

Customer Success Story: Systagenix Wound Management

VAT automation brings centralization, visibility, and control for a multi-national start-up

Company Profile

A newly formed organization selling products in 100+ countries worldwide. More than 400,000 sales and purchase transactions in the first year. A new ERP system implementation underway. A tax department of one with no local tax expertise or resources. No best-practice tax processes in place. No taxability rules established. This was the situation faced by Systagenix Wound Management as they created a new company structure through a divestment from global healthcare giant Johnson & Johnson®. Systagenix had all the complexity of a large business but the limited resources of a small startup.

The Challenge

Managing indirect tax for this new organization presents a complex set of challenges. In addition to the obvious goal of minimizing risk and penalties for non-compliance, there's a number of issues unique to companies like Systagenix who are operating in (or expanding into) multiple markets.

- How to maintain expertise on various country-specific tax regimes?
- How to stay on top of ever-increasing changes in tax rules and rates?
- How to handle local tax authority scrutiny and information requests?
- How to maintain staff expertise and training?
- How to proactively manage tax enterprise-wide in an environment of business change and growth?
- How to access the right data to make key business decisions?

Gareth Scanlon, Group Tax Director at Systagenix, summarized the situation, "With no local resources in the regions, our tax department was faced with tracking sales tax in the US, monitoring VAT changes in the European Union, and understanding import and excise taxes in South Africa. We needed a partner that could manage globally all of the rules, regulations, and updates. And automate the calculations."

Of equal, if not greater, importance to Systagenix was access to data. They wanted a solution where they could manage the controls on tax data and, in real time, get the detail-level and summary-level data they needed for day-to-day decision making as well as for strategic planning.

"Automation was the key," says Scanlon. "We needed to de-risk transaction tax decisions throughout the supply chain. We wanted to ensure accuracy, improve processes, and provide better data for decision-making. And we wanted a central, automated point of control."

The Vertex Solution

After evaluating the native tax functionality in SAP (their chosen ERP system), Systagenix determined they needed a solution that offered greater flexibility, control, and reliability. They decided to partner with Vertex to implement Vertex® Indirect Tax *O Series*®.



Summary

Company

- Formed in 2008, management buyout from Johnson & Johnson®
- London, UK (headquarters), operating in 100+ countries worldwide
- \$250 million annual revenue
- 400,000 annual transactions in US and EMEA combined
- Shared Services structure for AP/AR, Tax, Finance, Customer Service
- SAP ERP system

Vertex Solution

- Vertex® Indirect Tax *O Series*®
- Live in 14 markets across North America, South America, Europe, Africa

Results

- Increased accuracy, reduced audit exposure
- Improved control through centralization
- Customized management of sales & purchase transactions
- Scalability for business growth & expansion
- Simplified maintenance
- Powerful reporting



The Vertex Solution, cont'd

Improved Accuracy and Control

Of particular concern to Systagenix was the risk associated with VAT and sales tax decisions being made at various points along the supply chain. "We wanted the tax decisions to be made automatically. And controlled centrally. Choosing Vertex O Series made that possible," says Scanlon. "Vertex helps us keep tax decisions within the tax department." The application interfaces directly with the SAP system. The tax decision relies on a number of master data transaction-based variables sent from SAP for each transaction. "It's completely invisible to the SAP end user. It's configured, controlled, managed, and maintained by the tax department. It allowed us to implement centralization, automation, and control."

Rapid Parallel Implementation

Once the choice of Vertex O Series was made, the next step was implementation. When it comes to implementing a new tax engine, companies typically import legacy system data into their new systems. Systagenix, however, started with a clean slate – no data to migrate. While this is a plus in many regards, Systagenix also had no established taxability rules to bring over, no historical sales data, and a brand new team.

The implementation process consisted of four steps.

- Step 1: System design and configuration (for Vertex O Series and SAP)
- Step 2: System build and testing
- Step 3: User acceptance and cutover readiness
- Step 4: Go live

They set an aggressive implementation timeline, and in under eight months they went live with both SAP and Vertex in 13 countries. In fact, Systagenix found the Vertex implementation process to be so intuitive, that three months after the SAP/Vertex solution was live, the Systagenix in-house team brought their South Africa operations onto the system with minimal assistance from Ernst & Young.

A Team Effort

The implementation team consisted of tax and systems professionals from Vertex, Systagenix and Ernst & Young.

- Vertex Consulting (for the SAP interface configuration and build)
- Systagenix tax staff (for business process input and definition of global requirements)
- Ernst & Young consultants (for design & build input, and overall project management)

In addition, the SAP implementation team at Systagenix, who started the ERP implementation four months before Vertex began the tax engine implementation, worked hand-in hand with the Vertex implementation team.

Flexible System Set-up

Throughout the implementation, flexibility was key. "Vertex was set up, built, and configured to respond exactly how we wanted," says Scanlon. For Systagenix, that meant setting up the system differently for sales and purchase transactions.

