

Pfizer finds a sophisticated solution to European VAT compliance

Reducing business risk by monitoring transactions in real time



Overview

Business challenge

Within the EU, Pfizer's accounts receivable and accounts payable departments deal with more than a million transactions per month, all of which need to be assessed for VAT according to each country's specific regulations. Checking each transaction and creating accurate VAT returns was a complex, time-consuming task for the indirect tax department, involving thousands of spreadsheets.

Solution

Pfizer worked with ICit, an IBM® Premier Business Partner, to create a solution that would analyse all EU transactions against their assigned VAT code, generate a report to highlight anomalies, and send it to the appropriate indirect tax analyst for review and re-coding. The solution is built on IBM Cognos® TM1®, which is also used by the treasury and foreign exchange teams to analyse banking and currency risks.

As the world's largest pharmaceuticals company Pfizer applies science and its global resources to improve health and well-being at every stage of life. It operates in 180 countries and is listed on the New York, London, Euronext and Swiss stock exchanges. In 2010, it generated total revenues of \$67.8 billion.

Pfizer Global Financial Solutions provides shared services for the whole enterprise. It operates from three financial shared service centres: an American hub in Memphis, Tennessee; an Asia Pacific hub in China, and a European hub in Dublin, Ireland. The Dublin hub supports Pfizer operations in 16 markets: the UK, Spain, Denmark, Finland, Sweden, Norway, Switzerland, the Netherlands, Luxembourg, Austria, Portugal, Ireland, France, Italy, Germany and Belgium.

Complexities of VAT management

Gavin O'Donoghue, Global Process Owner at Pfizer, comments: "One of the biggest challenges we face is the management of VAT [value-added tax] for the business we do in European Union countries. VAT is an extremely complex risk and compliance challenge, because although there is a standard EU directive, it is implemented quite differently in each country. Applying the correct code for every transaction requires our VAT coding team to apply the right business rules."

Failure to comply with EU VAT directives carries significant penalties. Although Pfizer was confident that its existing approach would adequately protect it from exposure to this risk, the processes for checking VAT coding and creating VAT returns were time-consuming and labour-intensive.

"We have about a dozen analysts, each of whom is responsible for all VAT-related issues for one or more of our European markets," comments Gavin O'Donoghue. "Each of them could potentially be responsible for 100,000 transactions per month, so the workload was enormous. Moreover, the processes we had relied mainly on spreadsheets, which increased the administrative effort – we recently found that we had generated approximately 60,000 separate VAT spreadsheets over the last 10 years."



Business Benefits

- Ensures accurate VAT coding for all transactions, avoiding the risk of financial penalties for incorrect filing.
 - Automatically generates pro-forma VAT returns, reducing workload for analysts by approximately 20 percent and eliminating re-keying errors.
 - Provides greater insight into VAT fluctuations for senior managers, helping them assess the business impact of changes to tax regulations.
 - Gives the treasury department an easier way to track bank accounts and ensure compliance with credit limits and banking policies.
 - Enables the foreign exchange team to assess the exposure of each Pfizer business unit to currency fluctuations.
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Mark Bodger, Business Development Director at ICit, remarks: “The over-reliance on Excel in large businesses for critical applications is a major concern for CFOs. Lack of control, visibility and auditability are apparent, which is why many of our clients are implementing IBM Cognos TM1. By securing the TM1 application on a central server and adding system user security, audit logging and secure business rules, Pfizer has mitigated the real possibility of incurring unnecessary penalties, allowing the indirect tax team to focus on value-add activities rather than transactional accounting.”

Finding a way forward

The Pfizer team decided to find a solution that would provide a more automated way to monitor and analyse the VAT coding on its European transactions, and would assist in the creation of accurate VAT returns.

“We had already started using IBM Cognos TM1 in our treasury and foreign exchange divisions, so we wondered if it might be a suitable solution for indirect tax as well,” says Gavin O’Donoghue. “We spoke to our advisors, Ernst & Young, and they introduced us to ICit, an IBM Business Partner with a lot of experience in TM1 projects. ICit did a great job of listening to our requirements and coming up with a solution capable of pulling in data on millions of transactions, applying an appropriate set of business rules, and then producing reports.”

