



Cloud for Everyone — Including the Tax Function

*Tax functions are well-positioned to become smart adopters
of Software as a Service (SaaS)*

Jennifer Kurtz, Chief Technology Officer, Vertex Inc

KEY TERMS

Cloud

This general term refers to the hardware and/or software technology and services that are delivered to users via the Internet.

SaaS

Software as a Service (SaaS) refers to cloud-based software that runs on, and is accessible via, the Internet

Companies' appetite for cloud technology continues to increase. Earlier this year, *InformationWeek* published a cloud technology forecast under the headline, "Cloud Computing 2018: More of Everything."¹

As digital transformation efforts progress in all industries, few companies or organizational functions are finding that they can thrive without cloud technology. Many organizations treat cloud technology investments as a crucial driver of this transformation. And many tax departments are now ideally positioned to consider and apply several hard-earned cloud-adoption lessons that their counterparts in sales and marketing, finance and accounting and human resources have experienced in the past 18 to 24 months.

Despite the widespread use of cloud-technology adoption, misconceptions are commonplace. Cloud solutions, for example, do not negate the need for information technology's (IT's) expertise or support. In fact, the experience and know-how within IT functions represent crucial enablers of sound solution selection processes and effective vendor relationship management activities. This makes it incumbent on non-IT managers looking into domain-specific cloud solutions to collaborate effectively with their IT colleagues. Implementation, governance and vendor-management missteps also occur too often. Inattention to recovery time objectives (RTO) and other key metrics in service level agreements (SLAs) are a prime example of a routine oversight. These shortcomings routinely limit the returns companies derive from their cloud investments.

Tax functions may not qualify as an early adopter of cloud technology, but by applying practical insights and lessons learned from cloud adoption experiences to date, tax leaders can sidestep common mistakes while boosting their odds of optimizing their investments in cloud technology. For tax functions, this technology most commonly takes the form of software-as-a-service (SaaS) applications that support tax performance management. This paper, which is intended to serve as a practical cloud-adoption handbook, provides an update on the cloud technology's adoption and benefits before highlighting approaches, steps and considerations that tax executives and professionals should work through when pursuing cloud investments.

ADOPTION TRENDS AND CHALLENGES

The number of companies adopting cloud-based software has increased significantly in the past few years, and that trend shows no sign of waning.

In 2017, 30 percent of global companies replaced traditional on-premise financial management software licenses with cloud-based software solutions, according to



Gartner. By 2020, the research firm projects that figure will increase to 36 percent; by 2025, Gartner forecasts that 50 percent of all global companies will have replaced traditional financial management software with cloud-based applications.²

CIO's annual projection of cloud trends also makes it clear that "The rate of cloud adoption will continue to rise in 2018." The publication projects that more companies will move from maintaining and running internal cloud infrastructure to the public cloud to save money and reduce IT workloads. This shift is being driven, in part, by vendors' to offer manage the applications for clients and other valuable services such as security, monitoring, high availability, and disaster recovery.³

"Some may think that cloud computing already hit its maximum on the 'hype meter' over the last few years," notes *InformationWeek's* Andrew Froehlich. "But honestly, 2018 is shaping up to be the biggest year ever." Among several factors contributing to increasing cloud adoption in companies of all sizes, Froehlich highlights "a massive IT policy shift of cloud computing as a long-term strategy."⁴

There are a number of sound reasons for the widespread adoption of cloud technology, including the following:

- **Cloud is a lynchpin of digital transformation efforts.** As more organizations pursue digital transformation initiatives to harness the value of their data, cloud technology solutions are playing a central role thanks to their cost efficiency, ease of implementation and powerful data-management technologies.
- **SaaS and cloud technology are becoming an integral part of IT strategies.** Cloud technology has grown more alluring to organizations thanks in part the increasingly robust security most vendors now offer along with other valuable services and functionality, such as monitoring and high availability. As a result, more IT functions are adopting a "cloud-first" approach in which cloud-based solutions are considered first and foremost when the need to replace an existing system or to invest in new software arises.
- **Cloud technology offers time-to-value and cost-savings benefits.** Most SaaS applications can be implemented much quicker than it takes for on-premise software systems to go live – in matters of weeks or even days, compared to as long as a year or more in some cases. Cloud software boasts a lower total cost of ownership than on-premise software, thanks in part to the fact that it removes most, but not all, of the maintenance burden from internal IT functions.
- **Better access to advanced functionality and innovation.** Thanks to convenience of Internet delivery, cloud applications can be updated with new functionality much more frequently (examples include every six to 12 weeks, in many cases) –and with far less disruption – compared to traditional forms of software (which is maybe refreshed only once every 18 months). This capability gives companies improved access to functionality and related innovations developed by leading vendors.

