IDC MarketScape: Worldwide SaaS and Cloud-Enabled Sales Tax and VAT Automation Applications 2019 Vendor Assessment

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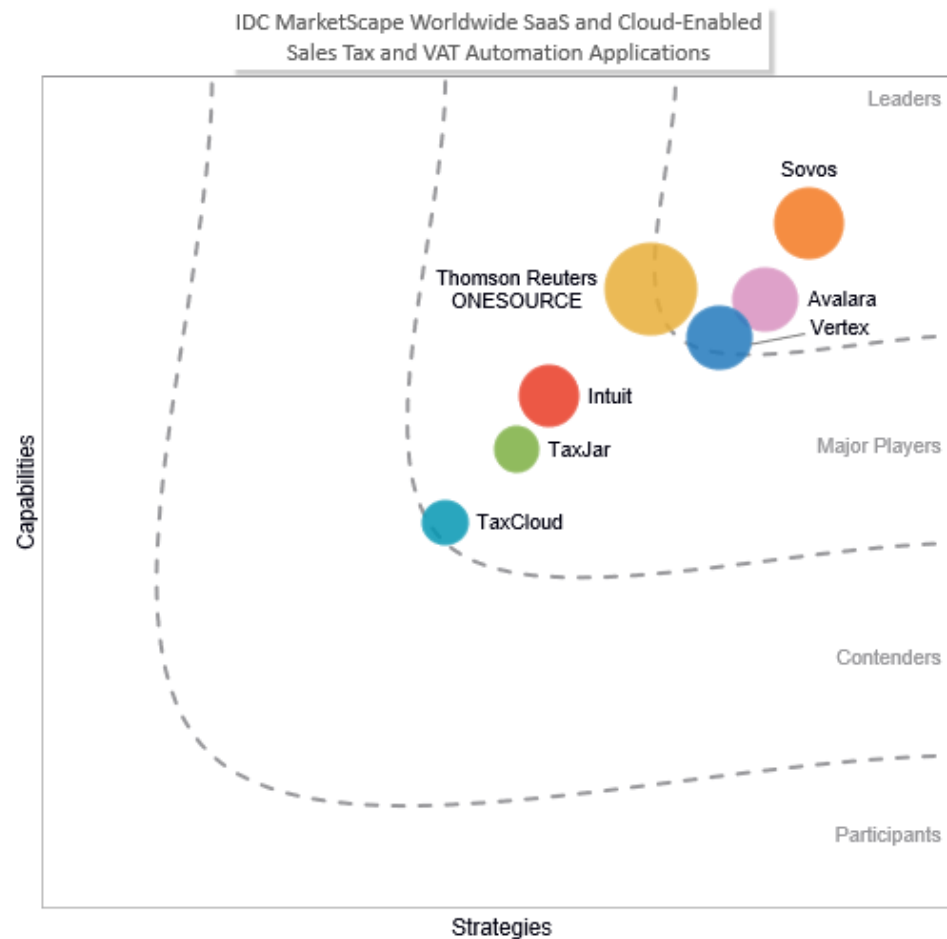
THIS IDC MARKETSCAPE EXCERPT FEATURES SOVOS

IDC MARKETSCAPE FIGURE

FIGURE 1

IDC MarketScape Worldwide SaaS and Cloud-Enabled Sales Tax and VAT Automation Applications Vendor Assessment

Source: IDC, 2019

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 Tax and VAT Automation Applications 2019 Vendor Assessment (Doc #US43263718). 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

Digital Transformation Driving Change

Digital transformation (DX) is fundamentally changing financial applications, allowing businesses to transform their decision making, which is enhancing their business outcomes significantly in the digital economy. Digital transformation is an enterprise wide, board-level, strategic reality for companies wishing to remain relevant or maintain or enhance their leadership position in the digital economy. Digitally transformed businesses have a repeatable set of practices and disciplines used to leverage new business, 3rd Platform technology, and operating models to disrupt businesses, customers, and markets in pursuit of business performance and growth. DX is driving businesses to rethink their technology strategy and that includes moving beyond their legacy finance and back-office systems.

