FORRESTER®

The Total Economic Impact™ Of Avalara

Cost Savings And Business Benefits Enabled By Avalara

A Forrester Total Economic Impact™ Study
Commissioned By Avalara, February 2024

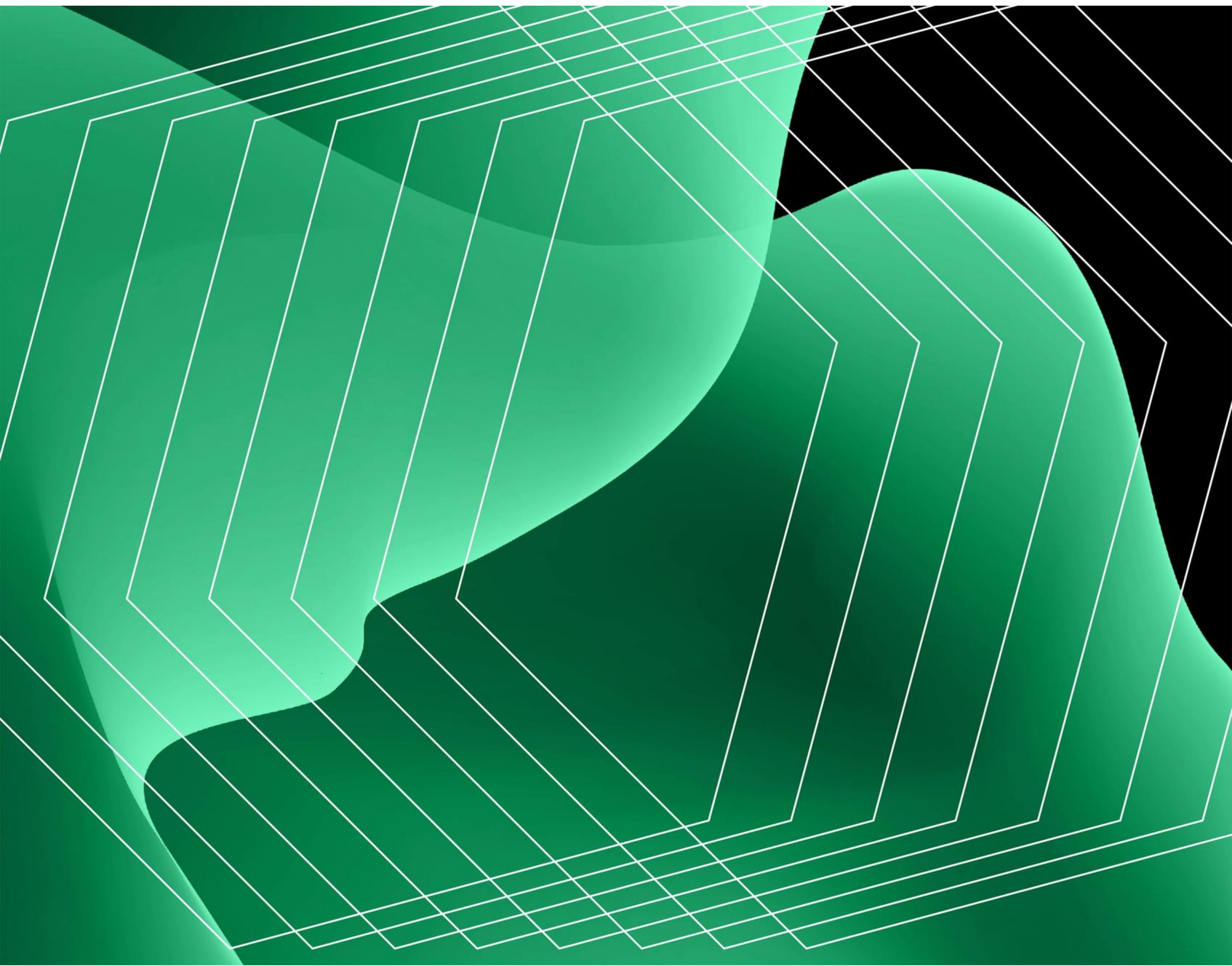

Table Of Contents

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ABOUT FORRESTER CONSULTING

Forrester provides independent and objective research-based consulting to help leaders deliver key outcomes. Fueled by our customer-obsessed research, Forrester's seasoned consultants partner with leaders to execute their specific priorities using a unique engagement model that ensures lasting impact. For more information, visit forrester.com/consulting.

Executive Summary

In today's consumer-focused world, tax authorities worldwide are embracing new tax laws and asking for more transparency to create easier sharing of information between themselves and taxpayers.[1] Despite this, many companies still rely on manual processes, resulting in uncertain and perpetually out-of-date information. Avalara's tax automation and compliance solutions enables updated determination of nexus obligations to help ensure compliance for businesses of all sizes.

As businesses expand, tax compliance becomes increasingly more challenging due to diverse tax types, each with their own set of rules and regulations. Businesses must navigate these rules, or risk costly mistakes and potential fines. Avalara offers a modern suite of software solutions that simplifies and accelerates tax compliance, minimizing the risk of costly mistakes and fines. This allows company leaders and tax professionals to focus on driving successful business outcomes rather than grappling with the complexities of tax and compliance.

Avalara commissioned Forrester Consulting to conduct a Total Economic Impact™ (TEI) study and examine the potential return on investment (ROI) companies may realize by deploying Avalara.[2] The purpose of this study is to provide readers with a framework to evaluate the potential financial impact of Avalara on their organizations.

Return on investment (ROI)
153%

Net present value (NPV)
$465K

To assess the benefits, costs, and risks associated with this investment, Forrester interviewed six representatives experienced in utilizing Avalara solutions. For this study, Forrester aggregated the interviewees' experiences and combined the results into a single composite organization that uses Avalara's AvaTax, Exemption Certificate Management, Managed Returns, and Tax Research solutions.

Interviewees revealed that before using Avalara, their organizations struggled to stay up to date with their tax obligations. For example, interviewees said they could not collect appropriate taxes and were not filing taxes where businesses have nexus due to frequent tax law updates. Manual effort alone could not keep organizations compliant. Moreover, as their businesses expanded, managing tax exempt customers became more challenging. Outdated physical storage of certificates led to missed expiration dates and lost certificates. When it came time to file their taxes, because of the incorrect and missing forms, the interviewees' organizations were at risk of additional audits. This — combined with the manual effort their internal teams needed to manage the tax processes — left them feeling frustrated and inefficient.

After the investment in Avalara, interviewees reported enhanced tax compliance by streamlining processes across tax returns, exemption certificates collections, and audit preparation. This resulted in improved efficiency, eliminated business disruption, and reduced redundant third-party costs for the interviewees' organizations.

KEY FINDINGS

Quantified benefits. Three-year, risk-adjusted present value (PV) quantified benefits for the composite organization include:

- **Avoiding 510 hours annually on managing, streamlining, and filing tax returns.** The adoption of Avalara Managed Returns reduces complexity by helping the composite organization file and process tax returns and refunds in minimal time. The software streamlines the tax filing and return process by 85%, resulting in a three-year savings of over $83,000.
- **Ensuring tax exemption certificates are completed properly, eliminating 416 hours of work each year.** Avalara's Exemption Certificate Management solution improves certificate compliance for exempt transactions and allows the composite organization to track certificate expirations and proactively request new ones. Moreover, because it catches potential errors through automated workflows, the composite organization's account receivable specialist avoids the extra work needed to correct the update the certificates, saving 416 hours each year. This reduction in administrative time to validate certificates results in a three-year savings of over $96,000.

- **Gaining 85% efficiency for audit preparation, saving 34 hours per audit.** Because Avalara keeps more accurate, updated records in a centralized location, the composite organization avoids the frustrating and time-consuming experience of tracking needed materials down in disparate systems. This allows the senior tax manager to quickly prepare for audits, saving 34 hours per audit. Moreover, because Avalara's system keeps information updated, the composite organization prevents some additional penalties and avoids the hiring of a third-party auditor. This leads to a three-year savings of over $210,000.
- **Eliminating spending on third-party tax experts, saving $150,000 annually.** Because Avalara's solution has regular updates to the ever-changing tax landscape, the composite organization removes its need to hire third-party tax consultants. This results in a three-year savings of over $317,000.
- **Avoiding and recapturing 90% of tax research work, saving 384 hours annually.** With Avalara, the changes to tax rules, rates, boundaries, and jurisdictions are updated regularly. The reduction of the average time to research tax rates and laws allows the composite organization's senior tax manager to use the saved hours on other value-added tasks. Over three years and a cumulative total of 1,152 hours, the tax research labor savings is worth around $63,000 to the composite organization.

