VERTEX

The Industrial Cloud: How Manufacturers and Distributors are Transforming Tax and Technology Solutions

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Introduction

The Manufacturing and Distribution (M&D) industry is now experiencing the impact of the digital transformation trend, leading businesses to migrate certain applications to the cloud and focus on process efficiencies. Along with this shift, unforeseen disruptions have also emerged. Companies in this industry, having shifted their sourcing to a small number of large overseas suppliers over the past decade, are now facing global supply chain disruption. The tech and business situation highlights the importance of adopting globally agile systems that can pivot and scale according to need, enabling companies to navigate effectively through change.

For M&D this means:

- Rethinking or redesigning supply chains to be more flexible, scalable, and risk tolerant.
- Finding systems that eliminate issues and redirect focus on core business functions.
- Finding ways to streamline and automate tax management within a flexible and accessible framework.

For SAP users this means:

- Helping ensure the flexibility to facilitate a company's growth, scalability, and adaptability, regardless of regional variations or operational changes.
- The capability to handle taxes efficiently, whether in a single-country supply chain model or across international borders.
- Enhancing the accuracy of transaction tax operations to achieve a faster return on investment while minimizing errors.
- Seeking a straightforward solution to address gaps in the tax process.

Collaboration between the tax and IT departments enables the resolution of SAP procurement tax challenges by utilizing appropriate tax technology.

The importance of a scalable indirect tax management system:

IDC's research emphasizes the significance of adopting a streamlined indirect tax solution designed to address the aforementioned business challenges. The decision to implement such a solution is driven by crucial factors, which will be detailed in the following sections. The research aimed to gain insights directly from Manufacturing and Distribution (M&D) employees, revealing the motivations behind the choice to automate tax calculation, the existing challenges when left unattended, and the drivers behind their future technology plans. By delving into these aspects, the study sheds light on the importance of embracing a simplified, cloud-based, automated tax calculation approach for the M&D industry.

The Importance of Connecting the Tax & IT Teams

Governments impose indirect taxes on supply chain participants, and these costs are often passed on to customers through higher prices. As a result, both IT and Tax departments must find ways to cut costs in other areas. To achieve this, they need to be aware of indirect tax regulatory changes, helping ensure compliance and providing businesses with tested insights and projections using the correct systems.

Effective collaboration between Tax and IT is essential. By working together, they can address tax challenges using appropriate systems that offer flexibility, role-specific accessibility, and efficient tech. One significant opportunity for organizations to streamline tax processes is by migrating mission-critical systems, such as ERP, procurement, and ecommerce platforms, to the cloud. Cloud platforms can quickly adapt to changes in tax codes and simplify the complexities of doing business in multiple jurisdictions and industries.

For successful digital transformations, it is crucial to involve the tax manager from the project's inception. This early engagement ensures that tax considerations are incorporated into the transformation strategy, leading to a more efficient and effective tax process that aligns with the organization's goals.

Nearly three-quarters of manufacturers have already upgraded an ERP solution or plan to do so over the next 12 months.

M&D companies in particular, are turning toward cloud-based ERP technology like S/4HANA as a means of:

- Lowering costs, streamlining operations, and improving integration between applications.
- Making more strategic use of data.
- Benefiting from increased flexibility and resource efficiency.

Conquering Tax Complexity

Several factors are currently influencing the tax landscape:

- Global tax rates and compliance requirements are evolving rapidly, leading to increased volume and complexity of tax regulations worldwide.
- Value Added Tax (VAT) poses challenges due to the involvement of multiple parties with different tax liabilities in the manufacturing process.
- Businesses are expanding their reach through direct-to-consumer channels and various marketplaces, resulting in higher geographic reach and tax liabilities.
- Changes in manufacturing, business models, supply chains, and suppliers, along with cross-border transactions, are triggering the application of more tax regulations than ever before.

To cope with these changes and reduce friction in the business, a supplemental tax determination solution can be employed and seamlessly integrate to most ERP, procurement, and ecommerce platforms.

M&Ds are seeking adaptable ERPs that can grow with their expanding business. To meet this demand, many organizations are opting for cloud ERP transformation models. The migration of ERPs to the cloud presents a favorable opportunity for both Tax and IT transformation journeys that coincide with the migration of the ERP system.

A survey revealed that a significant portion of manufacturers plan to upgrade or replace their ERP solutions, with larger companies leading the way. However, even smaller firms are catching up, with a substantial number planning upgrades or replacements within the next year.

Another interesting finding is that the 97% of respondents are shifting some applications to public or hybrid clouds, indicating the growing adoption of cloud technologies. And while 40% of companies will keep at least some applications on-premise, 31% said the plan is to migrate as many applications to the cloud as possible. This move towards the cloud can also influence the choice of ERP vendors, as the ecosystem of cloud partners can provide essential services that may not be part of the core ERP platform. Considering tax processes during ERP selection becomes vital in this context.

