



# Digital Transformation Demands a New Approach to ERP

Don't Overlook Tax Functions When Modernizing Systems

## Summary

While digital transformation is a top-of-mind issue for executives, many organizations still overlook the role of ERP, believing that the operational systems that have supported their companies in the past will transition smoothly to a new way of doing business. However, ERP can be a significant impediment to modernization if the processes encoded in the software are inflexible or bind the company to outmoded ways of doing business.

This report outlines the factors IT leaders should consider when planning for ERP transformation in conjunction with business transformation—and how the right ERP solution can accelerate both the pace and benefits of transformation.

## Introduction: Why Digital Transformation Is Important

Digital transformation is sweeping the business landscape. Recent research by IDG finds that 91% of organizations have adopted, or plan to adopt a digital-first business strategy. The trend is being driven by both internal and external forces.

Internal forces include mergers and acquisitions, regulatory and compliance changes, operational inefficiencies, talent attraction and retention, and the urgent need to modernize outdated systems. The combination of cloud computing, data analytics, and mobility present an unprecedented opportunity for companies with legacy systems and processes to redefine the ways they operate. New efficiencies can be realized by automating workflows, applying artificial intelligence to augment human decision-making, and empowering customers with self-service capabilities.

Realizing these benefits requires challenging some long-held assumptions and even flipping some traditional business processes upside down. For example, the accounts payable group may be accustomed to putting invoice payments on hold because of minor discrepancies and releasing them only after manual review.

Digital-first businesses put speed ahead of process, so instead of stopping the invoice payment and creating a bottleneck, the payment might go through but be flagged for processing by a machine learning algorithm that identifies and resolves the most common discrepancies.

External pressure from agile competitors and born-in-the-cloud startups presents new competitive threats but also opportunities. Digital transformation enhances business agility, reduces costs, and improves the ability of established companies to respond rapidly to these challenges. Digital technologies can also enhance customer experience by enabling customers to attend to many of their own needs through web portals and mobile apps, as well as by anticipating their needs and presenting personalized and timely offers.

Cloud computing offers tantalizing possibilities for business expansion into new markets and geographies. New funding mechanisms make the investments needed for growth or to finance mergers and acquisitions possible for a greater number of businesses. Cloud enables remote operations to be set up quickly without expensive investments in infrastructure. Global partners can be onboarded rapidly through partner portals. A modern ERP system makes all of these advantages easier to achieve.

## How ERP Can Hold Back Digital Transformation

ERP significantly impacts an organization by requiring adherence to a set of best practices coded in software. Installation has traditionally been complex, expensive, and time-consuming, meaning that organizations had little incentive to change once the software was in place. While most businesses have benefited from the use of ERP, the software can become an impediment to agility over time.

Many of the ERP suites that are in use today were installed a decade or more ago when business conditions were very different. Processes were paper-bound, communication was expensive, and customer interaction channels were limited.

Modern ERP systems are designed to adapt to the rapidly changing pace of business as well as to the pervasiveness of computing in all parts of the organization. Because so many stakeholders are now involved in digitized processes, selection and installation of an ERP suite should be done in a partnership between the IT organization and numerous other groups.

Stakeholders need to account for future changes in customer behavior and market dynamics that may not be readily obvious. For example, a decade ago few people foresaw the impact that smart phones would have on customer interactions. A modern ERP system should be built on an open and flexible architecture that can accommodate such changes. Whereas the first generation of ERP was characterized by rigidity, the current generation is characterized by flexibility.

## Critical Factors to Consider in ERP Selection

Organizations no longer have the luxury of assuming that business-as-usual will continue for the long term. Small changes in technology can create major business disruptions.

For example, many industries are undergoing a transition to subscription models, including consumer packaged goods markets like razor blades. This transition requires significant changes to accounting and operations, such as the need to automate shipping logistics, manage renewals, track customer churn, and forecast the profitability of a new and different revenue model.

The ripple effect of a shift to subscriptions may extend to other areas of the business, such as commissions, manufacturing resource planning, and marketing. Businesses may also need to accommodate changing payment preferences and financing options, such as mobile payments, cryptocurrencies and leases. A modern ERP system can accommodate these kinds of large-scale shifts and enable the business to integrate change without disruption.

ERP must also accommodate changes in the business created by mergers, acquisitions, divestitures and partnerships. Channel partners and acquired companies may introduce a variety of accounting systems that need to be integrated. ERP software that is built with open APIs works with a variety of databases and data types and gives executive management a single view of the business that is better suited to the rapid pace of change in today's markets.

Regulatory changes and geographic issues also demand attention. Cloud computing has enabled businesses to expand operations globally at much lower cost than was possible in the past, but expansion can introduce a host of new regulatory requirements.

For example, Europe's **GDPR** rules imposed new requirements on reporting, the physical location of data, and consumer access to personally identifiable information. GDPR compliance has cost many enterprises millions of dollars, and the fines for non-compliance are potentially much greater. Legislation similar to GDPR is now pending or under consideration in many countries and U.S. states.