85%

Efficiency gained for audit preparation

Unquantified benefits. Benefits that provide value for the interviewees' organization but are not quantified for this study include:

- **Decreasing sales tax liabilities.** The interviewees said that because Avalara streamlined sales tax management and ensured a higher level of accuracy in the calculation and collection of the taxes, their organizations' potential liabilities decreased, and they were able to reduce their sales tax reserves.

- **Simplifying expanding into new jurisdictions.** As the interviewees' organizations grew and their geographical reach expanded, interviewees noted that having Avalara in place allowed their organizations to ensure customers paid the right amount of tax and minimized errors.
- **Gaining access to reliable expertise.** Interviewees shared that they appreciated having access to Avalara's team of tax professionals who provided answers when stakeholders at their organizations had compliance questions.
- **Improving processes for salespeople trying to validate certificates.** Interviewees shared that Avalara provided efficiencies for their organizations' sales teams as the process of validation certificates was easier and more intuitive.
- **Reducing shipping errors due to address confirmation.** Avalara notifies organizations if a shipping address does not match the address on file, which saved the interviewees' organizations time and money on shipments to customers.
- **Enhancing confidence in tax compliance.** With Avalara, the interviewees' organizations were confident in the storing of their records as they now had one centralized system, which made it easy to prepare for audits.
- **Shifting focus to business needs rather than tax decision-making.** Because Avalara kept the interviewees' "compliance houses" in order, all shared that they could instead focus on what they needed to do to make their respective businesses profitable.
- **Improving voluntary disclosure agreement (VDA) processes.** Interviewees shared that Avalara's alerts that stated they were approaching economic nexus allowed them to incorporate Avalara earlier and mitigate the risk of needing additional VDA.
- **Gaining credibility with customers.** Because of Avalara's regular updates to tax laws and regulations, the interviewees noted their customers no longer questioned if the right sales tax was posted. This allowed the interviewees to build trust with their customers and improve partnerships.

Costs. Three-year, risk-adjusted PV costs for the composite organization include:

- **Avalara licensing fees.** The composite organization purchases Avalara's AvaTax, Exemption Certificate Management, Managed Returns, and Tax Research solutions to support its tax compliance efforts. Avalara's licensing fees are based on the number of transactions, returns, and managed exemption certificates a company has, and the following fees are associated with the composite organization's characteristics, which include:
  - 10,000 annual transactions.
  - 2,000 exemption certificates, plus 100 net-new exemption certificates per year.
  - 400 managed returns.
  - One Avalara connector.

  For these characteristics, there are one-time activation fees totaling $5,525, with the annual subscription costs totaling $68,600. To expedite compliance needs, the composite organization opts to have enhanced support from Avalara's professional services team, resulting in an additional $16,000 annual cost.

- **Implementation costs.** For the composite organization, a cross-functional team works on the Avalara implementation and optimization effort over four months, including a 30-day effort troubleshooting the integration.

- **Ongoing management and training costs.** The composite organization opts to have a senior tax manager dedicate two weeks to learning Avalara's solutions. Similarly, to understand the Exemption Certificate Management (ECM) solution, the composite organization's accounts receivable specialist dedicates a full day learning the Avalara system. Going forward, these FTEs dedicate 1 hour per quarter each year to learning any new updates. Lastly, as a cloud-native solution, Avalara is easy to maintain, and one FTE spends 10 hours a year fine-tuning the system.

The representative interviews and financial analysis found that a composite organization experiences benefits of $770,000 over three years versus costs of $305,000, adding up to a net present value (NPV) of $465,000 and an ROI of 153%.

“When I’m not on Avalara, we’re — on a good day — only 25% to 30% compliant. And when you get on Avalara, you’re probably 95% to 100% compliant. That’s the big difference to me.”

SENIOR TAX DIRECTOR, MANUFACTURING

Return on investment (ROI)

153%

Benefits PV

$770K

Net present value (NPV)

$465K

Payback

<6 months

Benefits (Three-Year)

TEI FRAMEWORK AND METHODOLOGY

From the information provided in the interviews, Forrester constructed a Total Economic Impact™ framework for those organizations considering an investment in Avalara software.

The objective of the framework is to identify the cost, benefit, flexibility, and risk factors that affect the investment decision. Forrester took a multistep approach to evaluate the impact that Avalara can have on an organization.

Due Diligence
Interviewed Avalara stakeholders and Forrester analysts to gather data relative to Avalara.

Interviews
Interviewed six representatives at organizations using Avalara to obtain data about costs, benefits, and risks.

Composite Organization
Designed a composite organization based on characteristics of the interviewees' organizations.

Financial Model Framework
Constructed a financial model representative of the interviews using the TEI methodology and risk-adjusted the financial model based on issues and concerns of the interviewees.

Case Study
Employed four fundamental elements of TEI in modeling the investment impact: benefits, costs, flexibility, and risks. Given the increasing sophistication of ROI analyses related to IT investments, Forrester's TEI methodology provides a complete picture of the total economic impact of purchase decisions. Please see Appendix A for additional information on the TEI methodology.

DISCLOSURES
Readers should be aware of the following:

This study is commissioned by Avalara and delivered by Forrester Consulting. It is not meant to be used as a competitive analysis.

Forrester makes no assumptions as to the potential ROI that other organizations will receive. Forrester strongly advises that readers use their own estimates within the framework provided in the study to determine the appropriateness of an investment in Avalara.

Avalara reviewed and provided feedback to Forrester, but Forrester maintains editorial control over the study and its findings and does not accept changes to the study that contradict Forrester's findings or obscure the meaning of the study.

Avalara provided the customer names for the interviews but did not participate in the interviews.

The Avalara Customer Journey

Drivers leading to the investment in Avalara software

Interviews			
Role	**Industry**	**Revenue**	**Size**
Senior director, finance applications	Professional services	$2.8 billion	8,500 employees
Senior tax director	Manufacturing	$1.36 billion	4,500 employees
Senior tax director	Software	$300 million	1,300 employees
Executive tax director	Manufacturing	$8.5 billion	15,500 employees
CFO	Medical devices	$24 million	105 employees
CIO	Retail and manufacturing	$80 million	106 employees

KEY CHALLENGES

Before deploying the Avalara suite of products, the interviewees' organizations relied on manual calculations and paperwork to manage taxes. Interviewees described their frustration as these processes created a large administrative burden for them and their teams. The absence of timely updates to tax rules, rates, and regulations and a centralized location for data meant that the interviewees' organizations faced inefficiencies and the increased risk of errors, as well as limitations in gaining insights from their financial data.

> "The way I would describe any system that doesn't use a tax software is that it's an empty shell. It's only as good as what you put in the shell, and if you don't maintain and update the shell, then it's only good during the moment that you implemented it."
>
> SENIOR TAX DIRECTOR, MANUFACTURING

The interviewees noted how their organizations struggled with common challenges, including:

- **Inefficient and manual processes.** Interviewees shared that manual tax-related tasks consumed a significant amount of time and resources and diverted focus from other critical business operations. While the interviewees described several scenarios on how manual processes hindered their organizations, errors remained the dominant concern. An executive tax director at a manufacturing company described how their organization's manual handling of a vast amount of financial data led to data entry errors and difficulties in organizing and retrieving information efficiently. They said: "It was really ugly. The data that was coming in inconsistently into the system. If a certificate was missing information, it wouldn't get picked up. There would be spelling errors and still it would be taken. It was just bad data." Moreover, manual calculations increased the likelihood of errors in tax filings, which could result in penalties, fines, or audits by tax authorities. A senior director of finance applications at a professional services firm summed up the obvious challenges by describing how they researched taxes before Avalara, sharing, "Our previous environment was the worst because it was pen and pencil, and we couldn't do anything right."