By off-loading the majority of the software maintenance and upgrades to vendors, companies also free internal IT resources to focus on higher-value activities.

ADDRESSING GOVERNANCE, SECURITY AND INTEGRATION NEEDS

Tax leaders considering investments in cloud-based software should also be aware of common challenges. Some of these issues are unavoidable, although they can be addressed relatively easily with sufficient attention. For example, data and application integration needs arise with the introduction of almost any form of software, regardless of whether it is cloud-based or on-premise – and data security should be a top concern when absolutely any new technology is introduced an organization.

Data security absolutely should be a top priority in the evaluation of any technology investment, but these concerns should not prevent organizations from considering a cloud-based solution as strong security features have become table stakes for cloud and SaaS solutions.

Other challenges represent a benefits tradeoff. For example, many SaaS offerings are slightly less customizable compared to traditional, on-premise applications. However, most organizations eagerly sacrifice small levels of customization in exchange for speedier implementations, lower costs and access to more frequent updates and more robust functionality.

Tax leaders should keep the following issues in mind, especially as they work with their IT counterparts when selecting and managing a SaaS vendor:

- Data security:** Cybersecurity concerns have rightly jumped to the very top of the priority lists of senior executives and board members. Although fears related to data security frequently spike after news breaks of the latest data breach, heightened attention on the topic has driven awareness of its importance throughout enterprises. And this awareness has contributed to major progress related to professional and industry standards (including those governing how vendors' data security capabilities should be assessed and audited), regulatory requirements and internal capabilities (encryption, internal controls and much more). Cloud management vendor RightScale's annual "State of the Cloud" survey indicates that security concerns related to cloud applications have decreased in recent years. While data security marks a top challenge among "cloud beginners," according to RightScale's 2018 survey results, intermediate and advanced users of cloud-based technology are less concerned about security and more focused on managing costs.⁵ Data security absolutely should be a top priority in the evaluation of any technology investment, but these concerns should not prevent organizations from considering a cloud-based solution as strong security features have become table stakes for cloud and SaaS solutions.
- Application integration:** As SaaS solutions have multiplied there is a greater need to integrate these applications with large enterprise resource planning (ERP) systems and other systems of record. As a result, much more time, attention and expertise is being applied to integrating these applications with other solutions -- whether they are traditional, on-premise solutions or other SaaS solutions. Data must move smoothly among a growing number of systems if companies are to successfully leverage their business applications. While most forms of integration (through data or APIS) are fairly straightforward to handle from an IT perspective, tax executives and other non-IT leaders requesting of cloud solutions should be aware of this need.
- Governance issues:** Governance – how the relationship with the SaaS provider is codified, measured and managed – represents a critical determinant of the investment's return. It is also one of the most commonly overlooked areas, perhaps due to the misconception that the technology's performance does not need to be actively managed when it is located off-site.

As emphasized throughout this paper, IT's involvement in the selection and ongoing management of SaaS and other forms of cloud technology is vital. IT's expertise in several key areas is integral to 1) conducting a successful selection process; and 2) managing the vendor relationship throughout its lifecycle. These areas of expertise include:

- 1. Data security and vendor risk;**
- 2. Integration requirements and connectors;**
- 3. Vendor management;**
- 4. Service level agreements (SLAs); and**
- 5. Exit strategies.**

FOR YOUR CONSIDERATION

Effective collaborations with IT partners related to the selection and management of a SaaS solution requires some high-level considerations. Tax leaders and other functional executives weighing SaaS application purchases should:

1. Get familiar with the organization's current cloud technology strategy;
2. Request that the IT function – and, more specifically (where relevant), IT's infrastructure & operations (I&O) group – get involved in the selection process; and
3. Evaluate how experienced IT and/or the I&O group are when it comes to SaaS investments and support.

Cloud strategies can vary significantly; for example, they might advocate a “cloud-first” approach to new technology investments. At the other end of the spectrum, an organization may not have a documented cloud strategy. Where cloud strategies exist, as they do within a growing number of companies, they tend to lay out how cloud fits in with the current IT infrastructure, the role cloud plays in any digital transformation efforts and key requirements or attributes of the cloud technology the company uses.