SaaS and Cloud-Enabled Software Driving Investment

Instead of continuing to invest in antiquated on-premises systems, leading DX businesses have turned their focus to SaaS and cloud-enabled software because they need flexible and agile financial applications that are relatively easy to implement, configure, and update. Demand for cloud-based financial applications continues to grow because of the ability to access and analyze massive amounts of data in near real time. With speed as a guiding factor to winning business globally, businesses want and need more from their finance systems than ever before, and that includes using the most up-to-date and advanced systems found in SaaS and cloud-enabled tax automation applications. SaaS and cloud-enabled finance systems enable growing businesses to quickly expand into new regions around the globe without making major investments into their technology infrastructure because they are extremely adaptive to accelerated rates of change. SaaS and cloud-enabled systems are adaptive to dynamic regulatory and reporting environments, which is why this IDC MarketScape for tax automation applications is extremely important as a technology vendor guide for today's CFO, the financial team, and IT buyers.

Sales Tax Automation

Sales tax is applied to every retail transaction involving the sale of tangible property and even (in some states) services in the state. Alternatively, use tax is applied to the use or consumption of tangible property in a given state. Consumer tax also is imposed on out-of-state purchases where the seller is not required to collect tax on the transaction. Importantly, sales and use taxes are "mutually exclusive," which allows for either sales or use taxes to be collected, but never both on the same transaction.

Complexities of Sales and Use Taxes

The process of managing the collection, calculation, and filing of taxes has been growing increasingly difficult as enterprises and their markets have grown in scale and complexity. Companies are selling more products and services in more places (regionally and globally) and in more ways (B2C, B2B, and B2B2C) than ever before. Growth in the digital economy has made the process of managing sales and use taxes more difficult as each sales location may have its own tax reporting obligations. For digital commerce companies, sales and use taxes are the most complex areas of tax management because of the constant rate of change in tax regulations. The regulatory rules are constantly changing along the following dimensions:

- **Changing tax rates:** The tax rates within the United States are constantly changing at both the state and the local level. There were over 700 rate changes in 2017 and over 500 rate changes in 2016 throughout the United States. These changes make it difficult for organizations to maintain compliance.

- **Shifting jurisdictions:** The number of tax jurisdictions has increased significantly over the past five years. Each of these jurisdictions has a unique set of rates and characteristics that makes maintaining compliance more difficult without the proper tools.

- **Changing taxability:** As businesses and business models evolve, the taxability of transactions has evolved as well. For example, there have been changes to how software transactions and cryptocurrency transactions need to be handled.

- **Evolving requirements for tax compliance:** In their quest to collect revenue from remote sales (ecommerce), states have created a confusing patchwork of requirements on out-of-state sellers based on varying definitions of "nexus" and also on sellers using marketplaces like Amazon, eBay, and Etsy.

Sales and use tax software vendors are responding to the growing complexity of the sales and use tax problem. Many of the vendors are looking to advanced technologies like artificial intelligence (AI), big data and analytics, blockchain, and cloud computing that are leading the way for corporate tax management professionals to higher levels of visibility, productivity, and scalability. In detail:

- **Artificial intelligence:** Companies are already beginning to use artificial intelligence to perform lower-level repetitive tasks like calculating the proper sales tax rate for the proper jurisdiction. Artificial intelligence will also be used by tax professionals to build more accurate forecasts and perform advanced risk/exposure analysis. IDC expects to see this technology continue to proliferate throughout tax workflows.

- **Big data and analytics:** The tax department is inundated with data, but insights from that data can be hard to find. Sophisticated big data and analytics will allow tax professionals to identify opportunities and make better tax decisions. IDC believes that big data and analytics will become a must-have for tax software end users.

- **Blockchain:** While still in its infancy, blockchain has the potential to change how transactions are done and how they are recorded. It is particularly well suited to address inefficiencies in the auditing process. Cryptocurrency, which is built on blockchain technology, promises to heavily impact the transaction tax landscape.

