

IDC MarketScape

IDC MarketScape: Worldwide SaaS and Cloud-Enabled Sales and Use Tax Automation Software for Enterprise 2021 Vendor Assessment

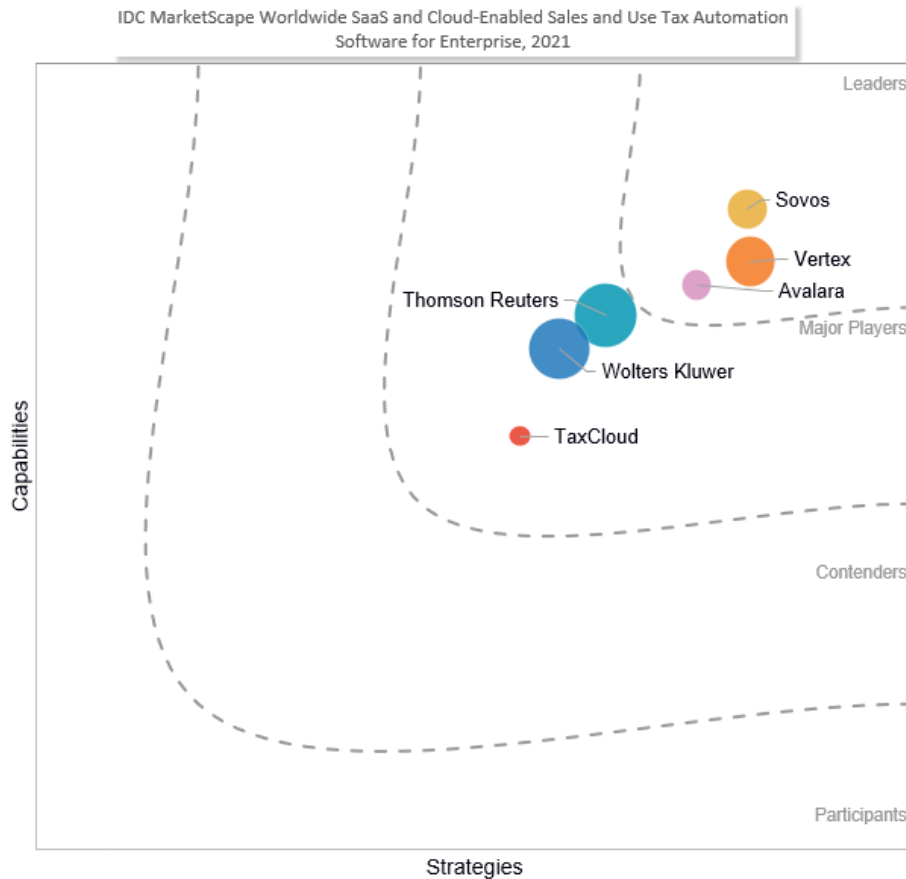
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THIS IDC MARKETSCAPE EXCERPT FEATURES AVALARA

IDC MARKETSCAPE FIGURE

FIGURE 1

IDC MarketScape Worldwide SaaS and Cloud-Enabled Sales and Use Tax Automation Software for Enterprise 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-Enabled Sales and Use Tax Automation Software for Enterprise 2021 Vendor Assessment (Doc # US47987421). 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

Current Market Overview

Growth in tax regulations has made it increasingly complicated to sell product globally. It is a vicious cycle. Organizations are looking to technology advancements to cope with the ever-changing challenges of global business. Growth in the digital economy has only made the process of managing sales and use taxes (SUT) more difficult as each sales location may have its own tax reporting obligations.

