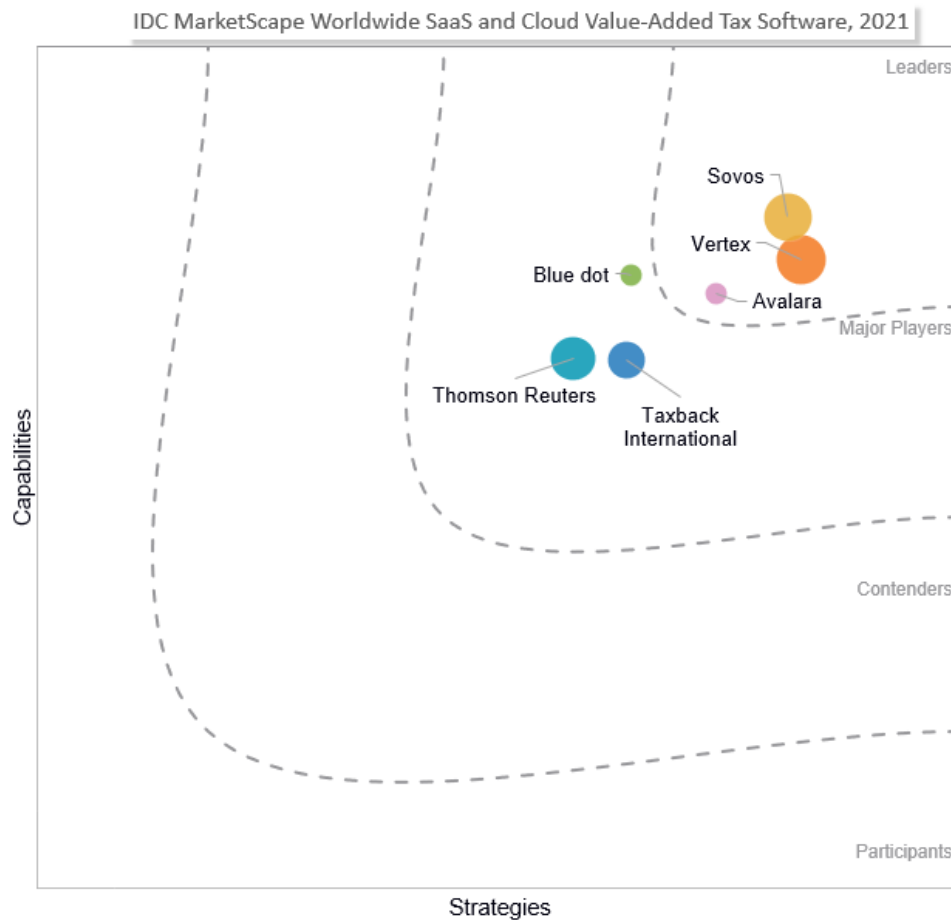
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THIS IDC MARKETSCAPE EXCERPT FEATURES AVALARA

IDC MARKETSCAPE FIGURE

FIGURE 1

IDC MarketScape: Worldwide SaaS and Cloud Value-Added Tax Software 2021 Vendor Assessment



Source: IDC, 2021

Please see the Appendix for detailed methodology, market definition, and scoring criteria.

IN THIS EXCERPT

The content for this excerpt was taken directly from IDC MarketScape: Worldwide SaaS and Cloud Value-Added Tax Software 2021 Vendor Assessment (Doc # US47987321). All or parts of the following sections are included in this excerpt: IDC Opinion, IDC MarketScape Vendor Inclusion Criteria, Essential Guidance, Vendor Summary Profile, Appendix and Learn More. Also included is Figure 1.

IDC OPINION

Indirect taxation is one of the most complicated aspect of today's business environment. Indirect taxation sits in the center of a long financial value chain that forms the backbone of corporate finance. Indirect taxation touches a whole host of business functions, including procurement, accounts payable/accounts receivable, inventory/supply chain, and expense management. Indeed, tax is quickly becoming a major part of the core business functions. Nearly every major economic region is undergoing some level of indirect tax reform and VAT/GST changes, which will add additional levels of frustration and complexity for businesses: Further:

- **COVID-19 impacts add for value-added tax (VAT) complexity:** The impact of COVID-19 and the loosening of VAT restrictions caused many governments to experience budget shortfalls. As a result, we can reasonably expect increased vigilance to close tax gaps in the years to come. For example, European Union (EU) countries lost an estimated €164 billion in value-added tax revenue in 2020.
- **Brexit adds more complexity to VAT:** As of January 1, 2021, the United Kingdom left the EU VAT tax regime. This dramatically shifted the VAT landscape for the United Kingdom and within the EU. This transition has increased the complexity of moving goods between the new United Kingdom trade zone and the EU zone.
- **Complexity grows in LATAM:** LATAM is quickly becoming a leader in VAT transformation. Countries like Mexico, Columbia, and Brazil have all taken major steps to embrace digital tax transformation in the past 18 months.

