

Cloud-based Indirect Tax Saves Ingram Micro Time and Money

CHANGES IN INDIRECT TAX CAN COME FREQUENTLY, ACCORDING TO CALVIN LAI, SENIOR MANAGER AT INGRAM MICRO TAX.



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As international trade grows, so too does the weight of indirect taxation on the business landscape. There is also a growing urgency for tax departments to enhance business value through digital transformation.

Indirect tax, including U.S. sales tax, value-added tax (VAT), and goods and services tax (GST), is collected at different stages of the supply chain before a product reaches the consumer. At the end of the supply chain lifecycle, all tax funds collected — by suppliers, resellers, retailers, etc. — are reflected in the final market price of a product or service.

With the swift pace of global markets and constant changes in legislation in the U.S. and abroad comes a growing risk of non-compliance for organizations that are not up to speed with evolving indirect taxation rules.

Changes in indirect tax can come frequently, according to Calvin Lai, Senior Manager at Ingram Micro Tax. This means that ensuring indirect tax processes are up to date, accurate, and reliable is vital for businesses looking to compete in an increasingly digital and global economy.

Ingram Micro, a global leader in technology and supply chain services, heard the call to action and, together with SAP partner [Vertex Inc.](#), is transforming its legacy application for global sales and VAT determination by leveraging the cloud and SAP technology, and integrating best practices to ensure accuracy of sales and purchasing tax data. The solution is providing the company with new revenue streams, improving indirect tax determination accuracy, reducing dependence on IT support, increasing tax department efficiency, and improving audit performance.



Turning obstacles into an opportunity

While finance functions are often early-stage adopters of new technologies, more often than not, tax departments face challenges with getting the needed funding, personnel, and technology to absorb changes in new tax legislation, rules, and rates. A key reason why indirect tax is often an afterthought is because it does not directly add to profitability, making it a cost center. Additionally, lengthy processes inherent in supply chains can make indirect tax operations difficult to manage. Add manually oriented tasks, such as researching tax laws, consolidating, sourcing, reconciling, and adjusting tax data, and updating tax systems to align with tax and regulatory changes, and an already complicated indirect taxation journey becomes mired in complexity. Revenue expansion offered an opportunity, as Lai saw it. But it was easier said than done.

“In taxation, revenue expansion presents a lot of challenges because this is something new that you’re presenting to your business,” says Lai. “So, it takes some effort to get buy-in.”

There was certainly a case to be made for getting indirect tax into the digital transformation conversation. Half a dozen ERP systems scattered throughout Ingram Micro — all connected to a different type of tax calculation platform — resulted in slow tax calculation processes. Additional challenges included lackluster standardization of master data and a lack of technical expertise with SAP Billing and Revenue Innovation Management.

For Lai, the question became: “How do we get indirect tax to the table?”

AT A GLANCE



For Ingram Micro, indirect tax represents one of the fastest growing lines of its business. But it needed to implement a new system to handle that business.



The unification of all tax data elements into a single, centralized calculation platform enables Ingram Micro to save time and create opportunities for revenue expansion.



SAP partner Vertex implemented an advanced solution that reduced new tax category launches from one to two weeks down to one to two hours.



Moving indirect tax elements to the cloud helped improve efficiencies, which facilitated the move from SAP ECC to SAP S/4HANA.

COMPANY SNAPSHOT



INGRAM MICRO

Company details: Global leader in cloud, mobility, technology lifecycle, supply chain, and technology solutions and services serving 250,000+ customers across 160 countries.

Headquarters: Irvine, California

Employees: 35,000+

Annual Revenue: \$50 billion

SAP solutions: SAP Billing and Revenue Innovation Management, SAP S/4HANA

Industry: Information Technology, Supply Chain

When thinking about the master data challenges at the organization, he saw an opening.

“This was the technical Wild West for us because none of this has been defined — in tax, there was no standardization of what I call tax master data,” he says.

Lai wanted to unify all the tax calculations for the organization, which meant centralizing the management of indirect taxes. According to Lai, no one at the organization had laid claim to some of the master data, and this represented an opportunity to seize control of a very important tax data element.

“In the past we’ve always used a material group to drive tax decision in SAP, and then I asked: Can anyone claim that?,” he says.

What others saw as an obstacle Lai saw as an opportunity. When no one claimed ownership of master data, he said to himself, “OK it’s mine.”

This allowed Lai to dictate what kind of conventions were to be used to manage that particular data element in the tax organization.

Lai and his team started with the United Nations Standard Products and Services Code (UNSPSC), an international coding standard for goods and services.