In addition to a global pandemic, corporate tax managers were exposed to a rapid rate of change in tax regulations in 2020. The regulatory rules are constantly changing along the following dimensions:

- **Marketplace facilitator laws.** In the United States, several states including Illinois, California, and Massachusetts have implemented or reworked their laws requiring marketplace facilitators (e.g., Amazon, Walmart, and eBay) to collect and remit sales tax on behalf of their third-party sellers' transactions. There is tremendous energy around this issue as states look for stronger visibility and access to the tremendous revenue growth within the digital economy.
- **South Dakota v. Wayfair.** The South Dakota v. Wayfair Supreme Court decision is removal of the "physical presence" mandate; now states have the authority to collect sales tax from retailers and other online sellers that have "substantial nexus" (i.e., conduct a considerable amount of business) in that state. Each state and local tax jurisdiction within it that charges sales tax must now decide how it wants to define substantial nexus. This means that all sales will need to be subject to the collection of sales tax, whether they be direct or by third-party sellers.
- **Shifting jurisdictions.** Within each state, each jurisdiction has a unique set of rates and characteristics that makes maintaining compliance more difficult. Further, the tax rates within the United States are constantly changing at both the state and the local level.
- **Shifting indirect tax rates.** Indirect taxes like sales and use tax, value-added tax (VAT), and goods and services tax (GST) are critical aspects of the emerging global digital economy. Nearly every major economic region is undergoing some level of indirect tax reform; the countries announcing VAT/GST changes include Canada, Malaysia, China, and India. Recent global tax initiatives (e.g., Wayfair, Making Tax Digital, and Golden Tax) are promising to make tax determination even more complex in the coming years.
- **New financial reporting standards.** IFRS 15 and ASC 606 have significant impact on how and when revenue can be recognized. IFRS 16 has impacts on how leases are accounted within

the corporation. Together, these reporting changes add complexity to the process of corporate tax compliance.

Major Market Trends

While the pandemic was a drag on the global economy in many ways, the pandemic was an accelerator for tax complexity and tax enforcement. As a result, the new reality is shaping up for corporate tax managers where digitization of workflows and business models will accelerate rapidly. The data requirements for tax managers will continue to increase in both variety and velocity. IDC has observed several trends that will shape corporate tax application market over the next three to five years, including:

- **The rise in cross-border ecommerce.** The digital economy has made it easier to sell products to more countries and do so faster than ever. Growth of the ecommerce has introduced new compliance steps.
- **The evolving nature of digital transaction tax.** Tax authorities around the world are becoming more aggressive – activity modernizing their infrastructure to close VAT gap.
- **The role of e-invoicing.** A growing number of nations are making digital invoicing (e-invoicing) a mandatory activity. e-Invoicing mandates are quickly taking root.
- **Increased enforcement.** The IRS recently announced an increase of 50% in the number of audits on small businesses for the 2021 tax year. This is a harbinger of heightened audit risk in 2021 and beyond.
- **Growth in digital business driving digital taxation.** The selling of digital goods and services is set to redefine the way the global economy works. Tax software vendors have already invested a tremendous amount of resources in enhancing/launching products that address the taxation of digital goods and services.

Enterprise Difference

Sales tax workflows are quickly changing as part of digital transformation initiatives, especially so for fast-moving industries like retail, ecommerce, distribution, and consumer package goods (CPG). This shift will also bring forth a new chapter in the evolving story of enterprise sales and use tax applications. Further:

- **Greater focus on scalability.** Software vendors in this market must demonstrate that they are building a solution that is ready for today's business hurdles and for tomorrow's technology challenges. In addition, vendors must show enterprise customers the investment in APIs, microservice, and other software infrastructure advancements necessary for larger businesses to operation at scale and with a high level of flexibility.
- **Greater focus on visibility.** Enterprise customers often have dozens of back-end systems and very complex operational environments. This will often limit the ability of the VP of tax to view their company's tax profile quickly and holistically. As a result, enterprise customers have a deeper need for advanced analytics and data visualization tools.
- **Greater focus on artificial intelligence.** Intelligence within the financial software comes in many forms, some of which are already generally available, including workflow automation, conversational user interfaces (UIs), chatbots, and intelligent analytics, coupled with curated data sets. When taken together, intelligent workflows save time, increase operational efficiency and, more importantly, add a layer of big data analysis that human beings simply cannot duplicate.

In the end, enterprise tax users have more complex environments, and as a result, their needs include more sophisticated tools for seeing a more holistic view of their tax profile.

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, calculation, exemptions, filing/returns, and/or registration.
- 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.
- The vendor must have a significant footprint with businesses with 1,000+ employees.