- **Lack of expertise around tax laws and rates.** Tax laws and regulations can be intricate and are subject to frequent changes. Without regular updates, the interviewees shared that their organizations could not keep up with the latest tax codes and compliance requirements. Before Avalara, a senior director of finance applications at a professional services firm described how their organization invested in creating an internal matrix to understand how their different offerings were taxed, but unfortunately, it was not kept up to date. They said: "We have several thousand new sales every month and we had to manually research, calculate, and apply sales tax at a transactional level. … It was not uncommon for us to get a query from a client saying, 'Why have you taxed us this rate for this offering in this jurisdiction?' And it might be wrong, and we have to go and fix it. … It's going to slow down the ability to add them, complete the review, and then release the engagement so we can start invoicing." A senior tax director at a manufacturing company echoed this sentiment, saying: "You often have to update the rates manually, which means that updates are delayed until someone calls you saying, 'Hey, my rate is different.' As a result, your rates may not be accurate, the rules may be outdated, and the exemptions may not undergo proper validation."

- **Poor exemption certificate management.** The time and effort it took the interviewees' organizations to collect exemption certificates from eligible customers, file them, ensure that each certificate was filled out correctly, and track expiration dates was massive. Moreover, during audits, the interviewees expressed difficulty locating the necessary certificates leading to delay and uncertainty. A senior tax director at a software organization described the liabilities their organization faced with this process, saying: "What happens if we get audited? We have to be able to show that we have current exemption certificates on file with customers, so it was a pretty big process to even just go through and find the exemption certificates that we had." A CFO at a medical devices facility echoed this frustration, saying: "Before, our [exemption certificates] were stored and thrown in a binder on a desk by state. A customer was marked as exempt, which never got reviewed or updated if things changed. In some of our audits, we had many customers that we had treated as exempt that weren't, and we ended up paying back taxes and penalties because we did it wrong."

- **Increase in risk and vulnerabilities with growth.** Interviewees shared that the nuances and complexities of geographic expansion are difficult to predict, which resulted in messy accounting issues and expensive mistakes. The interviewees said that they could not reliably forecast the costs and regulations that come with expansion and, therefore, couldn't confidently make growth decisions. A senior tax director of finance applications at a professional services firm shared this sentiment as their firm grew: "Through acquisitions, our business grew substantially. And our sales taxability grew significantly, too. Our transactional volume grew. And it could be taxed in every single state [and not just the ones we were in previously]. Our volume grew, our revenue grew, our taxability grew, and we were spending a significant amount of time [trying to keep up with our changing taxability]. Our system and processes didn't change until Avalara."

INVESTMENT OBJECTIVES

The interviewees' organizations searched for a solution that could:

- Improve productivity so internal team could focus on value-added work.
- Improve data quality and accuracy.
- Provide highly skilled personnel with extensive tax expertise to ensure compliance and maintain proper tax processes as taxability grows.

> "We shopped around for a different software company, but Avalara seemed to have the most bells and whistles for what we were looking for as far as consistency … and [we wanted an] easy way to customize [reports] for our needs. … Avalara spent time with us to come up with a way to customized queries the way we wanted it. Because they were willing to work with us and have that customizability that we needed, we went with them."
>
> **EXECUTIVE TAX DIRECTOR, MANUFACTURING**

> "First, we wanted to see if there was a company that had an integration into our ERP [enterprise resource planning] that would take care of our tax compliance issues. Avalara was the only company fully integrated into [our ERP] from a tax compliance, tax rate standpoint. And second, Avalara is the tax expert. Let's let the experts take care of what we need to make sure we're being compliant, we're staying up to date with the rates, and that our transactions are operating the way they should be."
>
> CIO, RETAIL AND MANUFACTURING

COMPOSITE ORGANIZATION

Based on the interviews, Forrester constructed a TEI framework, a composite company, and an ROI analysis that illustrates the areas financially affected. The composite organization is representative of the six interviewees, and it is used to present the aggregate financial analysis in the next section. The composite organization has the following characteristics:

Description of composite. The composite organization is a global organization that completes 10,000 transactions every year, which yields $300 million of annual revenue. It has 1,000 employees and its tax department consists of a senior tax manager and an accounts receivable specialist who handles customers' exemption certificates. The composite organization has 2,000 tax-exempt customers and as they grow, they receive 100 net-new exemption certificates every year. Lastly, the composite organization files 400 tax returns each year.

Deployment characteristics. The composite organization has a single enterprise resource planning (ERP) system and uses a single connector to implement several of Avalara's product offerings, including AvaTax, Exemption Certificate Management, Managed Returns, and Tax Research solutions. The organization dedicates two IT professionals who offer 25% of their time to implementing the Avalara solutions with its ERP system. This effort requires three months, and decision-makers opt to have an additional 30 days to troubleshoot the integration. A senior tax manager dedicates 10% of their time to this effort as well. Because Avalara will be automating most of the tax process, a senior tax manager trains for two weeks to understand the system; likewise, an accounts receivable specialist takes a day-long training session to ensure they understand the new exemption certificate process in Avalara's Exemption Certificate Management tool.

Key Assumptions For The Composite Organization

$300 million revenue

1,000 employees

2,000 exemption certificates

100 net-new exemption certificates per year

400 managed returns

10,000 transactions

1 Avalara connector

Analysis Of Benefits

Quantified benefit data as applied to the composite

Total Benefits						
Ref.	**Benefit**	**Year 1**	**Year 2**	**Year 3**	**Total**	**Present Value**
Atr	Streamlining tax filings labor savings	$33,415	$33,415	$33,415	$100,246	$83,099
Btr	Tax exemption certificates labor savings	$37,552	$38,878	$40,204	$116,635	$96,475
Ctr	Audit preparation efficiency, avoided penalties savings, and external auditor savings	$84,582	$84,582	$84,582	$253,747	$210,344
Dtr	Reduction in spend on third-party services	$127,500	$127,500	$127,500	$382,500	$317,074
Etr	Tax research labor savings	$25,160	$25,160	$25,160	$75,479	$62,568
	Total benefits (risk-adjusted)	$307,816	$309,142	$310,468	$927,427	$769,560

STREAMLINING TAX FILINGS LABOR SAVINGS

Evidence and data. Interviewees shared that because they used Avalara as a centralized system of record, their internal teams were able to collect all the necessary financial records with ease. Avalara's Managed Returns solution allowed the interviewees' organizations to transfer management of their tax returns to Avalara, which ensured all forms were completed accurately and all information was entered correctly.

- Interviewees shared that similar to the process around researching tax rates, filing both state and federal tax returns was a very tedious and manual process in their organizations' previous environments. A senior director of finance applications at a professional services firm spoke plainly about the time investment, saying, "[Before Avalara,] it was a very manual process that was probably a full FTE. Our teams had to log in to every state's portal, and file the returns monthly, semi-monthly, quarterly, annually. Every jurisdiction has a different filing period. We had to remit the funds to each jurisdiction which, again, creates preparing those wires, getting those wires approved, physically processing those wires. With Avalara Managed Returns, and it takes half a day or a few hours just to review the details monthly. Avalara files all the returns for us, pays every jurisdiction, and we just pay Avalara one lump sum. It's been a massive gain for us."

- Because Avalara keeps data in a centralized location, errors were kept at bay. A senior tax director at a manufacturing company shared that Avalara reduced their internal efforts significantly as they didn't need to make additional amendments to previous tax filings. They shared, "Avalara allows us to do less amended returns, less refund requests, because we're catching and addressing the things before."

85%

Tax streamlining and filing efficiencies gained with Avalara

"I celebrated by saying never again in my life do I have to file a state sales tax return. [Before Avalara,] it was painful, and it probably took 40 hours a month to do the calculations and file the returns. Now, it's maybe an hour."

CFO, MEDICAL DEVICES

Modeling and assumptions. Based on the interviews, Forrester assumes the following about the composite organization:

- A senior tax manager spends 50 hours per month streamlining, collecting the necessary documentation, and filing returns in the prior environment. Their average fully burdened hourly rate is $91.
- Avalara saves 85% of their effort and reduces the number of hours per month to 7.5 hours.
- While Avalara does save the senior tax manager time, Forrester assumes that 100% of this time will not be recaptured. People are human and may take additional breaks, stop to chat with a colleague, etc., instead of reinvesting the full time saved back into work. For this reason, Forrester assumes an 80% productivity recapture rate for this benefit.