“The UNSPSC was going to trickle through to all our systems irrespective of whether it was an SAP mainframe or another system,” he says. “The idea was that this was to become the defining master data for tax.”

Moving to the cloud

For Ingram Micro, indirect tax represents one of the fastest growing lines of its business. But according to Lai, the cloud as a consumption model did not originally fit well with Ingram Micro’s 30- to 40-year-old mainframe system.

“We did have to run the business off our legacy system for a little while, but the business has grown so fast that we really needed to implement a new system to handle that business,” he says.

“Ingram Micro’s old tax system did not provide the tax content needed,” says James Fei, Senior Solutions Manager, Vertex SAP Practice.

The company decided to go with a new cloud business model using an architecture that included [Vertex Indirect Tax O Series](#), SAP S/4HANA, and SAP Billing and Revenue Innovation Management. But it could not go live until a technology roadmap was established. Before working with Vertex, Ingram Micro had its indirect taxation operation reviewed by a Big Four consulting company, but it fell short of including the right model to enable Ingram Micro’s business to scale and to empower the company’s new revenue stream, according to Fei. Ingram Micro also needed to address the challenge of multiple disparate tax systems that did not talk to each other. Lai explains that this meant having different sets of reporting.

“How am I going to coordinate together, consolidate the data, normalize it, and make sure they all go into the same tax return?” he asked himself.

What’s more, the inability to reconcile data from multiple source systems posed an audit risk.

“We might record some GL levels, some liabilities at the very end, but the fact is that transaction information could have gone through multiple ERP systems, and this presents a high audit risk,” explains Lai.

Lai understood that the right solution would enable him to reverse engineer GL data and transactional data to lower the risk of audits. A tax reporting self-service would also allow a speedier investigation into something that went wrong that would result in an unanticipated tax. In addition, Lai wanted to transition to a solution that would lead to less reliance on IT for reporting, while ensuring smooth operations of its existing business. Lai understood that without proper technical expertise going into the project, the project could fail. He also knew the urgency of implementing a solution that could scale to meet the changing needs of the business.

Another consideration is the varied and changeable nature of indirect tax, where even minute flaws in a documentation or process, such as movement of goods cross border, can impact a company from a regulatory standpoint, as well as financially. For example, Lai explains that every time a new tax category would be needed in a FICA based solution, a new tax code would be needed, too. Consequently, it took around one to two weeks to introduce a new product tax category at Ingram Micro.

By unifying all data elements into a single, centralized calculation platform, time savings were achieved. Vertex implemented an advanced solution that reduced new tax category launch from one to two weeks down to one to two hours. It improved efficiencies and enabled Ingram Micro to upgrade from SAP ECC to SAP S/4 HANA earlier this year. Additional benefits included a deeper technical understanding of tax business requirements, the ability to support new impositions, better compliance and audit processes, standardized processes with reduced maintenance costs, self-service reporting capabilities, and the capability to produce consistent tax results across multiple ERP systems.

The company launched its [Vertex Indirect Tax O Series, On-Demand for North America](#) implementation as a pilot in 2018.

“We knew if we did that right, this business is a global business, and that the solution we provided back in 2018 could very well be adopted on a global level if rolled out successfully,” says Lai.

The solution has been rolled out to the Ingram Micro Cloud, Technology Solutions business unit, with plans underway to roll out to all other business units. Global tax compliances for U.S. and Canada sales taxes were completed earlier in 2021, while international VAT (G8) is ongoing.

WHAT DOES THIS MEAN FOR SAP INSIDERS?

1

Include tax organizations in SAP S/4HANA and cloud migration initiatives to support revenue growth. Traditionally, indirect tax is a cost center. But the right cloud business model for tax using SAP technology can scale and empower companies toward cost savings and opportunities for improved revenues.

2

Get tax involved in technology discussions as early as possible. A cultural shift is needed to get the finance function to engage tax in technology decisions. By building an internal network inside and outside the organization, tax organizations can lay the foundation for creating an effective technology roadmap that outlines the business case, building trust with the finance function.

3

Leverage a “been there and done that” technology partner that knows tax and its impact on global business. Tax organizations may not have the technical know-how to lead SAP technology implementation and integration projects. Vertex offered Ingram Micro more than technology and tax expertise, it understood the urgency of implementing a solution that could scale to meet the changing needs of the business.

4

Be sure to get the model right. With evolving tax regulations and rules in the U.S. and abroad, businesses face regulatory and financial risk. The cloud can offer flexibility to help businesses become tax efficient and keep pace with tax changes. Therefore, it is critically important to build a model that increases project viability and better leverages cloud standardization benefits.