ADVICE FOR TECHNOLOGY BUYERS

Sales 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 the worldwide SaaS and cloud-enabled sales and use tax automation software for enterprise 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, and lodging, as well as 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 five product categories that represent the core requirements for achieving sales and use tax compliance, including calculations, returns and reporting, compliance document management, licensing and registrations, and content, data, and insights.

Quick facts about Avalara include:

- **Employees:** 800+ employees supporting SUT application; 140+ content professionals and dedicated content engineers globally
- **Total number of clients:** 16,570+ core customers
- **Industry focus:** No single industry focus
- **SaaS:** Multitenant architecture
- **Pricing model:** Usage-based model depending on the product
- **Average time of implementation:** 60 days
- **Partner ecosystem:** 1,000+ signed partner integrations and over 3,500 reseller, software integration, and accounting partners

Strengths

- **Flexible cloud-native architecture:** Avalara's cloud solutions are designed as content-driven tax engines. Changes to tax content are pushed through the system, applying to all products and transaction types seamlessly, and reduce the need for manual content uploads and intervention from IT/technical staff.
- **Integrations:** Avalara has more than 1,000 signed partner integrations comprising ERP, CRM, billing, invoicing, ecommerce, and marketplace platforms. With experience gained from thousands of customers using these integrations over the years and extensive testing with leading enterprise ERPs and partners, customers have stated that it is a no-brainer to choose Avalara in competitive situations. A prebuilt integration that has been successfully deployed by other customers reduces implementation time, costs, and risk.
- **Support for a wide variety of tax types:** Avalara customers use multiple products and solutions to support a large array of tax types and processes. Supporting an end-to-end compliance process, Avalara offers nexus assessment and studies, voluntary disclosure agreement and back-filing services, business licensing and sales tax registrations, world-class tax calculation, integrated returns preparation, filing and remittance, and exemption certificate management. For multinational customers, Avalara supports VAT, GST, cross-border compliance

requirements such as customs and duties, and e-invoicing. Avalara Tax Research tools offer full-access and bespoke content research tools for experts.

- **Industry solutions:** Avalara offers customers software packages with industry-specific functionality for industries with unique regulations or processes. Currently, Avalara offers industry-specific packages for energy, tobacco, communications, hospitality, beverage alcohol, retail, and insurance industries.

Challenges

- **Partner integration management:** Avalara has an extensive technology partner network, which can be 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, including low-code and no-code tools for developers.
- **Integrating new acquisitions:** To build out its industry and segment-specific offerings, Avalara builds or buys new product, content, and technology frequently. As with any company, front-end and back-end technology integration can be resource intensive. Avalara is making large investments to improve its unified UX/UI across all products and new acquisitions.

Consider Avalara When

Consider Avalara if your business is undertaking a digital transformation initiative, or growing and encountering SUT management challenges such as navigating regulatory changes and M&A, adding new products or services, selling in new geographic areas, expanding omnichannel and international sales, or using complex purchasing processes.

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 to provide an accurate and consistent assessment of each vendor's characteristics, behavior, and capability.

Market Definition

A sales and use tax (SUT) application helps corporations calculate taxes for current transactions, estimate tax burden for future transactions, determine tax exemptions, manage filing and compliance, and house tax-related forms/documents. Core functionality for SUT software includes determination, calculation, exemptions, registration, filing/returns, and reporting capabilities.

LEARN MORE

Related Research

- *Worldwide Corporate Tax Management Applications Forecast, 2021-2025: Complexity and the Pandemic Drive Technology Transformation* (IDC #US47995821, July 2021)
- *Market Analysis Perspective: Worldwide Corporate Tax Management Applications, 2020* (IDC #US45754920, September 2020)
- *Worldwide Corporate Tax Management Applications Market Shares, 2020: Pandemic and Shifting Regulations Shape Market Dynamics* (IDC #US47995721, July 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 sales and use tax applications for enterprise and discusses the criteria that are important for companies to consider when selecting a system.

"Many tax software vendors have invested a tremendous amount of resources in enhancing/launching products that address the rapid changes in the regulatory landscape over the past year. Such vendors are well positioned for growth as the taxation landscape as it continues to evolve," says Kevin Permenter, research director, Financial Applications.

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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