Variables. The benefit of streamlining tax filings labor savings will vary based on:

- The internal personnel that support filing tax returns and their respective salaries.
- How likely different employees are to dedicate recaptured effort savings back into additional work.
- The size of the organization. While Avalara's tool works well for small businesses, interviewees did mention concerns around the support needed at the enterprise level.

Results. To account for these variances, Forrester adjusted this benefit downward by 10%, yielding a three-year, risk-adjusted total PV (discounted at 10%) of $83,000.

Streamlining Tax Filings Labor Savings					
Ref.	**Metric**	**Source**	**Year 1**	**Year 2**	**Year 3**
A1	Number of hours spent streamlining and filing returns per month in prior environment	Interviews	50	50	50
A2	Efficiency gained using Avalara	Interviews	85%	85%	85%
A3	Number of hours avoided managing and filing per month with Avalara	A1*A2	42.5	42.5	42.5
A4	Average fully burdened hourly rate for senior tax manager	TEI standard	$91	$91	$91
A5	Productivity recapture rate	TEI standard	80%	80%	80%
At	Streamlining tax filings labor savings	A3*12 months*A4*A5	$37,128	$37,128	$37,128
	Risk adjustment	↓10%			
Atr	Streamlining tax filings labor savings (risk-adjusted)		$33,415	$33,415	$33,415
	Three-year total: $100,246		**Three-year present value: $83,099**		

TAX EXEMPTION CERTIFICATES LABOR SAVINGS

Evidence and data. Interviewees shared that because Avalara acted as their digital system of record, they were able to not only file and store exemption certificates without misplacing them, but more importantly could maintain compliance by ensuring no expiration dates were missed.

- Prior to installing Avalara's Exemption Certificate Management solution, the interviewees described how they stored physical certificates in a variety of places, often misplacing them. A senior director of finance applications of a professional services firm shared how a lack of a single storage location slowed down their team's efficiency, stating: "Clients would provide the certificate, but we didn't store it [centrally]. We had a few different shared drives, but they were not kept up to date, so we had to cancel, adjust the sales tax and re-invoice. [When audits came,] we might not have the documentation or be able to find the right certificate as we didn't have a central repository." An executive tax director at a manufacturing company also struggled with the lack of a centralized storage location. They shared: "Before Avalara, we had all our certificates collected by our plants and they were keeping them in boxes at their desks! We'd get an audit, and they'd ask for resale certificates, and we'd have to ask the auditor for an extension. We would send messages to the plant saying, ‘Send these certificates,’ and then we’d get boxes. My sales tax manager would have boxes piled up to the ceiling in our offices all the time with invoices and certificates. A lot of certificates.”

- A senior tax director at a manufacturing company explained how the Exemption Certificate Management tool helped both their internal organization and their end customers. They shared: “Having the certificate tool allows those people to be more effective in what they are doing. It’s a kind of partnership that we facilitate, and it makes the transaction easier. Before, one of the issues we had with certificates was even though the form says to fill out these sections, people would just write their name and sign and the top. It didn’t matter how much we’d ask them, they’d do that. With Avalara, they go into the web portal, and it doesn’t let them hit the submit button until they fill everything out. It eliminates those errors for sure.” A senior tax director at a software company echoed this sentiment saying that their haphazard way of collecting exemption certificates before was poor. “We knew the Avalara [Exemption Certificate Management solution] would be a big-time saver,” they said, “and it was going to help us reduce the potential errors involved.”

> “Having a centralized exemption certificate management software program to make sure that we are using ones that are legitimate and active was huge. It also helped us in terms of improving our audit defense and mitigation costs as we would have all the historical returns easily available to pull down from Avalara and provide to auditors.”
>
> SENIOR TAX DIRECTOR, SOFTWARE

Modeling and assumptions. Based on the interviews, Forrester assumes the following about the composite organization:

- The composite organization collects and processes 2,000 tax exemption certificates each year. Going forward, they collect 100 net-new exemption certificates in both Year 2 and Year 3.
- In the prior environment, 50% of exemption certificates that the composite organization collected have errors.
- An account receivable specialist spends 416 hours in the prior environment correcting and updating exemption certificates.
- The fully burdened hourly rate of an accounts receivable specialist is $39.
- In the previous environment, it takes an accounts receivable specialist 1 hour to collect, manage, correct errors, and file an exemption certificate. With Avalara, this effort reduces to 30 minutes.
- While Avalara does save the accounts receivable specialist time, Forrester assumes that 100% of this time will not be recaptured. People are human and may take additional breaks, stop to chat with a colleague, etc., instead of reinvesting the full time saved back into work. For this reason, Forrester assumes an 80% productivity recapture rate for this benefit.

> "Using Avalara's Exemption Certificate Management tool has been an amazing transformation for us. We zip out the files based on the query we get from the auditor. It's so fast, and then we can go through them electronically, check them, and send them off."
>
> EXECUTIVE TAX DIRECTOR, MANUFACTURING

Variables. The benefit of tax exemption certificates labor savings will vary based on:

- The number of tax exemption certificates that companies collect and the number of net-new tax-exempt customers companies gain each year.
- The percentage of certificates filled with errors in the prior environment.
- The internal personnel that support exemption certificate management and their respective salaries.

1,248 hours

Avoided due to Avalara ensuring all exemption certificates are filled out correctly

Results. To account for these variances, Forrester adjusted this benefit downward by 15%, yielding a three-year, risk-adjusted total PV (discounted at 10%) of $96,000.

Tax Exemption Certificates Labor Savings					
Ref.	**Metric**	**Source**	**Year 1**	**Year 2**	**Year 3**
B1	Number of exemption certificates collected and processed	Composite	2,000	2,000	2,100
B2	Number of net-new exemption certificates processed per year	Composite	0	100	100
B3	Subtotal: Annual number of exemption certificates processed	Y1: B1+B2 Y2 and Y3: $B3_{PY}$+B2	2,000	2,100	2,200
B4	Percent of certificates filed with errors in prior environment	Interviews	50%	50%	50%
B5	Number of inaccurately completed certificates in prior environment	B3*B4	1,000	1,050	1,100
B6	Number of hours spent correcting and updating certificates in prior environment	8*52	416	416	416
B7	Number of hours spent managing certificates per certificate in prior environment	Interviews	1	1	1
B8	Average fully burdened hourly rate for accounts receivable specialist	TEI standard	$39	$39	$39
B9	Subtotal: Annual labor cost for managing certificates in the prior environment	(B6*B8)+(B3*B7*B8)	$94,224	$98,124	$102,024
B10	Number of hours spent on managing certificates per certificate with Avalara	Interviews	0.5	0.5	0.5
B11	Subtotal: Annual labor cost for managing tax exemption certificates with Avalara	B3*B10*B8	$39,000	$40,950	$42,900
B12	Productivity recapture rate	TEI standard	80%	80%	80%
Bt	Tax exemption certificates labor savings	(B9-B11)*B12	$44,179	$45,739	$47,299
	Risk adjustment	↓15%			
Btr	Tax exemption certificates labor savings (risk-adjusted)		$37,552	$38,878	$40,204
	Three-year total: $116,635		**Three-year present value: $96,475**		

AUDIT PREPARATION EFFICIENCY, AVOIDED PENALTIES SAVINGS, AND EXTERNAL AUDITOR SAVINGS

Evidence and data. The interviewees' organizations used Avalara to support regulatory audits and compliance procedures.

- Prior to using Avalara, the interviewees shared that their organizations' internal teams had to spend time gathering exemption certificates, tax forms, etc., to support compliance audits. Because the process was highly manual, it was highly inefficient, and it was hard to remedy previous mistakes. A CFO of a medical devices company shared their experience before Avalara was in place, saying: "In the 'before' scenario, there were lots of errors because it's all in spreadsheets and we tried to maintain tax rates. We treated all charitable organizations exempt and we got burned. Whereas once we're in Avalara, it's very clean."

- Prior to using Avalara, an executive tax director at a manufacturing company described how their exemption certificate process had left them exposed to additional audits. They shared: "We had an employment tax audit a couple a years ago, and we had a huge assessment and were told that we needed to get a process system in place or there would be penalties when they come back. We were using boxes for everything, and people didn't know where [the certificates] were kept, even though there was supposed to be some [rhyme and reason] to it all. It was a total nightmare."
- With Avalara in place, the data that the interviewees' organizations needed for audits was already compiled. This saved time for their internal teams as well as any external support they needed from additional auditors. A CFO of a medical devices company summed up the total value of Avalara to their organization, sharing, "The value of Avalara is a key component to avoid fines and penalties from states' sales tax audits, which would cost a lot more than what I pay a year to Avalara."