Relevant Market Trends

- **Growth in the marketplaces.** Cross-border marketplaces are ecommerce sites where product is provided by multiple third parties (e.g., eBay, Etsy, Alibaba) that are growing rapidly. In fact, in many countries like China, Japan, and the United States, marketplaces are all expected to grow faster than their retail website counterparts.
- **The spread of e-invoicing in the European Union.** e-Invoicing mandates are quickly taking root in the EU and beyond. In fact, in the past 12 months, there have been new/updated e-invoicing initiatives in Italy, France, India, Chile, Brazil, and Poland.
- **Growth of the digital economy.** As a result of the massive shift toward digitalization, the amount of nonphysical digital goods (e.g., on-demand services, software, online gaming, ebooks, music files, and digital images) being sold has exploded. This explosion has caught the attention of tax authorities all over the globe.

- **Growth of the gig worker.** The gig economy is growing rapidly with companies like Uber, Grubhub, and Lyft representing a significant shift in the business landscape. This represents an opportunity for tax compliance vendors to develop/enhance software functionality to help businesses manage 1099s and other related tax forms.
- **Growth of the tax gap.** The new digital economy is placing tremendous strain on the legacy methods of collecting taxes within the United States and Western European nations. In the United States, the IRS estimates the gap between taxes owed and taxes collected is roughly \$400 billion for 2019. There will be increasing energy from tax authorities toward closing this gap.

IDC MARKETSCOPE VENDOR INCLUSION CRITERIA

The vendor inclusion list for this study was selected to accurately depict the vendors that are most representative of any given software application on a buyer's selection list based on the following:

- Vendors must have a SaaS or cloud offering – on premises-only applications are out of scope.
- Software application can be purchased separately (not just functionality built into a larger system) and is available off the shelf without required customization.
- Software application has capabilities for determination, filing, recovery/reclaim, e-invoicing, and localized VAT support.
- The vendor had at least \$5 million in 2020 tax management software revenue.
- The vendor has a minimum of one tax solution in market for at least three years.

ADVICE FOR TECHNOLOGY BUYERS

Tax applications are evolving rapidly as vendors invest research and development dollars into bolstering, augmenting and, in some cases, redesigning their applications. The applications must align with the new digital enterprise and its preferred way to absorb technology. The vendors must work to align their go-to-market strategies and product development strategies with the new digital enterprise. While the vendors in this study may vary widely in size, experience, levels of support, and sales model, the goal for all the vendors listed in this study is the same – create/curate a differentiating user experience (UX). To do that, the user experience must go beyond the software to include the sales process, account management, implementation, and post-implementation support. As a buyer in this market, here are a few of the key questions to consider during the buying process:

- **Begin by looking inward.** Before making purchasing decisions on tax software, here are a few key questions to ask regarding the internal resources and processes:
 - What are some of the issues I would like to resolve with this new system?
 - Are the issues technology related?
 - What are my internal support resources and capabilities?
 - How should we define success for this implementation?
 - Which internal stakeholders should we include in the evaluation processes?
 - How will a new system change my organization?
- **Select the right partners (internal and external).** The first step in the journey to tax system is developing a strategy and plan for the implementation. This includes doing the due diligence in finding the right vendor. Here are a few key questions to ask regarding the software vendor:

- Does the vendor have experience with my type of product, service, and company size?
- Can the vendor show me a hands-on demo with my organization's "live/real" data to show the benefit to the business?
- Does the vendor understand the regulations that will impact my business? How are these regulations reflected in my current product and how will it change in the future?
- What is the vendor's strategic investment outlook for the next three to five years? Why? How will that change and enhance my business?
- **Consider the foundation.** Tax application vendors have seen many iterations from a technology architecture standpoint. Even among cloud vendors there are many different varieties of software architectural approaches. IDC believes that taking time to understand the foundation of the software and its advantages (or limitations) is of critical importance during the buying decision. Here are a few key questions regarding the tax software vendor:
 - What is the data flow design within the current solution?
 - What kind of APIs are available now from this vendor? RESTful? SOAP? GraphQL?
 - What kind of developer tools does the vendor provide (e.g., sandbox, dedicated portal, low-code/no-code tools, and database management tools)?
 - Is any part of the software currently built on a microservice architecture? If so, which parts?
- **Take ownership of the implementation.** For the best results, organizations must take a very active role in the actual implementation of the software. Tax software touches upon a lot of other back-office systems (order management, accounts payable, accounts receivable, treasury, expense management, etc.). As a result, extreme attention must be given to how the tax system is set up and how it interacts with other systems within your organization. Here are a few key questions to ask regarding the tax software implementations:
 - What levels of support are available and are they geographically available for my business?
 - How should I set up the service-level agreement (SLA) before signing any contracts?
 - Can the system integrate with my company's other IT systems and those of my partners?
 - Which IT system needs to be integrated and to what degree?
 - How are we set up to deal with frequent product updates?
- **Note that post-implementation is critical.** In many ways, the success of any SaaS implementation hinges on what happens after the implementation is up and running. This is where change management takes center stage and the people's side of tax management becomes essential. Here are a few key questions to ask regarding the post-go live phase of tax software implementations:
 - Do we have a strategy to encourage rapid adoption among employees?
 - Do we have the right amount of training for employees to master the new features within the system?
 - Are we communicating the purpose and benefits of the system change to the relevant employees?
 - Have we aligned existing policies and procedures to enable the adoption of the new workflows?

