

Client: Starbucks

Solution: Vertex® Indirect Tax *O Series*®

Starbucks implements a centralized tax system to support global growth.



Company Profile

From its beginning in 1971 as a single storefront in Seattle's historic Pike Place Market, Starbucks has grown into the premier roaster and retailer of specialty coffee in the world – and a staple in the daily routines of millions of people. Today, the company operates over 16,000 stores in 51 countries, as well as numerous business-to-business transactions and e-commerce operations around the world generating more than \$11 billion in annual sales.

The Challenge

While Starbucks is undeniably a large presence in the retail arena, its business model is considerably more complex. To deliver a cup of coffee to a customer in a retail store, the coffee beans must go through purchase, manufacturing (roasting), distribution, and sales – and each step has specific tax consequences.

- Green coffee beans are purchased from growers and transported via boat to green coffee warehouses in the U.S., Singapore and Europe.
- The green coffee is then shipped to company-owned roasting facilities and contract co-manufacturers and packers who work on specialty products.
- Roasted beans are shipped to distribution centers around the world.
- Beans are delivered to retail stores and other locations globally.

Starbucks sells coffee and other products to 50 million customers worldwide each week. From a purchase standpoint, the company buys production materials, cups and lids, merchandise, office supplies, services, and more, from a global network of suppliers and service providers both externally and internally (among Starbucks legal entities).

All of this global purchasing, transportation, manufacturing and distribution makes the accurate assessment, calculation, and capture of tax at every step an epic challenge.

Growth & Complexity Spur Need for Automation

With no centralized tax system to manage its diverse business transactions, Starbucks had employed multiple approaches to processing tax.

- The company used Vertex® Sales Tax *Q Series*® for business-to-business invoice sales.
- They used multiple Excel schedules to manually accrue the use tax on purchases, as well as inventory transfers to retail stores.
- On the international front, there was no tax system in place and many manual processes.

Summary

Company

- Retailer, roaster, and provider of specialty coffee, teas, and bottled drinks
- Sells whole bean coffees through sales group, direct response, supermarkets, and online
- Operates 16,000+ retail stores in 51 countries
- Serves 50 million customers each week
- \$11 billion+ in annual sales

Vertex Solution

- Vertex® Indirect Tax *O Series*®
- Vertex® Consulting Services

Results

- Centralized tax system for all invoice sales, purchases and inventory transfer transactions
- Scalable business platform where tax is an integrated component for any transaction or process
- Ability to pull detailed transaction data for analysis
- Automation of consumer use tax on purchase and inventory transactions
- Increased time for analysis and planning due to automation of manual processes
- Ongoing partnership with Vertex to maximize company growth

"We see Vertex as our business partner."

– Paula Borhauer, Director Global Indirect Taxes
Starbucks

The Challenge (continued)

Given the scale, complexity, and global nature of the business, Starbucks realized that the manual processes put accuracy at risk, increased tax exposure and audit risk. For example, use tax processes were completed by a non-tax professional with guidelines provided by the tax team – creating more possibilities for human error.

Starbucks' processes also lacked the flexibility and scalability to support current or future business growth. It required the ability to set up and evaluate receipt settlements with suppliers. Due to system constraints, the company also needed the ability to pull detailed transaction data. Use tax accrual on inventory transfers typically required three days to perform due to manual input and the use of spreadsheets.

These and other situations spurred the demand for an automated solution for indirect tax.

Integrating Tax into the ERP Upgrade

To address the increasing scale and complexity of its global operations, the company was embarking on an Oracle ERP upgrade, which presented an opportunity to integrate, centralize and standardize the accounts payable, accounts receivable and inventory processes across all regions of its operations. While Vertex® Sales Tax *Q Series*® had previously provided business-to-business transactional-level tax management for Starbucks in the U.S., the company would integrate Vertex® Indirect Tax *O Series*® into the Oracle ERP upgrade to enable them to get to transactional level consumer use and inventory tax evaluation, which had previously been impossible with the older systems, according to Sheryl Bennett-Holland, Systems Analyst Lead at Starbucks.

