

# Global Tax Governance Standards & Worldwide Process Improvements

*Procter & Gamble and Vertex Forge a Strategic  
Partnership*

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## Unique and Instructive

Procter & Gamble Co. (P&G) operates in roughly 70 countries and serves nearly 5 billion people around the world. Given the magnitude and reach of the company's operations, P&G's indirect tax governance and compliance challenges qualify as highly unique. Yet the approach the company uses to address these issues also is highly instructive.

While this approach centers on the implementation and use of Vertex® Indirect Tax O Series®, several aspects of P&G's approach are educational because they extend beyond the boundaries of a typical software installation endeavor and enter into tax compliance, tax governance and business-process improvements.

These qualities that define P&G's Vertex implementation, and the benefits it has so far delivered, include:

- **Stronger Governance and Compliance:** P&G's top objectives of the Vertex O Series implementation were to strengthen indirect tax governance and to improve indirect tax compliance.
- **Flexibility:** P&G opted to implement Vertex O Series as an audit and validation tool, one that allows the global company to audit the accuracy of tax coding in its SAP enterprise resource planning (ERP) system.
- **Continuous Improvement:** Many of the governance and risk issues that the Vertex solution identifies are used to continuously improve business processes.

This paper will examine these benefits in more depth while providing a detailed look at P&G's implementation effort. The insights in this paper are largely based on the reporting of two seasoned P&G managers: Andrew Henderson, who works in the company's Europe Shared Service Center Organization as Global Program Manager for the Tax Engine Implementation; and Belinda Buvens, who is working on the implementation as part of the company's Global Indirect Tax team. (To hear Henderson and Buvens present on this topic, please watch the webcast; [Procter & Gamble Improves Global Tax Process with Vertex and SAP](#).)

Perhaps the most instructive insight to come out of P&G's efforts is that the Tax Engine Implementation team treated the project as a strategic partnership rather than a software implementation. As Buvens emphasizes, "Vertex is really the right strategic partner."

## The Need

Like other global companies, P&G contends with an onslaught of rapidly changing tax legislation from numerous jurisdictions. "All countries throughout the world are paying more attention to indirect tax compliance," Buvens explains. "We want to make sure that we are adhering to all relevant legislation and guidance."

Buvens and Henderson frame this desire as both a compliance objective and a governance requirement. "It was very important to improve our indirect tax governance," Buvens asserts. Although she describes Vertex O Series as "the industry-leading solution," Buvens says that three other qualities attracted P&G to Vertex:

- 1) Flexibility
- 2) Business process harmony; and
- 3) Strategic partnership.

"We found that there was significant flexibility in how we could implement it," she explains. This flexibility extends to the way P&G ultimately uses Vertex O Series – what Buvens describes as a "globally standardized automated sampling and validation tool" (see "How Indirect Tax Validation Works" side bar). "When we looked closely at Vertex, we saw that its tax engine really matched our business processes," she continues. "That meant it would be able to handle the complexity of our business not only from a structural point of view, but also from a subsystem platform perspective."

The strategic relationship Buvens mentions relates to Vertex's regular updating of its solution with current tax legislation and guidance changes in the many jurisdictions in which P&G operates. "A key reason we entered into this relationship is because it gave us an opportunity to build a strategic relationship with Vertex," she adds. "Vertex has content available for countries around the world, and there was really a readiness to expand that content to meet our needs."