VENDOR SUMMARY PROFILES

This section briefly explains IDC's key observations resulting in a vendor's position in the IDC MarketScape. While every vendor is evaluated against each of the criteria outlined in the Appendix, the description here provides a summary of each vendor's strengths and challenges.

Avalara

After a thorough evaluation of Avalara's strategies and capabilities, IDC has positioned the company in the Leaders category in this 2021 IDC MarketScape for worldwide SaaS and cloud-enabled value-added tax software market.

Avalara helps businesses of all sizes get tax compliance right. In partnership with leading ERP, accounting, ecommerce, and other financial management system providers, Avalara delivers cloud-native global compliance solutions for various transaction taxes, including sales and use, VAT, GST, excise, communications, lodging, and other indirect tax types. Headquartered in Seattle, Avalara has offices across the United States and around the world in Brazil, Europe, and India.

The Avalara Compliance Cloud enables customers to address the complexity of indirect tax and complementary compliance processes with advanced technologies and solutions. The Avalara Compliance Cloud suite includes six product categories that represent the core requirements for achieving VAT compliance, including calculations, returns and reporting, document management, licensing and registrations, fiscal and risk management, and content, data, and insights.

Avalara has several solutions to help customers with their VAT obligations that span country-specific requirements. This includes VAT Registration and EU-wide OSS/IOSS/MOSS services, real-time VAT calculations, and VAT Reporting returns preparation and filing. Avalara delivers several key capabilities as SaaS solutions and offers a Managed VAT Reporting service for customers who choose to outsource their VAT compliance tasks.

Avalara VAT offers connectors to several key ERP/accounting systems to fully automate the ingestion of data, including SAP. In addition, Avalara Managed VAT Reporting offers data analytics checks within the solution, with over 160 compliance checks on each line item complete with an auditable correction process. In addition, Avalara recently acquired INPOSIA Solutions GmbH and the technology to bolster its electronic invoicing and real-time compliance capabilities.

Quick facts about Avalara include:

- **Employees:** 700+ employees supporting VAT Applications; 140+ content professionals and dedicated content engineers globally
- **Total number of clients:** 16,570+ core customers
- **Globalization:** Avalara VAT solutions support country-specific requirements around the world, with a global database for VAT calculation.
- **Industry focus:** All verticals are represented.
- **SaaS:** Multitenant architecture
- **Pricing model:** Usage-based model depending on the product
- **Average time of implementation (VAT):** 90+ days
- **Partner ecosystem:** Avalara has more than 1,000 signed partner integrations.

Strengths

- **Tax compliance platform:** Avalara has VAT compliance products for every size business. Small and midsize businesses can utilize Avalara products to manage their full compliance process from VAT Registration, VAT calculation, and Managed VAT Reporting and returns filing, as well as cross-border customs and duties solutions. Tax Research global modules and insights allow businesses to get tax right with comprehensive, up-to-date, and relevant sales and use tax research.
- **Global content:** Avalara maintains a global database of up-to-date tax content spanning major industries and global tax jurisdictions including VAT and GST countries. For businesses selling internationally, Avalara can offer a source of truth for rules and rates in local, regional, and country-level tax requirements and cross-border compliance requirements like customs and duties.
- **Real-time compliance:** With the 2021 acquisition of INPOSIA, Avalara has expanded its real-time compliance capabilities, including support for e-invoicing and EDI transfers. INPOSIA owns or manages 19 integrations into country-level tax reporting systems and is a certified access point for the exchange of electronic invoices between private companies and public authorities on the Pan-European Public Procurement OnLine (PEPPOL) network.