$195,000

Avoided penalty savings over three years

> "I would say there are fewer audits than before because I haven't had any since we started using Avalara. I was in four states and now I'm in 40, and I still haven't had any audits. That says something."
>
> CFO, MEDICAL DEVICES

Modeling and assumptions. Based on the interviews, Forrester assumes the following about the composite organization:

- The composite organization completes 12 audits per year.
- Prior to Avalara, a senior tax manager needs 40 hours per audit for audit preparation; after Avalara, a senior tax manager needs 6 hours for audit preparation.
- The average fully burdened hourly rate for a senior tax manager is $91.
- No software nor solution will have the ability to eliminate all penalties; however, due to Avalara's centralization of records and automatic tax calculations, the composite organization avoids two penalties a year as they are now compliant.
- The average penalty fee for noncompliance is $32,500.
- In the prior environment, an external auditor supports the composite organization's audit efforts. They dedicate 24 hours annually and their average hourly rate is $150. With Avalara, the composite organization eliminates the need for support from an external auditor.

Variables. The benefit of audit preparation efficiency, avoided penalties savings, and external auditor savings will vary based on:

- The number of compliance audits each year.
- The internal personnel that prepare audits and their respective salaries.

- The number of penalties companies must pay each year as well as the number of penalties companies avoid each year.
- Penalty fees, which vary greatly depending on their severity, from $10,000 to over $1 million. Organizations who have a history of noncompliance may see more severe penalties than others.
- The support an organization has from external personnel during the audit process. Despite having the software in place, some organizations may still opt to have external personnel supporting them during the audit process.
- External auditor fees.

Results. To account for these variances, Forrester adjusted this benefit downward by 20%, yielding a three-year, risk-adjusted total PV (discounted at 10%) of $210,000.

Interview Spotlight

Audit Preparation With Avalara

"When you think about the amount of time involved preparing for an audit, providing all the documentation, and answering all the questions, it can be pretty comprehensive and pretty unpleasant, and it can definitely take you away from a lot of the day-to-day stuff you have to do. There is a ton of manual effort involved with going through and pulling invoices and all the details from your ERP system, exemption certificates and everything else.

Whereas with Avalara, you're going to have all that in their database (e.g., historical records) that you can run very quickly. It's a huge amount of time savings."

— Senior tax director, software

Audit Preparation Efficiency, Avoided Penalties Savings, And External Auditor Savings					
Ref.	**Metric**	**Source**	**Year 1**	**Year 2**	**Year 3**
C1	Number of audits per year	Composite	12	12	12
C2	Number of hours for audit preparation per audit by senior tax manager in prior environment	Interviews	40	40	40
C3	Efficiency percentage gained with Avalara	Interviews	85%	85%	85%
C4	Number of hours of avoided audit prep for senior tax manager	C2*C3	34	34	34
C5	Average fully burdened hourly rate of tax manager	A5	$91	$91	$91
C6	Subtotal: Labor costs savings with Avalara for audit preparation	C1*C4*C5	$37,128	$37,128	$37,128
C7	Number of penalties incurred for noncompliance	Composite	2	2	2
C8	Average penalty fee	Composite	$32,500	$32,500	$32,500
C9	Subtotal: Avoided penalty savings	C7*C8	$65,000	$65,000	$65,000
C10	Number of hours needed for external auditor annually	Composite	24	24	24
C11	Hourly rate for an external auditor	TEI standard	$150	$150	$150
C12	Subtotal: Avoided external auditor savings	C10*C11	$3,600	$3,600	$3,600
Ct	Audit preparation efficiency, avoided penalties savings, and external auditor savings	C6+C9+C12	$105,728	$105,728	$105,728
	Risk adjustment	↓20%			
Ctr	Audit preparation efficiency, avoided penalties savings, and external auditor savings (risk-adjusted)		$84,582	$84,582	$84,582
	Three-year total: $253,747		**Three-year present value: $210,344**		

REDUCTION IN SPEND ON THIRD-PARTY SERVICES

Evidence and data. Because Avalara employs tax professionals dedicated to compliance and their solutions continuously update tax data, rules, boundaries and jurisdictions, the interviewees shared that they could eliminate their spending and reliance on third-party resources.

- A senior tax director at a software company described how before Avalara, their team commissioned a third-party to create a tax matrix. However, once it was created, it essentially became out of date. They turned to Avalara for support, stating: “By implementing Avalara, we could run basically the same matrix that we had [the third party] manually do without having to pay anything extra. All we had to do was to go in, choose our different Avalara codes, the jurisdictions where we operate, and it created a chart for us within minutes versus paying [an outside party] to do it.”

- An executive tax director at a manufacturing company explained how Avalara improved their sales tax process, reducing the need for third-party consultants to file their returns. They shared: “We’re much faster now. We’re able to run reports and have reports available right way for the auditor. Before, we struggled to get a report the way we needed it, and we were trying to have our third-party consultants match what they needed. That was a struggle and now, it goes very quickly, and we can immediately tie it to our returns.”

> “Before, we used outside legal advice to try to understand what a particular tax rate [was] or what the requirement is as the laws change or you move into a new jurisdiction. We get to sleep at night not worrying about our tax rates or the accuracy of our tax rates. We don’t need additional legal costs anymore.”
>
> CIO, RETAIL AND MANUFACTURING

Modeling and assumptions. Based on the interviews, Forrester assumes the following about the composite organization:

- Before Avalara, composite organization partners with a third-party tax consultant to support their tax department and its various needs including supporting returns, supporting audits, and aiding with tax research. When Avalara is in place, this cost is redundant, and the composite organization ends the partnership.

- The average annual cost of a third-party tax consultant is $150,000.

Variables. The reduction in spend on third-party services will vary based on the number of third-party consultants a company hires and their respective annual fees.

Results. To account for these variances, Forrester adjusted this benefit downward by 15%, yielding a three-year, risk-adjusted total PV (discounted at 10%) of $317,000.

Reduction In Spend On Third-Party Services					
Ref.	**Metric**	**Source**	**Year 1**	**Year 2**	**Year 3**
D1	Number of consultants hired for sales tax-related questions in prior environment	Composite	1	1	1
D2	Average fully burdened annual rate for consultant	TEI standard	$150,000	$150,000	$150,000
Dt	Reduction in spend on third-party services	D1*D2	$150,000	$150,000	$150,000
	Risk adjustment	↓15%			
Dtr	Reduction in spend on third-party services (risk-adjusted)		$127,500	$127,500	$127,500
	Three-year total: $382,500		**Three-year present value: $317,074**		

TAX RESEARCH LABOR SAVINGS

Evidence and data. With the Avalara Tax Research solution and its continuous updates to tax laws and rates, interviewees noted that internal personnel at their organizations spent less time manually identifying jurisdictions, calculating the appropriate types of taxes, reviewing tax laws and regulations, and considering exemptions and deductions.

- Before using Avalara's Tax Research, the interviewees described how their internal personnel were overwhelmed by the manual effort needed to identify and calculate appropriate tax rates for their customers. A senior director of finance applications at a professional services firm shared: "Our accounting team would have to go into every transaction and put in the rate per that state or per that jurisdiction and that was very manual and time-consuming. And as our transactional volume grew, it still took a considerable amount of time, probably half an FTE."

- With the 2018 South Dakota v. Wayfair ruling, the Supreme Court found that a taxpayer no longer needs a physical presence to collect and remit sales tax; an economic presence is sufficient.[3] For the interviewees, this meant that their organizations could expand their interstate commerce without a tenuous process. A CIO at a retail and manufacturing company said that thanks to Avalara, they were able to respond to the changing tax environments with ease. They shared: "With the 2018 South Dakota v. Wayfair ruling, the rest of the world was running around going 'Oh my gosh, we have to implement taxation for all these states now that they have put thresholds for taxations.' All we had to do was flip the switch because it was already part of what Avalara provides. Avalara tracks our sales and tells us when we have to turn nexus on for that."