## The Implementation

Henderson leads the global implementation team, which to date has installed Vertex as an audit and validation tool in 40 of P&G's global markets (12 more markets are in process). The key to managing an implementation across such a diverse and expansive collection of geographies, Henderson says, includes:

- **Enlisting outside help:** P&G uses Vertex consultants to assist with the implementation. "We engage Vertex day-to-day in terms of the implementation," Henderson reports, noting that his team also hired other external consultants (from Alvarez & Marsal), who have worked with P&G and are familiar with its unique business and tax challenges.
- **Dividing and conquering:** Henderson's global program team contains a broad range of expertise, including program management, service management, a technical development team, accounts payable and accounts receivable consultants, and global tax governance. Three regional project implementation teams – one for Europe, Middle East and Africa (EMEA), one for Asia, and one for the Americas – perform the implementation and report to Henderson. These regional teams are also seeded with diverse skills, including project managers, business experts, operational accountants (who perform VAT calculations, process consultants and master data experts as well as professionals responsible for regional tax governance and country tax managers).
- **Considering complexity:** "We didn't go into this saying, 'Let's just implement this across all of our markets,'" Henderson recalls. "We really took it step-by-step." That included evaluating the like implementation complexity of each market to ensure that a balanced mix of high-complexity, high-risk implementations and low-complexity, low-risk implementations were occurring together at any given point in time. "Clearly, we didn't want to do all of the easy markets first and leave all the messy ones to the end to do in the same wave," he explains. "And we didn't want to do the most difficult ones first because we needed to go through a learning curve as an implementation team. So, we mixed the markets up to spread that risk."

- **Applying lessons learned:** P&G's global program team has conducted exit interviews with regional project teams following the completion of an implementation in a market to learn what went well and what can be improved. Those insights have been applied to strengthen subsequent implementation efforts in other markets. For example, the team learned that some highly-complex, high-risk markets require more work, so it extended the implementation period in those markets from six months to eight months.

### How Indirect Tax Validation Works at P&G

Given its desire to strengthen indirect tax governance and compliance, P&G elected to implement Vertex O Series as an offline validation tool. This use enables the software to double as a process-improvement engine.

Here's how it works:

- 1) Sample invoice transactions are extracted from SAP on a weekly basis;
- 2) These transactions are processed offline in Vertex O Series to verify accuracy;
- 3) The results are reconciled and "differences" are identified;
- 4) These differences are understood and categorized as:
  - Compliance issues;
  - Data quality issues; or
  - Vertex set-up issues.
- 5) The issues are resolved and monitored;
- 6) These insights also drive continuous improvements in SAP business processes;
- 7) These process improvements help strengthen P&G's overall indirect tax governance.

## The Benefits

P&G's use of Vertex O Series as an audit and validation tool strengthens indirect tax compliance while also laying the groundwork for higher-level indirect tax governance improvements as well as business process improvements. "We use it to drive continuous improvement in business processes," Buvens notes.

Those higher-level improvements flow out of compliance improvements. "The tool provides us a consistent approach on how we do audit on our VAT compliance," Buvens explains. "The sampling that we do across the world is used in a consistent way across the world."

In addition to auditing the accuracy of the tax coding in P&G's SAP system, the company also examines accuracy gaps (what it calls "differences") to determine their root cause. These differences are grouped into three categories:

- 1) Compliance issues;
- 2) Master data quality issues; and
- 3) Vertex O Series set-up issues.

Many of the deeper investigation into these root-cause areas ultimately lead to business process improvements. "With the way we've implemented Vertex O Series," we've seen that we can really use it to really continue to call out those business processes that were not initially posted correctly with the right VAT coding," Buvens reports. "And we've come up with solutions that enable us to post those VAT codes correctly into the system."

P&G has also used insights from Vertex O Series to develop improved guidance and step-by-step instructions for the professionals who process invoices to help ensure that they use the correct indirect tax treatments – and that those treatments are accurate – for each invoice. These improvements figure among the top benefits that Buvens and Henderson identify, including:

- 1) **Better understanding of business cases:** Given the hectic pace of ERP implementations and upgrades in a large, global company as well as the tax department's bulging workloads, O Series has helped provide quicker and deeper understandings of the tax implications of various business cases

### Indirect Tax Governance Gains

P&G has used Vertex O Series to achieve several indirect tax governance improvements, including:

- The identification, definition and validation of new business cases, including complex and non-standard cases
- Deeper insights and stronger assessments of VAT compliance and ERP master data quality
- A more consistent approach to global VAT compliance audits

under consideration. "In a large company, it can be difficult to develop a full understanding of every business case because these cases often crop up on a daily basis," Buvens explains. "The way we implemented Vertex has helped us to understand those business cases." When a business case arises, it can be sent through Vertex O Series to quickly identify any tax issues that require additional thought or action.