Challenges

- **Implementation challenges:** The biggest challenge with implementation is always related to customer data availability and quality. Both VAT determination and reporting need quite a bit of data, and many systems and companies are not well set up to provide this data, making implementation time and resource intensive in some instances.
- **Rapidly changing regulatory landscape:** The major challenges in producing the software are in keeping up with the explosive rate of change in global VAT. Avalara has dedicated content research teams with more than 100 people monitoring, updating, and testing the content for our determination and returns solutions. Significant R&D is being invested into content automation to help Avalara to scale to more countries and address more complex use cases faster.
- **Partner integration management:** Avalara has an extensive technology partner network, which is a double-edged sword. Avalara's integrations are specific to versions of software, and it can be resource intensive to stay up to date as their wide range of partners continue to update their software. Avalara has recently added the Avalara Integration Studio to address these partner integration issues.

Consider Avalara When

Consider Avalara if you are a growing multinational organization looking for a cloud-native software vendor with wide geographical VAT compliance coverage and an aggressive compliance road map.

APPENDIX

Reading an IDC MarketScape Graph

For the purposes of this analysis, IDC divided potential key measures for success into two primary categories: capabilities and strategies.

Positioning on the y-axis reflects the vendor's current capabilities and menu of services and how well aligned the vendor is to customer needs. The capabilities category focuses on the capabilities of the

company and product today, here and now. Under this category, IDC analysts will look at how well a vendor is building/delivering capabilities that enable it to execute its chosen strategy in the market.

Positioning on the x-axis, or strategies axis, indicates how well the vendor's future strategy aligns with what customers will require in three to five years. The strategies category focuses on high-level decisions and underlying assumptions about offerings, customer segments, and business and go-to-market plans for the next three to five years.

The size of the individual vendor markers in the IDC MarketScape represents the market share of each individual vendor within the specific market segment being assessed.

IDC MarketScape Methodology

IDC MarketScape criteria selection, weightings, and vendor scores represent well-researched IDC judgment about the market and specific vendors. IDC analysts tailor the range of standard characteristics by which vendors are measured through structured discussions, surveys, and interviews with market leaders, participants, and end users. Market weightings are based on user interviews, buyer surveys, and the input of IDC experts in each market. IDC analysts base individual vendor scores, and ultimately vendor positions on the IDC MarketScape, on detailed surveys and interviews with the vendors, publicly available information, and end-user experiences in an effort to provide an accurate and consistent assessment of each vendor's characteristics, behavior, and capability.

Market Definition

IDC defines indirect tax software as software that supports the management of tax considerations for external business transactions sales and use tax, value-added tax (VAT), goods and services tax (GST), excise tax, and property tax. Key elements of the software include functionality for corporations to calculate taxes for current transactions, estimate tax burden for future transactions, determine tax exemptions, manage filing and compliance, and house tax-related forms/documents.

LEARN MORE

Related Research

- *Worldwide Corporate Tax Management Applications Forecast, 2021-2025: Complexity and the Pandemic Drive Technology Transformation* (IDC #US47995821, July 2021)
- *Worldwide Corporate Tax Management Applications Market Shares, 2020: Pandemic and Shifting Regulations Shape Market Dynamics* (IDC #US47995721, July 2021)
- *Market Analysis Perspective: Worldwide Corporate Tax Management Applications, 2020* (IDC #US45754920, September 2020)
- *Worldwide Corporate Tax Management Applications Forecast, 2020-2024: eCommerce and Dynamic Global Taxation Driving Growth and Innovation* (IDC #US46530420, June 2020)
- *Worldwide Corporate Tax Management Applications Market Shares, 2019: Global Regulatory Changes Raise the Profile of Tax Software* (IDC #US46530320, June 2020)

Synopsis

This IDC study provides an assessment of the SaaS and cloud-enabled value-added tax applications and discusses the criteria that are important for companies to consider when selecting a system.

"Growth in tax regulations has made it increasingly complicated to sell product globally. More and more, organizations are looking to technology advancements to cope with the ever-changing challenges of global business. Tax software companies are uniquely positioned to provide the necessary tools and expertise to help digital companies cope with the new digital dynamics," says Kevin Permenter, research director, Financial Applications at IDC.

About IDC

International Data Corporation (IDC) is the premier global provider of market intelligence, advisory services, and events for the information technology, telecommunications and consumer technology markets. IDC helps IT professionals, business executives, and the investment community make fact-based decisions on technology purchases and business strategy. More than 1,100 IDC analysts provide global, regional, and local expertise on technology and industry opportunities and trends in over 110 countries worldwide. For 50 years, IDC has provided strategic insights to help our clients achieve their key business objectives. IDC is a subsidiary of IDG, the world's leading technology media, research, and events company.

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