Build a Better Business Case

The Tax Technology ROI Model Identifies a $1.8 Million Benefit

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Bears and Business Cases

Hikers like to tell a joke about two friends who encounter a bear in the backcountry. As one of the hikers high-tails it away from the bear, the friend cries out, "What are you doing – you can't possibly outrun a bear?!" To which the fleeing hiker responds, "I know, but I only need to outrun you."

It turns out that tax professionals and fleeing hikers have something in common: they're both in direct competition. Tax functions compete against other organizational functions for higher spots on the technology-funding priority list.

The vast majority of organizational information technology (IT) budgets remain controlled by the IT function and, ultimately, the chief information officer (CIO). Although corporate technology spending has increased in recent years, the average IT budget as a percentage of revenue is 8.6 percent.[1]

Given the surge of investment in data analytics, social media and mobile technologies, the need for clear and convincing business cases for technology investments is intensifying. Tax functions need to ensure that their business cases are anchored by well-supported cost-benefits analyses (i.e., those backed by hard numbers) of critical business needs.

While that may sound like a major task, it doesn't have to consume too much time or heavy lifting. The purpose of this paper is to equip tax professionals with the insights necessary to develop a strong business case for tax technology by:

1. Performing a quick analysis of the costs associated with your current tax approach;
2. Quantifying how an automation project would reduce or eliminate many of these costs;
3. Building a compelling case for automation supported by verifiable figures and analysis; and
4. Learning about resources that can aid in this analysis and presentation process.

The insights in this paper are culled from lengthy experience assisting tax functions in developing business cases and directly from real-world tax experience. This includes a successful case example from the tax manager of Stewart & Stevenson, a leading U.S.-based equipment manufacturing company – for more on this topic and the case example, please visit: http://www.vertexinc.com/resource-center?f[0]=type%3Awebcast&f[1]=field_term_solutions%3A12

Four Principles of a Sound Justification

Submitting a business case for tax technology to the CIO, CFO and other business executives can be a daunting task. The purpose of a tax technology investment is twofold. First, it should add much greater efficiency and effectiveness to tax management activities by automating manual processes and greatly reducing the amount of tactical work the function performs. Second, by reducing tactical workloads the tax technology should deliver an even larger benefit: freeing up tax resources to focus on more strategic contributions to the company.

These outcomes are of potentially great value to the organization and to individual tax professionals. Since the challenge of crafting a successful business case for tax-technology investment is often formidable, it makes sense to begin the process with realistic objectives and a game plan.

When building technology business cases, it is impossible to accurately quantify all of the hard and soft costs of a current tax management approach. But that doesn't mean tax professionals cannot craft an accurate, well-supported and compelling argument for investing in technology.

To get started on creating a strong business case for tax technology, keep the following points in mind:

- The principles for a strong tax-technology business case are very similar to justifications for other forms of business technology; that said, it is helpful to zero in on a handful of tax-specific benefits;
- Generating a list of benefits typically is not difficult; the challenge lies in quantifying these benefits and expressing them in business terms.

- There will be both hard (quantifiable) and soft benefits; present as many relevant hard benefits as possible and understand that soft benefits require rougher estimates.
- Prioritization is crucial; focus on the highest costs associated with the current tax management approach and the highest returns from investing in new tax technology.

Finally, it is important to keep in mind that the business case should be presented in terms of business benefits rather than in terms of technology functionality, regardless of who is making the ultimate technology-investment decision. This is true regardless of whether the CFO or CIO serves as the ultimate decision-maker. In a recent survey conducted by The Economist Intelligence Unit, global CIOs indicated that one of their top priorities is to communicate the benefits of technology to the business. Achieving this objective requires IT executives "to speak first in terms of solving customer or partner problems … In short, they must be able to help the business understand the value that any new technology will bring to their organizations."[2]

Case Study: Stewart & Stevenson Upgrades to Vertex® *O Series*®

When Stewart & Stevenson Tax Manager Shawn Schneider assembled a business case for investing in a tax technology upgrade, he and his team developed a clear understanding of their IT partner's needs, challenges and activities.

"As tax professionals, we get very excited about the software," says Schneider, "but we know that we have to get IT and other parts of our company just as excited."