- 2) **A sharper external focus:** Vertex O Series regular updating of relevant tax-related legislative changes provides P&G's global tax professionals with an additional source of insight and a way to confirm what they're internally gleaned about the shifting legislative front.
- 3) **Globally standardized sampling:** P&G uses Vertex O Series as an offline validation tool and to automate its sampling around the world in a standard way. "When you look at indirect tax compliance," Buvens says, "I think most companies would want to have a process in place where you get a feel how good your indirect tax accuracy is."
- 4) **Flexible sampling by business process:** "You can decide which business cases you want to send through Vertex O Series, get results from it, fix any issues you might encounter, and then move onto the next one," Buvens notes.

- 5) **“Systemic proactive check”**: Buvens uses this phrase to describe the assurance that the Vertex tool provides during large changes, such as major IT implementations, corporate restructuring or acquisitions. During these periods of change, P&G uses Vertex O Series to “flush through” sales transactions to validate if those transactions are posted correctly. These proactive checks help eliminate potentially larger issues that would otherwise be discovered following the major change.

## Conclusion

“From our point of view, the Vertex implementation has really enabled improved indirect tax governance in P&G,” Buvens reports. “We have really seen an improvement in the overall indirect tax figures.”

Additionally, P&G has used Vertex O Series to identify new business cases, validate them and demonstrate that the correct indirect tax treatments are in the books. Indirect tax compliance has also been strengthened, according to Henderson and Buvens. “We’ve seen an improvement in our tax coding compliance,” Buvens adds. “That’s where we really validate how accurate the invoice processes for example are posting the invoices of the correct VAT coding and we’ve seen an improvement because we have information from Vertex.”

The Vertex O Series benefits that Buvens and Henderson describe are fairly common, even if the setting in which P&G implements and uses the solution remains highly unique.

### About Vertex O Series

Vertex helps tax departments simplify and automate the complexity of calculating, collecting, and reporting on sales, consumer use, and retail taxes, as well as value-added tax (VAT), goods and services tax (GST), and other indirect tax types. The company’s more than 30 years of tax and technology expertise is complemented by strong relationships with Oracle, SAP and other leading ERP software providers. Vertex O Series takes sales transactions from the financial system and examines the qualities of these transactions (e.g., amounts, dates, master data, ship from/ship to information and more) and then derives a tax calculation based on its understanding of a company and all of the indirect tax legislation and guidance it is subject to along with the jurisdictions involved. That calculation is automatically returned to the financial system; in addition, Vertex O Series also supports and/or performs:

- **Reporting:** Reports are customizable based on filtered criteria and provides the user with information on taxpayers, jurisdictions, types of impositions and tax result types.
- **Real-time calculations:** Much of this processing consists of real-time calculation. For example, as an accounts payable (AP) invoice is posted, there is a real-time call to Vertex O Series. It is also possible to use the calculation tools on a batch method to send multiple transactions, from numerous systems, through at once.
- **Regularly updating:** The content within Vertex O Series is updated regularly, on a monthly basis or more frequently (as tax law changes around the world)

For more information, please visit: <http://www.vertexinc.com/solutions/indirect-tax-solutions>

## About Vertex

Founded in 1978, [Vertex Inc.](http://www.vertexinc.com) is the leading provider of corporate tax software and services to automate, integrate, streamline or outsource tax processes for companies of all sizes, from small to medium-sized businesses to global multinationals. Vertex provides solutions for all tax types with industry-specific solutions for retail, communications, hospitality and leasing industries.

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