- **Cloud computing:** The power of cloud computing has reshaped nearly all aspects of enterprise applications. While the tax area has lagged behind other corporate functions in cloud adoption, it is increasing in use. There are many new cloud initiatives from both traditional on-premises software providers and start-ups "born on the cloud" tax software vendors. IDC expects cloud momentum to continue in the tax software market.

The goal of this document is to provide potential software customers with a list of sales tax automation software companies that have taken great strides to address the challenges listed previously. We have profiled and assessed their capabilities to support the complicated area of sales tax automation.

IDC MARKETSCAPE VENDOR INCLUSION CRITERIA

The vendor inclusion list for this document was selected to accurately depict the vendors that are most representative of any given sales tax automation functional buyer's selection list. Vendors were further investigated to ensure that their offerings qualified as "SaaS or cloud enabled" and the vendor had won recent sales tax automation software deals. Also, the companies included must be standalone software vendors. Specifically, the sales tax automation software must be able to be purchased and implemented separate from other financial software. The software packages had to possess core sales tax automation functionality including tax calculation, exemption certificate management, returns management, and reporting capabilities. Preference was given to companies that were greater than $10 million and/or were on our watchlist of companies within this market.

ADVICE FOR TECHNOLOGY BUYERS

Tax automation applications are evolving rapidly as vendors are investing research and development dollars into bolstering, augmenting, and in some cases, redesigning their sales tax automation applications. As a result, it is extremely important for end users to understand how vendors and their solutions are positioned currently as well as how those vendors and their solutions may be positioned in the next three to five years.

Innovation is an essential part of the "buy" decision and, in turn, a guiding factor in our vendor research was the 3rd Platform and innovation accelerators' current capabilities in addition to the strategic and investment direction. Innovation is critical for buyers that are looking for a technology partner that can take them well into the future and meet the speed of their business needs.

Several vendors outlined in this research study have a broader focus for their financial solutions. Other vendors are focused on serving organizations in vertical industries such as manufacturing, retail, healthcare, wholesale/distribution, public sector, or professional services. The vendors vary widely in size, experience, levels of support, sales model, and focus on the market.

Before making purchasing decisions on SaaS and cloud-enabled sales tax automation software, businesses should consider the following questions:

- Levels of experience in successfully implementing financial solutions: Does the vendor have experience with my type of product, service, and company size?
- Is the vendor knowledgeable about financial regulations and guidelines both locally and globally as they affect my company?
- 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 levels of support are available and are they geographically available for my business?
- What are my internal support resources and capabilities?
- Should I hire a third party to plan and assist with the implementation of the solution?

- Is the vendor financially able to provide needed support? Can it support needed investment in the development of future financial software requirements?
- Is the vendor committed to this market in the long term?
- Is the ROI achievable? Does the vendor have a track record of meeting the ROI requirements?
- Can the vendor or partners support my foreign operations?
- Can the vendor integrate with my company's other IT systems and those of my partners?
- Is the product available anywhere and anytime?
- Is the product updated frequently enough for my business needs?
- What new innovations is the vendor considering? How and when will it impact my business?
- When will the financial DX use cases be built out in the product? How will it impact my business processes and outcomes?
- What is the vendor's strategic investment outlook for the next three to five years? Why? How will that change and enhance my business?
- Will the vendor be a partner, helping my business grow now and in the long term?

This IDC MarketScape vendor assessment assists in answering these questions and others. There have been a few high-profile acquisitions that have dramatically reshaped the market landscape for sales tax automation solutions. IDC expects that continued consolidation and specialization by niche players may occur as the market matures.

VENDOR SUMMARY PROFILES

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

Sovos

After a thorough evaluation of Sovos' strategies and capabilities, IDC has positioned the company in the Leaders category in this 2019 IDC MarketScape for worldwide SaaS and cloud-enabled sales tax and VAT automation applications.