From a risk management perspective, IT's involvement is crucial in assessing a potential SaaS vendor's data security and privacy capabilities. IT professionals know how to evaluate the quality of processes and technology used to store and transmit data.

From a broader relationship management perspective, the IT function also possesses the expertise needed to craft an effective SLA, which includes selecting the right metrics (e.g., uptime, recovery time objectives (RTO) and recovery point objectives (RPO)) to monitor, setting up troubleshooting protocols to quickly address issues as they arise, and laying out a fair process to terminate or renew the relationship once as the agreement ends.

While most IT functions possess this expertise, there are exceptions. Some IT groups have not yet begun to use third-party SaaS solutions. When this is the case, tax managers should be aware of it. The IT tools and processes required to manage external SaaS applications differ, sometimes markedly, from those approaches and tools used to manage on-premise software. In these situations, it is useful for tax and IT to treat the SaaS selection process as an opportunity to learn together about the technology model's benefits, risks and practices.

AREAS OF AWARENESS AND EVALUATION CATEGORIES

The differences between managing on-premise software and SaaS applications can be significant. Once the new solution has been implemented these differences will quickly materialize. As such, tax should be aware of some of the most notable differences, including the following:

- **More frequent software updates need to be understood and assimilated.** One of the benefits of SaaS solutions is that vendors typically improve and upgrade the software far more frequently. Although these updates are smaller in scope and much less intrusive than major upgrades of on-premise software installations, they pose different challenges. SaaS vendors will typically announce the date that an upgrade will appear and then provide customers with a period of time (30 days is routine) to share any concerns about the updates and any potential business process adjustments they might require.
- **External vendors, rather than IT colleagues, operate the software and are responsible for security.** If tax managers have trouble accessing data from an on-premise software system, they can call IT, request an import or export operation and IT responds by writing a query to fulfill the request. While that approach has plenty of potential shortcomings, it remains an inner-organizational process. If tax managers want to make changes to how data is exported from a SaaS application, that request must go to the vendor – ideally with IT's involvement to ensure that any relevant governance requirements are satisfied. SaaS vendors are also ultimately responsible for data security. That capability should be carefully evaluated, with IT's expert assistance, during the evaluation process and consistently monitored throughout the vendor relationship.
- **Workflow, processes and governance changes require vendor interactions.** Business processes and organizational IT environments change frequently, especially amid the high volume of disruptions that most companies contend with today. When new software systems, IT infrastructures and business processes changes affect a SaaS solution, those changes should be communicated to the SaaS vendor. Most SLAs lay out how these changes are communicated and managed.

In addition to those SaaS-specific dynamics, tax managers should have some familiarity the process IT functions use to adopt SaaS solutions and the high-level criteria used to in the selection process.

Although adoption processes vary by company, most progress through several stages. Ideally, the process begins with the formulation of a strategy that lays out the rest of the purchasing and management process, including how potential solutions will be evaluated, how the SaaS solution will be implemented and integrated with the company's IT environment and, finally, how the relationship will managed following the implementation.

Specific SaaS evaluation criteria also vary by company. Gartner's categorization of technical criteria (which include subcategories related to management, integration, management, security, storage and network issues) and business criteria (which include subcategories related to pricing and billing, SLAs, and support and communication) are useful to keep in mind.



ABOUT VERTEX

Vertex Inc., has been a leading provider of tax technology and services, enabling companies of all sizes to realize the full strategic potential of the tax function by automating and integrating tax processes, while leveraging advanced and predictive analytics of tax data. Vertex provides cloud-based, on-premise and hosted solutions that can be tailored to specific industries for every major line of tax, including income, sales and consumer use, value added and payroll. Headquartered in Pennsylvania, Vertex is a privately held company that employs over 900 professionals and serves companies across the globe.

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CONCLUSION: TRANSFORMING TOGETHER

Today, cloud solutions seem ubiquitous. “Cloud is no longer about cheap servers or storage – it’s now the best way to turn great ideas into amazing software, faster,” writes Forrester Principal Analyst Dave Bartoletti. “In 2018, cloud computing will accelerate enterprise transformation everywhere as it becomes a must-have business technology.”⁶

That includes the tax function. And if tax leaders want their functions to maximize what SaaS applications can deliver in terms of powerful tax data management capabilities at an attractive price point, they’re going to need to work closely and considerately with their IT partners to make and manage these potentially transformational investments.

END NOTES

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