Accounting changes like **IFRS** in Europe and **GAAP** in the U.S. introduced new rules that have also cost companies millions of dollars to adopt. A flexible ERP system built on open interfaces and supported by a strong ecosystem of software partners and systems integrators insulates customers from much of the cost and risk associated with these changes.

The shifting global business environment also presents new complexities in such areas as legal jurisdiction, taxation, and accounting structures. For example, there are more than 700,000 tax laws in 17,000 jurisdictions around the world. A company that wants to locate legal entities in new locations or implement cross-border EFT mechanisms must be aware of the applicable laws in each area its business touches. ERP systems that have knowledge of local tax and compliance regulations baked into the software can not only ease these transitions, but also help customers make more informed decisions about the most cost-effective and tax-efficient options.

## The Changing Tax Equation

Given the broad impact that ERP has on organizations, it's easy to overlook the importance of tax compliance, but the cost and risk of adopting a solution that doesn't adapt to changes in tax laws can throttle the agility of the entire company.

Tax codes in the United States and most developed countries change very frequently—monthly in the case of the United States. Major revisions like **South Dakota v. Wayfair, Inc.** or the **2017 Tax Reform Act** add further cost and complexity to the picture. Companies that do business in multiple countries or U.S. states must also keep pace with a dizzying assortment of regulations, deadlines, and reporting requirements.

Business changes, such as shifting to online sales and conducting transactions across borders, bring additional tax complexity. Mergers, acquisitions and divestitures also have tax consequences. For all these reasons and more, an ERP suite that adapts smoothly to changing tax laws significantly reduces the cost of doing business and enables decisions that impact the bottom line.

Tax-aware ERP can also enhance organizational agility. For example, tax analytics is an often-underutilized discipline that enables financial professionals to model the impact of local tax laws on operations and take full and immediate advantage of changes in local codes. An ERP suite that is flexible enough to adapt to tax law changes and factor them into reports and what-if models can yield millions of dollars in savings.

Built-in analytics and artificial intelligence technologies enable modern ERP systems to deliver competitive advantage as well. Analytics tools can operate on live data to give the business real-time insight into such areas as inventory, supply chain, and customer buying patterns. Businesses can use what-if modeling to identify areas of process improvement or automate the discovery of discrepancies such as inventory shortages. By leveraging tools in the cloud, these insights can be derived in minutes instead of days and without the pain of lengthy extract/transform/load cycles.

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## The Cloud Advantage

Not long ago, growing organizations typically went through a painful migration process from basic accounting software to more sophisticated ERP as accounting needs and operations became more complex. This transition usually involved new hardware, a yearlong software installation process, and the hiring of systems and database administrators. Data migration was yet another headache.

The cloud has fundamentally changed this dynamic, enabling organizations to start small and grow within the same product family. For example, Oracle ERP Cloud can scale from businesses with just a few employees to multinational organizations. Customers pay only for what they use. Migration headaches, maintenance, and overhead costs can be reduced significantly.

Cloud also enables customers to benefit from compatible solutions such as customer experience software, customer relationship management, sales support, and service management. These can be integrated with the core ERP over time as needed at only modest incremental cost. Integrating business partners via supplier portals and enabling customer self-service is painless, with the capability often available off-the-shelf from Oracle and its ISV partners.

## Conclusion

### Key Recommendations

**Approach your ERP decision with an eye towards the future;** choose solutions that will grow with your business. The software should make extensive use of APIs and web services that enable new functionality on a plug-and-play basis.

**Keep agile development techniques in mind** through installation and feature expansion. Iterate quickly, incorporate feedback, and continuously improve functionality.

**Look for ERP vendors** that maintain an ecosystem of certified partners that integrate with the ERP solution and that have a track record of working together for customer success.

**Don't overlook the considerable benefits of tax awareness.** Vertex has been an Oracle codevelopment partner for more than 25 years, building tax solutions that tightly integrate with Oracle ERP both on-premises and in the cloud. Vertex eliminates much of the pain of tax compliance, providing customers with end-to-end tax management while lowering the cost of ownership and reducing audit risk. Oracle and Vertex provide integrated support and rapid response to ensure customer success.

The ERP decision is no longer the domain of just the CFO and the IT organization. Today's solutions also impact areas such as human resources, sales, marketing, operations, legal and compliance. All need a place at the table.

As businesses' networks become more closely intertwined with customers and suppliers, ERP solutions need the ability to scale and adapt in an open but secure manner. The cloud is the most flexible and cost-effective solution for most growing businesses.

Approach your ERP decision with an eye towards the future; choose solutions that will grow with your business. The software should make extensive use of APIs and web services that enable new functionality on a plug-and-play basis.

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For more information on the tax considerations for modernizing ERP, visit [vertexinc.com/solutions/products](https://vertexinc.com/solutions/products).

### About Vertex

**Vertex Inc.** is a leading tax technology provider that connects great people and partners to deliver the world's most trusted tax solutions for businesses to transact, comply and grow with confidence. Vertex provides cloud-based and on-premise solutions that can be tailored to specific industries for every major line of indirect tax, including sales and consumer use, value added and payroll. Headquartered in Pennsylvania, and with offices worldwide, Vertex is a privately held company that employs over 1,000 professionals and serves companies across the globe.

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