Sovos is a provider of software supporting corporate tax processes. The Sovos Intelligent Compliance Cloud combines regulatory analysis with its S1 cloud software platform to support tax determination, e-invoicing compliance, and tax reporting globally. Sovos supports 5,000+ customers, including more than half of the Fortune 500, and integrates with a wide variety of business applications. Sovos has offices throughout North America, Latin America, and Europe. Quick facts about Sovos:

- **Employees:** 1,100
- **Total number of clients:** 5,000+ customers
- **Globalization:** Supports customers in over 60 countries
- **Industry focus:** All verticals with heavy focus in manufacturing, retail, and financial services
- **Ideal customer size:** Upper midmarket and enterprise ($500+ million)
- **SaaS:** Offered in a multitenant deployment at the application, database, and cloud infrastructure layers

- **Pricing model:** Modular, consumption metrics (transactions, invoices, filings) and level of service requirements
- **Largest customer:** Largest customer with 10,000 named users
- **Partner ecosystem:** 70+ technology partners, including major ERPs like SAP, NetSuite, and Oracle, and all major B2B transactional applications, including SAP Ariba, Coupa, and OpenText
- **Interesting stat/fact:** Owned by London-based Hg

Strengths

- **Cloud platform:** Sovos provides users with a strong cloud software platform that gives the user access to tools and data in a consistent user experience. The cloud platform is supported by a multiple physical datacenter approach. In addition, Sovos APIs are compatible and optimized to work with additional SaaS, on-premise, and customer-built financial systems and workflows.
- **Globalization:** With recent acquisitions, Sovos is a global solution supporting customers in over 60 countries, with aggressive growth plans for further geographic expansion. Sovos has a growing roster of multinational customers, including Siemens, Phillips, Microsoft, and TomTom.
- **e-Invoicing compliance:** Multiple customer references cited Sovos' capability with e-invoicing as one of the major benefits of choosing the company's solution. e-Invoicing compliance is particularly important for larger enterprises with complex multinational tax processes and regulatory demands.

Challenges

- **Expanding ERP partner ecosystem:** While Sovos has a broad set of B2B application partners as part of its e-invoicing compliance business, including major EDI and P2P platforms, the company currently has a limited number of ERP partners, particularly in the midmarket ERP software segment. Discussions with Sovos executives indicate partner ecosystem growth is a near-term strategic priority.
- **Lack of awareness:** Sovos, despite its 35-year tax roots, is a relatively new brand when compared with others and the combination of several acquisitions. While building the company this way was important for building a complete solution for modern tax, it has led to brand confusion in the partner community, with customers and with new prospects.

Consider Sovos When

Consider Sovos when you are looking for a sophisticated cloud tax software capable of supporting large multinational tax and e-invoicing regulatory demands.

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

Corporate tax management applications help corporations calculate taxes for current transactions, estimate tax burden for future transactions, determine tax exemptions, and manage filing and compliance and house tax-related forms/documents. These applications integrate with other financial applications like accounting, expense management, and treasury management applications. Corporate tax applications can be split into two subcategories:

- **Direct tax applications:** These software applications support internally focused tax workflows including tax filing, tax planning, tax provisioning, and transfer pricing.
- **Indirect tax applications:** These software applications manage tax considerations for external business transactions sales and use tax, value-added tax (VAT), goods and services tax (GST), excise tax, and property tax.

The corporate tax management applications submarket does not include consumer tax software.

LEARN MORE

Related Research

- *U.S. Supreme Court Ruling in South Dakota v. Wayfair Creates Massive Sales Tax Implications on Digital Commerce and Retail* (IDC #lcUS44100818, July 2018)
- *IDC Innovators: Tax Compliance Software as a Service, 2018* (IDC #US43263118, June 2018)
- *Tax Compliance Software Market Heating Up as Summer Begins* (IDC #lcUS44075918, June 2018)
- *The Future of Corporate Tax: Technology Paving a New Path* (IDC #US43811816, May 2018)
- *IDC Market Glance: Financial Applications, 1Q18* (IDC #US43573416, February 2018)

Synopsis

This IDC study provides an assessment of select SaaS and cloud-enabled sales tax and VAT automation software solutions and discusses what criteria are most important for companies to consider when selecting a system.

"The speed of digital business coupled with the growing volume and variety of sales transactions has added an unprecedented amount of complexity to sales tax compliance. This complexity has created a wave of interest in sales and use tax automation software," says Kevin Permenter, senior research analyst, Enterprise 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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