Automated VAT determination on sales transactions

Systagenix handles its sales and purchase transactions differently. With sales transactions, Systagenix originates the data and is confident of its validity. So for sales transactions, Systagenix lets the Vertex system apply the VAT using standard rules (and sometimes those from the system's Tax Assist functionality, if necessary). Since Systagenix is comfortable with the data source and rules application, there is no need for manual consistency checks. And the data extraction for monthly, quarterly and annual returns is streamlined. "We didn't want our people spending time considering every VAT decision on sales transactions. We wanted to develop a process where the decisions are made automatically."

The Complex Tax Landscape

Changing rules

- Further EU VAT Package updates coming
- Rate volatility in Europe and beyond
- Continuing complications in BRIC markets
- Continued rate changes in North America

Tax department response

- Recognition that indirect tax management affects the entire organization
- Increasing knowledge & confidence about VAT decisions is required
- More sophisticated reporting required for compliance audit prep
- Review of end-to-end processes, identification of gaps

- Use of technology to automate and control key processes
- Improved use of in-house and 3rd party technology solutions

Financial system challenges

- Defining tax classifications
 - Inaccurate tax codes
 - System maintenance and IT costs
 - Decentralized tax rules and rates
 - Communication between Tax and IT departments
 - Maintaining current tax research in all markets
 - Timely access to accurate data for reporting, compliance, audit
- According to Ernst & Young

The Vertex Solution, cont'd

Some manual intervention on purchase transactions

For purchase transactions, Systagenix has kept a level of manual intervention in the process. Vertex provides recommendations on the application of VAT – tax department staff evaluate the recommendation and factor in other information that might not have been applied. Purchase invoices often contain incorrect data and Systagenix believes human oversight and review adds a layer of scrutiny and ensures higher compliance for these transactions.

Accurate, Automated Calculation

With Vertex O Series, users can choose the tax data sets they need based on the countries where they operate. The tax engine has the tax rules built right in. Systagenix also chose to add-in additional taxability rules specific to their products, markets and transactions. "We utilized the Vertex functionality to customize the system for our business needs," explains Scanlon.

"It does all the mapping to the products that we sell, so it determines the right rates in every market. All of that is within the Vertex System.

Hassle-free Maintenance

"And the beauty of Vertex O Series is that it's entirely maintained and updated," says Scanlon. The web-based system is entirely maintained by Vertex. Systagenix merely downloads global tax data updates monthly from the Vertex website. "We don't worry about rules and rate changes. We don't worry about system updates. We don't have to involve our IT staff at all. There's no ERP system maintenance needed to manage indirect tax," says Scanlon. "This is an incredibly hassle-free way to manage things."

Powerful Reporting

While the primary function of a tax engine is calculation, Vertex O Series offers an equally valuable reporting functionality. "The one thing that really differentiates Vertex is the reporting functionality, notes Scanlon. "We have immediate access to every single transaction made by this organization since day one. And not just in a simple format. We have it in as much detail as was passed from our ERP system to Vertex O Series.

"The ability to do analysis and provide management reporting up to our CFO and to our Treasurers is just so much easier using the reporting database in Vertex O Series. The flexibility to slice and dice that data is far superior to anything we can get from our ERP system," he claims. "It's a tremendously powerful tool."

"Our VAT return process is, very simply, 'get me the data out of Vertex.' We don't use any information from our ERP system. We use entirely the detailed information we get from Vertex and the Reporting & Analysis tool," says Scanlon.

Prepared for the Future

So, a little more than a year after implementing Vertex O Series, the Systagenix tax function is running smoothly, and there's a clear process for growth into new markets. But as all tax professionals know, the landscape will continue to change. As taxing authorities increase the sharing of data across borders, it will become even more critical for companies to demonstrate a reliable end-to-end process. Companies that are successful in demonstrating the robustness and consistency of their indirect tax process will benefit from increased levels of trust and improved relations with the taxing authorities.

"We operate in 14 markets across Europe, North America, South America, and South Africa. We have a centralized model with absolutely no local finance or tax resources in those markets. We wanted tax decisions to be made automatically. And controlled centrally. By choosing Vertex O Series we were able to do that."

Gareth Scanlon, Group Tax Director
Systagenix Wound Management

According to Gareth Scanlon, Systagenix is prepared. The implementation of Vertex Indirect Tax O Series has enabled this start-up to not only improve compliance globally, but establish a tax process that will sustain their growth. His conclusion – "Vertex put the tax department back in control."

About Vertex Inc.

With more than 30 years of experience, Vertex Inc. is the leading provider of corporate enterprise tax solutions and process management services worldwide.

Vertex solutions help companies streamline and integrate tax provision and compliance processes, and leverage information to discover new strategic tax savings across every major line of business tax, including income, sales, consumer use, value added, communications, and payroll. To serve its customers, Vertex works in partnership with the world's leading providers of ERP software and related services.

This article has been excerpted from the Vertex webcast "Staying Ahead of VAT in a Growing Multi-National Company" held on June 30, 2010. Download the complete webcast at www.vertexinc.com/ResourceCenter.

Vertex Inc.

1041 Old Cassatt Road
Berwyn, PA 19312
United States
Phone: 610.640.4200
Toll-free: 800.355.3500

Vertex Global Tax Solutions Ltd.

1 Furzeground Way, Stockley Park
Uxbridge UB11 1EZ
United Kingdom
Phone: +44 (0)20 8622 3053
Reg. in England and Wales, Reg. No. 5982877