- With Avalara's Tax Research tool in place, the interviewees said they felt that they had a safeguard against staff turnover. An executive tax director at a manufacturing company explained how there was a big learning curve to learn all the jurisdictions and tax rules. They said: "Our team really struggled with [our old research tool]. We've had some turnover with the accountant and senior accountant position, and each time we get a new person on, it was a huge learning curve." Once Avalara's Tax Research tool was installed, the executive tax director explained the improvement in productivity their team saw: "[We could answer questions] in a half an hour. It's made a huge difference for us. It's more intuitive for the staff, so they're not poking around everywhere trying to figure out an answer."

- Throughout Forrester's conversations with the interviewees, they reiterated the significant time savings and efficiencies that their organizations saw with Avalara. A senior tax director at a software company summed up their experience, stating: "As you prepare an invoice to go to a customer, you really need to calculate the correct amount of tax. If I had to ballpark it, the amount of time saved by using Avalara is probably 8 to 10 hours a month."

90%

Tax research efficiencies gained using Avalara

Modeling and assumptions. Based on the interviews, Forrester assumes the following about the composite organization:

- A senior tax manager spends 35 hours a month on tax research in the prior environment. Their average fully burdened hourly rate is $91.
- Avalara saves 90% of their effort and reduces the number of hours per month to 3 hours.
- While Avalara does save the senior tax manager time, Forrester assumes that 100% of this time will not be recaptured. People are human and may take additional breaks, stop to chat with a colleague, etc., instead of reinvesting the full time saved back into work. For this reason, Forrester assumes an 80% productivity recapture rate for this benefit.

> "Having Avalara in place helped automate the practice of calculating the correct amount of tax. Before Avalara, there was a lot of manual decision-making, which obviously requires time and requires human decision-making. Having Avalara in place automates that process and helps us make sure that we're collecting the right amount of tax."
>
> SENIOR TAX DIRECTOR, SOFTWARE

Variables. The benefit of tax research labor savings will vary based on:

- The internal personnel supporting tax research efforts and their respective salaries.
- How likely different employees are to dedicate recaptured effort savings back into additional work.

Results. To account for these variances, Forrester adjusted this benefit downward by 10%, yielding a three-year, risk-adjusted total PV (discounted at 10%) of $63,000.

Tax Research Labor Savings					
Ref.	**Metric**	**Source**	**Year 1**	**Year 2**	**Year 3**
E1	Number of senior tax managers	Composite	1	1	1
E2	Number of hours spent per month for tax research per senior tax manager in prior environment	Interviews	35	35	35
E3	Research efficiencies gained using Avalara	Interviews	90%	90%	90%
E4	Number of hours of research efforts avoided and recaptured per month Avalara (rounded)	E2*E3	32	32	32
E5	Average fully burdened hourly rate for senior tax manager	A5	$91	$91	$91
E6	Productivity recapture rate	TEI standard	80%	80%	80%
Et	Tax research labor savings	E1*E4*12 months *E5*E6	$27,955	$27,955	$27,955
	Risk adjustment	↓10%			
Etr	Tax research labor savings (risk-adjusted)		$25,160	$25,160	$25,160
	Three-year total: $75,479		**Three-year present value: $62,568**		

UNQUANTIFIED BENEFITS

Interviewees mentioned the following additional benefits that their organizations experienced but were not able to quantify:

- **Decreasing sales tax liabilities.** Interviewees noted that because Avalara provided more accurate calculations based on updated rules, rates, and exemptions, this reduced the risk of human errors in determining the correct tax amounts that need to be collected and remitted. Avalara also automated the filing and reporting processes, meaning that the interviewees' businesses ran efficiently and reduced the amount of cash they had in their sales tax reserves. A senior tax director at a software organization shared their experience with Avalara, saying that their sales tax reserves went from "a few million dollars of an estimated liability down to couple of hundred thousand dollars." The interviewee went on to say that thanks to Avalara, their organization ensured there were "no skeletons in our closets with respect to sales tax liabilities."

- **Simplifying expanding into new jurisdictions.** With Avalara's AvaTax software in the background calculating the appropriate taxes, interviewees noted their organizations were able to expand their geographical reach with ease. A CIO at a retail and manufacturing company explained how their company expanded new jurisdictions with Avalara, sharing: "We use Avalara to make sure we [are collecting the appropriate tax rates] as we move into new jurisdictions. All of the transactions are sourced out of [our ERP] back into Avalara, and Avalara has the tax rates of those particular jurisdictions in place. We can fire up a transaction and make a sale ... and Avalara simply tells us 'Here's the tax that you need to collect for this transaction.'"
- **Gaining access to reliable expertise.** Not all organizations can afford to hire a tax expert; by having Avalara's software in place, interviewees noted that organizations can partner with Avalara's internal team to ensure all their compliance requirements are met. For example, should an organization receive a tax notice, they could send it off to Avalara to research and resolve, like a CFO at a medical device manufacturing company shared: "Before, I would have had to figure out what needs to be done. Now, Avalara resolves it. They have been a very good partner for us."
- **Improving processes for salespeople trying to validate certificates.** Interviewees noted that rather than put the ownership on sales teams to validate exemption certificates with customers, Avalara ensured that before an exemption certificate was submitted, all the information was filled out. This saved salespeople time and effort as they avoided the cycles of back-and-forth communication with customers to update their exemption certificates.

- **Reducing shipping errors due to address confirmation.** Avalara provided the interviewees' organizations with address validation on all shipments. This reduced the number of shipping errors and the number of returns shipments. A CFO at a medical device manufacturing company elaborated on their experience, sharing, "It has reduced the number of shipments to bad addresses."

- **Enhancing confidence in tax compliance.** No matter if their organizations were small or operating at an enterprise level, interviewees noted that Avalara provided confidence to internal teams that their data was up to date, more accurate, and more compliant. This allowed the interviewees' organizations to gain a significant amount of confidence that the rate applied was the correct tax rate. Moreover, because Avalara is a system that operates with effective controls and automations, auditors were provided with better information, which led to more comfort and confidence for the interviewees' organizations going forward.

- **Shifting focus to business needs rather than tax decision-making.** Interviewees noted that stakeholders want their employees to focus on driving positive business outcomes forward rather than administrative tasks. Because of Avalara's tax expertise, employees could focus on running their business and how to make their companies more successful.

- **Improving VDA process.** With Avalara's updated and historical data centrally stored, the interviewees' businesses proactively approached the state tax authorities to disclose any past noncompliance related to sales tax, income tax, or other state taxes. Avalara ensured that states automatically register to remit the tax and avoided any misses in tax collection.

- **Gaining credibility with customers.** Because Avalara's tax rates were updated and maintained, interviewees noted their customers trust that the interviewees' organizations were collecting the appropriate rates. Interviewees shared that they could point to Avalara's data to show customers where they were getting their information, which gained credibility in their customers' eyes.

> "I didn't want to focus on our tax compliance or have people focused on making sure we were staying up to date with all the tax rate changes and all the new laws and everything else that comes about with taxation. Our goal was to make this company successful. Avalara allows us to do this. It lets somebody that's much smarter than us worry about taxes so we can focus on running our business."
>
> CIO, RETAIL AND MANUFACTURING

> "I would say that if we didn't have Avalara, we would have probably had to hire somebody else because the amount of work involved would be too burdensome for me with all the other responsibilities I have for the company globally."
>
> SENIOR TAX DIRECTOR, SOFTWARE

FLEXIBILITY

The value of flexibility is unique to each company. There are multiple scenarios in which a company might implement Avalara and later realize additional uses and business opportunities, including:

- **Enhancing global expansion.** Interviewees said that their organizations could expand into new geographies with confidence knowing that Avalara offers support around global tax requirements. A CFO at a medical device manufacturing company said, "If we were to do a VAT tax in Europe, if we started selling direct instead of just through an OEM, I can rest comfortably knowing that I have the tools available to do that and I wouldn't have to figure it all out [on my own]."

- **Supporting merger and acquisition activities.** Some of the interviewees' organizations acquired other companies. Avalara's Exemption Certificate Management technology would create an acquisition letter for the newly acquired customers and request that they add their appropriate certificates. This eased additional administrative burden on the interviewees' organizations' future growth.

Flexibility would also be quantified when evaluated as part of a specific project (described in more detail in Appendix A).