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System Analyst Lead
Starbucks

“Our goal was to create a scalable business platform to accommodate business growth and change where tax was an integrated component for any transaction or process – not an afterthought,” said Bennett-Holland.

The first area to go live was the Starbucks' Europe-Middle East-Africa (EMEA) region. The intentional deployment in a smaller region provided the Starbucks team an opportunity to learn the Vertex solution, and the tax link technology.

Paving the Way for Future Growth

The integration of the Vertex and Oracle platforms has provided a framework the company can leverage for future initiatives. For example, the company recently implemented an Oracle iStore module in the ERP, and an online ordering system for its food services and licensed store groups. Because iStore integrates with the existing ERP system using the components built to link with Vertex, Starbucks expects that the tax evaluations through Vertex will be done on every transaction – without requiring any “one-off” processes.

“We faced a lot of challenges in this upgrade – doing both the ERP and Vertex implementation at the same time,” recalls Bennett-Holland. “Upgrading both together presented a continuously changing target, as other teams changed their designs to meet their business needs in their space.”

Mapping the Data Flows

Given the scope of the project, with such a large number of departments and tax laws, the development and testing teams were challenged with multiple design changes to anticipate all the possible processing scenarios that the Vertex system might have to handle.

The sheer volume of data passing through the systems posed a reporting challenge. To better visualize the flow of data for troubleshooting during deployment, the Starbucks team laid out a flow diagram with pictures of the data points that would be passed to the Vertex system, and where they originated from in Oracle for all invoice types and loads.

Starbucks went live with Vertex O Series for value added tax (VAT) in November 2008 and with Vertex O Series for sales and consumer use tax in April 2011.

Transforming & Elevating the Role of Tax

With the two-pronged deployment completed, all of Starbucks invoice sales, purchases and inventory transfer transactions are now processed through a centralized tax system. The advent of this visibility, coupled with automation of many manual processes, has fundamentally changed the company's tax function.

“As a tax professional, I'm very excited that we have the ability to see all transactions,” said Ryan Meas, Manager of Sales and Use Tax at Starbucks. “We're able to trace all transactions, and report on all transactions related to accounts receivable, accounts payable, and inventory transactions.”

Transforming & Elevating the Role of Tax (continued)

Prior to the Vertex implementation, the Starbucks tax team spent an inordinate amount of time performing calculations on tax data. “Now we spend time analyzing transactional data instead of performing manual tax calculations, which allows us to be more proactive than reactive in addressing tax issues,” said Meas. “This adds value to our company, and also enhances our partners’ skill sets.”

He continues, “One of the biggest transformational changes with this project is the use of tax automation on all purchases and inventory transactions. Before this project, all purchases were handled by a non-tax professional, and the inventory use tax accrual process was done manually using spreadsheets.”

“The centralized, automated tax solution allows us to be more flexible and scalable without adding new resources each time there are new business ventures.”

– Ryan Meas, Manager of Sales & Use Tax
Starbucks

The Vertex implementation mitigated potential human error and reduced the inventory tax processing time from three days to one and a half days. The Tax department can now be more proactive when working with business units to identify the business and tax impact of current and future initiatives.

“In addition,” add Meas, “The centralized, automated tax solution allows us to be more flexible and scalable going forward, without adding new resources each time there are new business ventures.”

Looking Ahead

The Vertex implementation enabled a strategic makeover of the Starbucks’ tax department, and the company soon identified additional areas for improvement with subsequent implementations.

The next initiative involves upgrading both the EMEA and North American regions to the Vertex® Indirect Tax *O Series*® 6.0 version. This standardization will simplify support for the company’s IT organization, which will only need to support one version of the solution, and apply uniform treatments across all regions when future changes are required. In addition to keeping up with releases and fixes, the company plans to take advantage of Vertex platform integrations, such as the exemption certificate manager and reporting analytics.