Houston-based Stewart & Stevenson is a leading designer, manufacturer and provider of specialized equipment and aftermarket parts and service, domestically and internationally, for the oil and gas and other industries that it has served for more than a century. The company had used Vertex® *Q Series*® for more than a decade, since the original implementation of a JD Edwards enterprise resource planning (ERP) system (subsequently acquired by Oracle). The software was effective, but Schneider says his department was attracted to the Vertex® Indirect Tax *O Series*® to meet new demands in the tax department.[3]

First and most notably, the existing technology environment required customer taxability to be maintained within the ERP system, and JD Edwards' settings only provided two options: customers were either fully exempt or fully taxable. This created challenges in cases where customers were exempt in some states or jurisdictions but not others. Second, when Stewart & Stevenson's IT department planned to invest in a significant JD Edwards upgrade, Schneider realized that the timing of a Vertex upgrade would be advantageous – a point that he emphasized to IT in the business case.

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Stewart & Stevenson

Additionally, Stewart & Stevenson's tax function felt Vertex O Series was the right choice, since it would help the company address some sales tax challenges related to the high volume of retail, wholesale and service activities the company conducts in numerous tax jurisdictions.

The primary cost areas that Schneider's business case highlighted included reserves set aside for audits in the event of a negative audit assessment. "We experienced a fairly painful Texas sales tax audit a few years ago," Schneider recalls. "That was a big impetus for us in the business case – we wanted to be able to reduce the cost of potential assessments." Other costs included tax errors related to the sales order system as well as costs related to tax errors on order invoices.

The primary O Series benefits to Stewart & Stevenson's tax function include the following:

- The improvement in exemption management precision (i.e., the exemption certificate management is handled within O Series and directly links with the tax decision manager);
- The system's Web-based, user friendly interface (e.g., branch tax settings are readily programmed and can be replicated with the company's common legal entities);

- Taxability rules for all 50 states and Canada are pre-programmed in the software, updated monthly and allow for customized rules to be entered to address any customer-specific situations; and
- Tax jurisdictions are accurately identified by 9-digit Zip codes (preventing errors related to cities that contain special taxing districts).

Schneider and his team identified several other benefits of the new technology, including the following O Series features:

- Built-in data analysis tools are provided for audit use and "onion" type analysis;
- The ability to handle other invoice-level taxes such as Texas, Colorado and Wyoming equipment and rental related fees;
- The ability for tax on purchases to be automated to review vendor tax charges and identify necessary accruals; and
- The flexibility to add value-added tax (VAT) as a module to the new software platform.

Schneider and his team then quantified the hard benefits. Although they could not assign dollar figures to some key soft benefits, they still identified those advantages – including the ability to leverage the O Series platform to automate use tax and VAT down the road – in the business case they presented. That document included the following breakdown of costs and benefits:

Year One Benefits	$1,095,000
Year Two Benefits	$750,00
Year Three Benefits	$500,00
Total Three-Year Benefit	**$2,345,000**
O Series Three-Year Cost (with implementation)	$459,000
Total Benefit	**$1,886,000**

While those numbers are compelling, the timing of the request and the way the tax function elected to proceed proved equally, if not more, important in its success. "We actually received buy-in from IT first because they played a huge part [in the implementation] and they needed to be willing to accept the new software and go through everything it takes to implement it," says Schneider. One of the biggest benefits that IT saw from the upgrade, he adds, was that they would no longer need to be as involved in the day-to-day management and trouble-shooting of the new platform.

Going to IT first proved very helpful, as IT joined tax in making the case to the rest of the business.

How to Estimate Costs and Sell IT?

Vertex: How did you determine your costs in your business case?

Shawn Schneider: Some costs were largely estimated but we knew others. For example, we knew what our previous audit assessments looked like, and we knew a lot of what caused audit errors. And we knew that we could reduce errors by 50 percent we could reduce the cost of the assessments by that much. Other cost components, including order processing and delaying orders, took longer to estimate. But we could look at past volumes and apply percentages to those issues.

Vertex: What was involved in gaining buy-in from your IT group first?

Shawn Schneider: We had been talking about our desire for upgrade for some time, and when IT decided to go forward with the JD Edwards upgrade, a light bulb went off. When we approached them, they said, "OK, well this is the time to do it – why stay with the older software when we're upgrading the ERP system?" That was a large part of it, but then we also shared with them all of the benefits that upgrading the tax software would deliver. IT was more focused on the functionality improvements, and the fact that the upgrade would reduce their administrative load. But I did have to get them the numbers to ensure it fit their budget.

Vertex: So was IT instrumental in helping you scope out some of the requirements in the business case?

Shawn Schneider: Yes. We also did some work beforehand, engaging them before we officially got them onboard.

ROI Building Blocks

The tax function's justification for the technology investment convinced Stewart & Stevenson's decision-makers on the basis of clarity and its connection to business value through the quantification of benefits. Like most successful business cases, this one appears straightforward – to the point that green-lighting the investment was a relatively easy decision.