IBM Cognos TM1 – the right tool for the task

Gavin O’Donoghue continues: “I have worked with Cognos TM1 at other companies, and its ability to process large amounts of data very quickly has always impressed me. The TurboIntegrator tool is much faster than alternative ETL [extract, transform and load] tools we have seen from other products, and the ability to process in RAM rather than on disk gives us better performance than any of the other analytics engines we considered. Moreover, since IBM acquired Cognos in 2007, it’s clear that there has been a lot of investment in developing TM1, so the recent releases have been excellent in terms of stability and new features.”

A further advantage of IBM Cognos TM1 for Pfizer is its integration with Microsoft® Excel, which allows users to view, edit and analyse data via the Excel interface.

“In my opinion, Excel is always going to be the tool of choice for the financial sector because everyone is so familiar with it,” says Gavin O’Donoghue. “That’s why a solution like TM1, which interacts seamlessly with Excel, is such a big advantage: users can pick it up without much need for specific training.”

Automating and simplifying indirect tax management

The indirect tax solution designed by Pfizer and ICit has three main functions. The first is VAT code reporting. TurboIntegrator imports over a million accounts receivable and accounts payable transactions from the company’s data warehouse into its analytical model. Next, it uses a sophisticated rules engine to assess each transaction’s VAT code

Solution Components

Software

- IBM® Cognos® TM1®

IBM Business Partner

- ICit
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“TM1 gives us a platform that we can use to build better solutions for data management and analysis across many areas of the business.”

— Gavin O’Donoghue, Global Process Owner,
Pfizer

against the appropriate legislation for its country of origin. Finally, it highlights any anomalies and creates a set of reports – one for each of the European markets in which Pfizer operates.

“Now our analysts each get a report which shows all the potentially miscoded transactions, so they can easily check them and send them back to the VAT coding team if they’re inaccurate,” says Gavin O’Donoghue. “It’s a huge time-saver, and it gives us a lot of confidence that we’re doing all the coding correctly.”

The second advantage of the solution is that it automatically creates pro-forma VAT returns for each quarter, eliminating the need for the analysts to create them by hand, and avoiding the risk of errors created by re-keying data.

“Looking at the total workload saved on analysing VAT codes and creating returns, we estimate that it will give our analysts about 20 percent more time to spend on more valuable activities,” states Gavin O’Donoghue.

Finally, the solution also benefits the company’s strategic decision-makers and risk managers by providing an overview of VAT payments in each market. This enables them to investigate fluctuations in VAT exposure and assess the effects of changes in regulations.

One platform, multiple applications

Gavin O’Donoghue adds: “Using Cognos TM1 to a high level provides insight into indirect taxation and is a useful addition to our management reporting suite. We are already using TM1 in the treasury department, so this gives us another important piece of the picture.”

The treasury team uses TM1 to monitor the number of bank accounts and its utilisation of credit limits has with different banking groups, which helps to minimise administrative costs and reduce exposure to risk. Similarly, the foreign exchange team can use the solution to analyse the exposure of different legal entities within the Pfizer group to different currencies, enabling more effective financial management across Europe.

“With IBM Cognos TM1, we have a solution that helps our analysts in the indirect taxation, treasury and foreign exchange departments manage their workload much more effectively,” concludes Gavin O’Donoghue. “With such a complex, multinational European operational landscape, the sheer volume of data means that traditional spreadsheet-based approaches are becoming increasingly difficult to manage. TM1 gives us a platform that we can use to build better solutions for data management and analysis across many areas of the business.”

About ICit

ICit has grown rapidly to become a leading IBM Cognos TM1 solution provider in the UK, with more than 100 person-years experience across the company. ICit provides customers with complete end-to-end service including software sales, consultancy, training, support and financing. Its people are highly experienced and knowledgeable, with expertise in finance, information technology and business performance management. The team consists of qualified accountants (ACMA, FCA) and technical experts (BSc, Masters). ICit consultants are located across the UK and offer a friendly and professional service.

To learn more about products, services and solutions from ICit, visit:
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About IBM Business Analytics

IBM Business Analytics software delivers actionable insights decision-makers need to achieve better business performance. IBM offers a comprehensive, unified portfolio of business intelligence, predictive and advanced analytics, financial performance and strategy management, governance, risk and compliance and analytic applications.

With IBM software, companies can spot trends, patterns and anomalies, compare “what if” scenarios, predict potential threats and opportunities, identify and manage key business risks, and plan, budget and forecast resources. With these deep analytic capabilities, our customers around the world can better understand, anticipate and shape business outcomes.

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