“Overall, this sets a foundation for easier business expansion,” said Bennett-Holland.

The Ideal Implementation Team

Starbucks decided to combine the Vertex tax system upgrade with their Oracle ERP upgrade. As with any enterprise-level software update, the tandem upgrades presented a number of technical and country-specific obstacles. One of the most challenging issues was the inherent cross-functional knowledge gaps between the software vendor (Vertex), the Starbucks IT function, and the Starbucks tax department.

Cross-Functional Knowledge Needs

“Vertex people know their product, our IT people know our unique infrastructure, and the tax department knows how to navigate global tax regulations,” notes Brian Ugai, Vice President, Tax & Customs at Starbucks. “Connecting those dots and bridging the enormous knowledge gaps is extremely challenging, and requires cross-functional knowledge across all areas – and very talented people.”

As Starbucks embarked on the project, the team knew project-level and ongoing service would be an important key to success. One option was to use the implementation service provided through the software providers or employ a third party. A third-party service provider was already engaged for the ERP implementation, and the prospect of enlisting another outside firm and bringing them up to speed on the business, the IT landscape – and Vertex – presented new challenges. Ultimately, Starbucks engaged Vertex Consulting to provide support around the tax system implementation.

“Vertex knows its product the best,” noted Ugai, “and what’s in store for it going forward. Additionally, we needed someone who had the inside knowledge of Vertex – someone who could not only apply their knowledge of our business and IT situations and challenges, but could identify problems and rally the appropriate Vertex resources to solve them.”

Working with their Vertex Technical Account Manager, or TAM, prior to the implementation proved fortuitous. The Vertex professional staff was already familiar with Starbucks IT and tax departments and was ready to address the knowledge gaps and issues encountered along the way.

Critical Support During Cutover

In preparing for implementation of Oracle and Vertex *O Series*, Starbucks IT had strict support requirements for the cutover period to prevent system failures and business interruption. Vertex sent two support team members to Starbucks prior to implementation for knowledge transfer on the Starbucks specific tax link extensions supporting multiple Oracle modules and countries. For the cutover period, Vertex support and service teams worked with Starbucks tax and IT staff to tailor the support hours and provide direct access to advanced support team members. This flexibility to provide customized service was critical for the cross-functional team managing the implementation.

An Ongoing Partnership

The need to partner with a proven service provider – particularly on the tax front – is especially important to Starbucks. The partnership between the Starbucks and Vertex teams goes far beyond the initial stages of implementation, and empowers the Starbucks IT and tax teams to focus their efforts on initiatives to drive the business as the company grows and adds lines of business and products.

Looking Ahead (continued)

A Valuable Partnership

Paula Borhauer, Director Global Indirect Taxes at Starbucks, emphasizes the value of the partnership between Vertex and Starbucks. “With Vertex, it’s not a situation where the software is installed and then people involved in the installation go away and you never see or talk to them again,” explains Borhauer. “But, from my experience, that seems to be the model with a lot of software installations. With tax, you just can’t do that. You need a partner. Tax requirements are constantly changing outside of our control. We’re working with Vertex month after month, because there are constant changes.”

“We see Vertex as our business partner,” says Borhauer. “We went through this major ERP implementation, but now we’re going through different upgrades and resolving new problems that arise because we continue to adjust our IT infrastructure or our business requirements change. Our business is very dynamic – we’re growing and adding lines of business and new products. So we need to adjust the Vertex system along the way to meet those changes. This requires a team with in-depth knowledge of the Vertex products and resources, as well the Starbucks IT landscape and business model.”

Supporting Business Growth

Bennett-Holland Summarizes, “This is exactly the type of foundational benefit we were hoping to get from the implementation of Oracle and the Vertex O Series. And the continuous upgrades will really position us to support new growth and future business changes within Starbucks without sacrificing tax accuracy and/or tax resources to do it.”

About Vertex

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.

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.

Locations

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