Building a strong business case requires some hard work and business acumen.

Stewart & Stevenson's tax function started with a large number of benefits and then narrowed those down to the advantages that A) identify which benefits are the most critical to the business; and B) quantifying, to the greatest extent possible, the impact of those benefits in financial terms.

Building out a comprehensive yet straightforward business case for any project can be time-consuming, and it can require a fair amount of resources. A smart first step is "building the business case for the business case," if you will; it pays to make sure the information-gathering and analysis will prove worthwhile before progressing too far into the effort. To do this, start with benefits that qualify as low-hanging fruit; and then use those benefits to sketch out all the areas of likely payback that also can be fairly easily quantified.

Sharing this sketch with others in the organization – as Schneider did with his IT partners – can help solicit buy-in from other stakeholders in the organization. Additionally, if the business case "sketch" looks promising, it can serve as justification to invest more time and effort completing and formalizing this sketch. The entire building the case for a business case process includes the following components:

Components and Key Questions	Description
Component: Critical need factors & business issues need and what other problems is it causing? **Key Question:** What is the critical need and what other problems is it causing?	When any business problem arises, identifying its source and also how quickly it might worsen or spread typically influences the response and shapes the solution. The need for new technology or an upgrade should motivate a similar reaction: identify three or four critical needs (often in the form of high costs) that demand remediation. These areas should help determine if the business case is worth pursuing, and these critical needs can be shared with colleagues to cultivate initial buy-in.
Components: Key stakeholders **Key Question**: Who can do something about it?	Stakeholders are individuals who can provide useful information to determine what the relevancy of various critical need factors are. These individuals are also prime candidates to help build out a more comprehensive business case and they may even participate in the decision of whether to move forward with a project.
Components: Desired outcomes **Key Question**: What can they do?	Identify what these stakeholders believe the desired outcomes of the technology investment should be and how they can contribute to the achievement of these outcomes. Lay out what's in it for them.
Components: Cost **Key Question**: Why fix it?	Summarize the cost of leading the current environment as is.

Conclusion: Level the Playing Field

Many tools are available to support business case development. These tools can save tax professionals time by preventing them from reinventing the wheel. These tools also can be shared with colleagues crafting technology business cases in other parts of the company.

The bear joke at the beginning of this paper playfully points out the highly competitive nature of technology investments. Of course, the purpose of developing the logic for new tax technology investments is not to outrun colleagues pining for new marketing automation tools, human capital management systems or social media monitoring technology. The true objective is to provide the right information to decision-makers so they can prioritize and pursue investments that align with the company's overall strategic objective.

By putting forth a comprehensive and clear case for new automation, that tax function also helps educate the rest of the organization on its true value – and the possibility that it can add more strategic value by investing in the right technology.

Time for a Tool

The old saying that you can't manage what you don't measure remains as relevant as ever to business-case building. Many organizations have developed their own tools for quantifying the justification for a technology investment. Count Vertex among that group; we developed a spreadsheet-based estimator and tracking tool whose structure is based on insights generated over decades of assisting client companies across all industries craft business cases for tax technology.

The tool identifies about 30 critical success factors (e.g., overpayments to vendors, exemption certification management, etc.) that users can choose from based on their unique needs. Most software-shoppers find it worthwhile to delve deeply into four or five critical factors; however, there are many approaches.

One set of tabs in the estimator tool walks users through the process of populating the business case with supporting data and then analyzing it; these steps include:

1) Entering quantifiable data
2) Entering non-quantifiable data;
3) Analyzing those results within an executive summary; and,
4) Identifying success criteria for tracking purposes.

The tool also provides a convenient way to collect other information necessary for the business case, including the critical need factors, key stakeholders, a description of the current business process and desired state.

For more information about Vertex's business case estimator tool, please contact **1.800.355.3500**.

Endnotes

[1] CIO Magazine 2014 State of CIO Survey Results: http://www.cio.com/article/2379277/cio-role/state-of-the-cio-survey-results.html

[2] "The Strategic CIO: Risks, Opportunities and Outcomes," The Economist Intelligence Unit, 2013: http://www.economistinsights.com/sites/default/files/EIU_EMC_Strategic_CIO.pdf.

[3] Vertex® Indirect Tax *O Series*®, now in its seventh release, provides increased functionality and enhancements not available in the *Q Series*®; for more information: http://www.vertexinc.com/solutions/vertex-enterprise.

About Vertex

Founded in 1978, Vertex Inc. 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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