Analysis Of Costs

Quantified cost data as applied to the composite

Total Costs							
Ref.	**Cost**	**Initial**	**Year 1**	**Year 2**	**Year 3**	**Total**	**Present Value**
Ftr	Avalara license fees (yearly)	$6,630	$101,520	$101,520	$101,520	$311,190	$259,095
Gtr	Implementation costs	$34,595	$0	$0	$0	$34,595	$34,595
Htr	Ongoing management and training costs	$0	$9,352	$1,573	$1,573	$12,498	$10,984
	Total costs (risk-adjusted)	$41,225	$110,872	$103,093	$103,093	$358,283	$304,674

AVALARA LICENSE FEES (YEARLY)

Evidence and data. Interviewees said their companies paid activation and annual licensing fees to use the Avalara solutions.

- The cost to use Avalara varied based on the number of transactions, managed returns, and exemption certificates, as well as the different Avalara solutions and connectors each of the interviewees' organizations used. Avalara pricing typically varies and depends on the following:
  - Products and services purchased.
  - Number of business applications integrated with the solution.
  - Volume of sales transactions processed per month.
  - Number of states and/or jurisdictions where sales tax is being collected and remitted.
  - Enrollment in Streamlined Sales Tax (SST) program.
- Several interviewees purchased professional services from Avalara to support their organizations during the implementation process.

- Several interviewees shared that their internal teams paid an additional fee to rely on Avalara's professional services team for additional tax expertise.
- Pricing may vary. Many Avalara products use volume-based pricing models designed to scale with your business. Contact Avalara for additional details.

Modeling and assumptions. For the composite organization, Forrester assumes:

- The composite organization uses a single ERP system internally and therefore needs only one connector to connect to Avalara. The annual cost of a single connector is $4,200.
- The AvaTax activation fee is $2,000.
- The annual AvaTax licensing fee based on the volume of transactions is $6,800.
- The Exemption Certificate Management activation fee is $3,000.
- The annual Exemption Certificate Management licensing fee is $8,000 based on having 2,000 exemption certificates.
- The Managed Returns activation fee is $525.
- The number of annual managed tax returns for the composite organization is 400. The Managed Returns cost per return is $80.
- The Tax Research licensing fee is $17,600 annually.
- The composite organization opts to have Avalara's professional service team support its needs as they grow. It pays $16,000 annually for this enhanced customer service.

> "In my opinion, Avalara is still the best tax service on the market."
>
> SENIOR TAX DIRECTOR, MANUFACTURING

Variables. The cost of the Avalara solution will vary based on:

- The number of ERPs that companies use and therefore the number of connectors companies need.
- The number of transactions companies complete.
- The number of customers who have exemption certificates.
- The suite of Avalara products that companies purchase.
- The number of annual tax returns organizations file.
- If a company opts to purchase additional professional services support for tax-related questions.
- The global footprint of the business and its respective jurisdictions and their tax laws, which may entice companies to purchase additional support from Avalara.

Results. To account for these variances, Forrester adjusted this cost upward by 20%, yielding a three-year, risk-adjusted total PV (discounted at 10%) of $259,000.

Avalara License Fees (Yearly)						
Ref.	**Metric**	**Source**	**Initial**	**Year 1**	**Year 2**	**Year 3**
F1	Number of connectors	Composite		1	1	1
F2	Licensing fee per connector	Avalara pricing		$4,200	$4,200	$4,200
F3	AvaTax activation fee	Avalara pricing	$2,000			
F4	AvaTax licensing fees	Avalara pricing		$6,800	$6,800	$6,800
F5	Exemption Certificate Management activation fee	Avalara pricing	$3,000			
F6	Exemption Certificate Management licensing fees	Avalara pricing		$8,000	$8,000	$8,000
F7	Managed returns activation fee	Avalara pricing	$525			
F8	Number of managed returns annually	Composite		400	400	400
F9	Managed returns licensing fees per return	Avalara pricing		$80	$80	$80
F10	Tax Research licensing fees	Avalara pricing		$17,600	$17,600	$17,600
F11	Professional services support fees	Avalara pricing		$16,000	$16,000	$16,000
Ft	Avalara license fees (yearly)	(F1*F2)+F4+F6+(F8*F9)+F10+F11	$5,525	$84,600	$84,600	$84,600
	Risk adjustment	↑20%				
Ftr	Avalara license fees (yearly) (risk-adjusted)		$6,630	$101,520	$101,520	$101,520
	Three-year total: $311,190		**Three-year present value: $259,095**			

IMPLEMENTATION COSTS

Evidence and data. Interviewees said that while the implementation process was easy, the timeline varied depending on the complexity of the ERP environment, the number of Avalara products they were implementing, and their internal resources dedicated to the implementation project.

Several interviewees commented and gave context around the ease of the implementation process. A senior tax director of a software organization said, “I didn’t think the implementation was very time-consuming; overall, it was a pretty painless experience.” Likewise, an executive tax director at a manufacturing company said how the Avalara implementation team made the experience easy. They shared: “When I used AvaTax, I used the Avalara implementation team. … Even though I was supposed to [only] have them for a couple of weeks, they were there to help throughout the whole process if I had any questions. … They were so much more helpful and that was pretty quick and painless."

> "I was somewhat concerned that [the implementation] was going to be an overwhelming or confusing process. [I thought] I was going to need a lot of handholding, but it actually ended up being quite the contrary."
>
> SENIOR TAX DIRECTOR, SOFTWARE

> "My advice to any new customer is to just be patient with the implementation process and really trust the AvaTax team. They know how complicated it can be and where there might be problems — it's more complicated than you realize."
>
> EXECUTIVE TAX DIRECTOR, MANUFACTURING

Modeling and assumptions. For the composite organization, Forrester assumes:

- The composite organization needs three months to implement the solution and dedicates one additional month troubleshooting the integration between Avalara and their ERP system.

- Two IT professionals dedicate 25% of their time to support the implementation of Avalara.
- The average fully burdened hourly rate of an IT professional is $65.
- A senior tax manager dedicates 10% of their time to support the implementation of Avalara.
- The average fully burdened hourly rate of a senior tax manager is $91.

Variables. The cost of internal staff implementation will vary based on:

- The complexity of the organization’s ERP system. As with any software integration, the more complex the ERP system is the more risk there is of complications; therefore, the amount of time needed for implementation may differ. Interviewees noted that even with an out-of-the-box configuration, they still needed to dedicate time to ensure the integration was set up successfully.
- The skill set of the internal team.
- The average annual fully burdened salary of a team member.

Results. To account for these variances, Forrester adjusted this cost upward by 20%, yielding a three-year, risk-adjusted total PV (discounted at 10%) of $35,000.

Implementation Costs						
Ref.	**Metric**	**Source**	**Initial**	**Year 1**	**Year 2**	**Year 3**
G1	Time of implementation (hours)	Composite	693			
G2	Number of IT professional supporting implementation	Composite	2			
G3	Percent of time dedicated to implementation	Interviews	25%			
G4	Average fully burdened hourly rate for IT professional	TEI standard	$65			
G5	Number of tax managers dedicated to implementation	Composite	1			
G6	Percent of time dedicated to implementation	Interviews	10%			
G7	Average fully burdened hourly rate for senior tax manager	A5	$91			
Gt	Implementation costs	(G1*G2*G3*G4)+(G1*G5*G6*G7)	$28,829	$0	$0	$0
	Risk adjustment	↑20%				
Gtr	Implementation costs (risk-adjusted)		$34,595	$0	$0	$0
	Three-year total: $34,595			**Three-year present value: $34,595**		

ONGOING MANAGEMENT AND TRAINING COSTS

Evidence and data. The interviewees shared that in order to get the full value of the Avalara products, they had their employees, who were using the tools, dedicate time to training.

- While the interviewees considered Avalara intuitive, they did express the need to have employees trained on the different product offerings. An executive tax director at a manufacturing company explained how their company embraced training, sharing: “Our team saw it as a part of their sales [software] system. Before, they would need to make the decisions about the tax rate, but now, because of AvaTax, it would just automatically populate for them. We had to have a little bit of training on the new process. It wasn’t a huge lift; [in fact], it was pretty easy.”
- A senior director of finance applications at a professional services firm echoed how Avalara alleviated some of the need for additional training. They shared:

> "Before, on the accounting side, we might have 10 people who need to be trained on the process and how to apply taxes. We trained them on how to calculate taxes, how to apply them [in our ERP system], etc. Now, [with Avalara], we no longer have to train them to calculate taxes as they no longer have to go in and manually apply sales taxes. It's completely automated."

Modeling and assumptions. For the composite organization, Forrester assumes:

- To maintain the Avalara environment, a senior tax manager dedicates 10 hours per year.
- The average fully burdened hourly rate of a senior tax manager is $91.
- Initially, the senior tax manager spends two weeks training on Avalara. Going forward, they spend 1 hour a quarter to train on any new software updates.
- An account receivable specialist spends one day in training to learn Avalara's Exemption Certificate Management solution. Going forward, they spend 1 hour a quarter to train on any new updates to the product.
- The average fully burdened hourly rate for an accounts receivable specialist is $39.

> "When it comes to maintenance, it's very low."
>
> SENIOR TAX DIRECTOR, MANUFACTURING

Variables. The cost of user training will vary based on:

- The number of Avalara users.
- The number of hours companies dedicate to training.
- The average fully burdened hourly rate for personnel.
- The organization's processes. If companies have not vetted certain processes, for example their exemption certificates management internally, team members

may struggle with the learning curve regardless of the software in place. Interviewees recommend looking at current processes before installing and training on Avalara to resolve outstanding internal process issues.

Results. To account for these variances, Forrester adjusted this cost upward by 10%, yielding a three-year, risk-adjusted total PV (discounted at 10%) of $11,000.

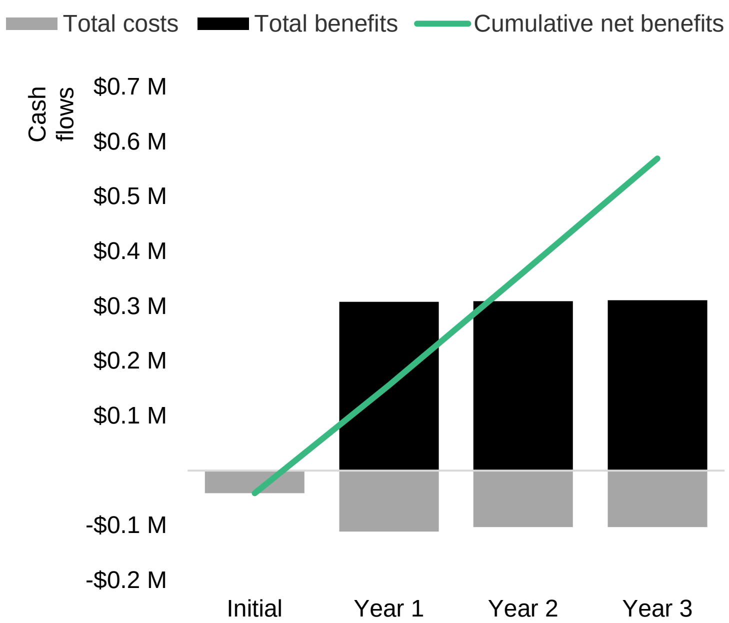
Ongoing Management And Training Costs

Ref.	Metric	Source	Initial	Year 1	Year 2	Year 3
H1	Number of senior tax managers	Composite		1	1	1
H2	Hours dedicated per year to Avalara maintenance	Interviews		10	10	10
H3	Average fully burdened hourly rate for senior tax manager	A5		$91	$91	$91
H4	Subtotal: Annual labor costs for ongoing management	H1*H2*H3		$910	$910	$910
H5	Number of hours dedicated for training for senior tax manager	Interviews		80	4	4
H6	Number of accounts receivable specialists	Composite		1	1	1
H7	Number of hours dedicated for training	Composite		8	4	4
H8	Average fully burdened hourly rate for accounts receivable specialist	C8		$39	$39	$39
H9	Subtotal: Annual labor costs for training	(H1*H3*H5)+ (H6* H7*H8)		$7,592	$520	$520
Ht	Ongoing management and training costs	H4+H9	$0	$8,502	$1,430	$1,430
	Risk adjustment	↑10%				
Htr	Ongoing management and training costs (risk-adjusted)		$0	$9,352	$1,573	$1,573
	Three-year total: $12,498			**Three-year present value: $10,984**		

Financial Summary

Consolidated Three-Year, Risk-Adjusted Metrics

Cash Flow Chart (Risk-Adjusted)



The financial results calculated in the Benefits and Costs sections can be used to determine the ROI, NPV, and payback period for the composite organization's investment. Forrester assumes a yearly discount rate of 10% for this analysis.

These risk-adjusted ROI, NPV, and payback period values are determined by applying risk-adjustment factors to the unadjusted results in each Benefit and Cost section.

Cash Flow Analysis (Risk-Adjusted Estimates)

	Initial	Year 1	Year 2	Year 3	Total	Present Value
Total costs	($41,225)	($110,872)	($103,093)	($103,093)	($358,283)	($304,674)
Total benefits	$0	$308,210	$309,536	$310,862	$928,607	$769,560
Net benefits	($41,225)	$197,337	$206,443	$207,769	$570,324	$464,886
ROI						153%
Payback						<6 months

APPENDIX A: TOTAL ECONOMIC IMPACT

Total Economic Impact is a methodology developed by Forrester Research that enhances a company's technology decision-making processes and assists vendors in communicating the value proposition of their products and services to clients. The TEI methodology helps companies demonstrate, justify, and realize the tangible value of IT initiatives to both senior management and other key business stakeholders.

Total Economic Impact Approach

Benefits represent the value delivered to the business by the product. The TEI methodology places equal weight on the measure of benefits and the measure of costs, allowing for a full examination of the effect of the technology on the entire organization.

Costs consider all expenses necessary to deliver the proposed value, or benefits, of the product. The cost category within TEI captures incremental costs over the existing environment for ongoing costs associated with the solution.

Flexibility represents the strategic value that can be obtained for some future additional investment building on top of the initial investment already made. Having the ability to capture that benefit has a PV that can be estimated.

Risks measure the uncertainty of benefit and cost estimates given: 1) the likelihood that estimates will meet original projections and 2) the likelihood that estimates will be tracked over time. TEI risk factors are based on "triangular distribution."

PRESENT VALUE (PV)

The present or current value of (discounted) cost and benefit estimates given at an interest rate (the discount rate). The PV of costs and benefits feed into the total NPV of cash flows.

NET PRESENT VALUE (NPV)

The present or current value of (discounted) future net cash flows given an interest rate (the discount rate). A positive project NPV normally indicates that the investment should be made unless other projects have higher NPVs.

RETURN ON INVESTMENT (ROI)

A project's expected return in percentage terms. ROI is calculated by dividing net benefits (benefits less costs) by costs.

DISCOUNT RATE

The interest rate used in cash flow analysis to take into account the time value of money. Organizations typically use discount rates between 8% and 16%.

PAYBACK PERIOD

The breakeven point for an investment. This is the point in time at which net benefits (benefits minus costs) equal initial investment or cost.

The initial investment column contains costs incurred at “time 0” or at the beginning of Year 1 that are not discounted. All other cash flows are discounted using the discount rate at the end of the year. PV calculations are calculated for each total cost and benefit estimate. NPV calculations in the summary tables are the sum of the initial investment and the discounted cash flows in each year. Sums and present value calculations of the Total Benefits, Total Costs, and Cash Flow tables may not exactly add up, as some rounding may occur.

APPENDIX B: ENDNOTES

[1] Source: "Tax Management Software Market Size, Share & COVID-19 Impact Analysis, By Development (On-Premises and Cloud), By Enterprise Type (Large Enterprises and SMEs), By Vertical (BFSI, IT & Telecommunication, Healthcare, Retail, Manufacturing, Energy and Utilities, Hospitality, and Others), and Regional Forecast, 2023 - 2030," Fortune Business Insights, July 2023.

[2] Total Economic Impact is a methodology developed by Forrester Research that enhances a company's technology decision-making processes and assists vendors in communicating the value proposition of their products and services to clients. The TEI methodology helps companies demonstrate, justify, and realize the tangible value of IT initiatives to both senior management and other key business stakeholders.

[3] Source: "South Dakota v. Wayfair," Tax Foundation, June 21, 2018.