Cloud Migration Strategy for Business/Financial Applications

Finance and IT professionals in M&D organizations are facing significant hurdles in managing indirect tax functions. One contributing factor is the increased focus of governments worldwide on collecting indirect taxes, leading to a rise in their portion of state revenues. Notably, value-added tax is now enforced in 170 countries, and taxes on productions and imports constituted almost 14% of gross domestic product in EU countries in 2021, according to Eurostat.

Respondents have identified the following four primary challenges with current indirect tax processes:

1. High cost
2. Poor integration with line-of-business software
3. Under-utilization of data
4. The need to reduce manual errors

To address these issues, cloud-based solutions with modern features present a promising opportunity to alleviate many of these pain points.

Reduce Risk, Boost Productivity

Implementing a cloud-based tax engine offers numerous benefits, such as cost-effectiveness, reduced labor-intensive work hours, elimination or significant reduction of hardware costs, increased productivity, and minimized burden on IT to maintain tax-related data, including rates, tax codes, and SKUs. This shift to the cloud also allows companies to provide quick and accurate data to suppliers and customers, reducing latency and enhancing processing efficiency.

Finance executives are feeling a growing urgency to mitigate risks within their organizations. They, along with other executive peers, are prioritizing resource optimization to support strategic business initiatives like modernization, transformation, expansion of sales channels (DtoC), global expansion, and mergers and acquisitions (M&A). It is noteworthy that the criteria for choosing solutions differ somewhat between finance and IT colleagues.

- Financial executives, for instance, place greater emphasis on improving integrations and reducing time spent on tax calculation and reporting compared to their IT counterparts. They also express significant challenges related to exemption certificate management and generating signature-ready returns.
- On the other hand, IT executives highlight pain points in automating manual processes, streamlining data integration, enhancing data quality, and managing compliance.
- Interestingly, financial respondents consider “freeing up internal IT resources” as a key advantage of cloud platforms, potentially due to concerns about stretched IT resources unable to fully accommodate organizational needs.

Not implementing such a solution may lead to customer dissatisfaction due to incorrect invoices and potential production delays. Therefore, adopting a cloud-based tax engine becomes imperative for organizations to streamline tax processes and avoid these negative consequences.

Constant Change

Organizations often face a significant burden managing tax compliance due to the multitude of jurisdictions and the ever-changing nature of tax codes and cross-border rules. For instance, Vertex’s 2022 End-of-Year Sales Tax Rates and Rules Report revealed a staggering 542 total sales tax rate changes in that year alone, highlighting the complexities and challenges associated with staying up-to-date with tax regulations.

To address this growing complexity, companies are turning to modern, automated tax calculation engines. More than one-third of the M&D companies that were surveyed have recently upgraded or purchased new tax solutions, and half have plans for it. The shift is more pronounced among large companies, 42% of whom have already upgraded or purchased a new solution, compared to 26% of smaller firms. In summary, the two groups will be at near parity over time as nearly 9 in 10 of all companies that were surveyed expect to upgrade or purchase new tax solutions in the future. More than 80% of those upgrades could happen within the next 12 months, reflecting the urgency companies are feeling around this issue.

Automation, cost savings, and cloud migration strategies are the top drivers for tax solution upgrades and purchases — with automation a more pronounced objective among smaller companies and the ability to pivot and address change for larger ones. The survey also found that the need to reduce costs and simplify an increasingly complex tax landscape is a significant driver of cloud migration across the board.

The integration between Vertex and SAP S/4HANA provides a reliable, automated indirect tax determination on sales and purchase transactions, as well as end-to-end tax management, a lower cost of ownership, and increased compliance capabilities - keeping the SAP core clean.

Priorities Differ with Size

By a 28%-to-8% margin, mid-size companies are also more motivated than large ones to expand globally or make acquisitions. This finding probably reflects the impact that the complexity of indirect taxation across borders has on the expansion plans of less resourced companies.

With accelerated global expansion comes increased tax complexity, and the 19,000 jurisdictions worldwide plays a large role in this.

In contrast, large companies expressed more interest in gaining value from data analytics by nearly a three-to-one margin. This isn't surprising given that smaller companies are likely to be more operationally focused than large ones and have fewer resources for the long-term picture that analytics make possible.

Consistent with the broader move to the cloud, organizations are also looking to software-as-a-service providers for tax solutions. Nearly 60% are upgrading or planning to shift to a cloud-based tax solution while a mere 20% plan to keep new solutions on-premises.

Cloud-based tax technology can help SAP users become more agile by automating tax processes to focus on customer-centricity, efficiency, and growth. Tax automation technology can also provide global solutions to support scalability and reduce risk.

While survey respondents said cost reduction is the top appeal of cloud-based tax solutions, it's worth noting that a variety of other factors were mentioned, including the ability to scale globally, access to more powerful data management capabilities, automation of tax processes, and enhanced security. All four of those factors were mentioned by between 30% and 35% of survey respondents.

The Race is On

The M&D industry has trailed only financial services in the race to the cloud. Manufacturers see enormous potential to use digital transformation to gain from improved supply chain insight, predictive analytics, robotics, and operational efficiency that is made possible by real-time data from factory-floor sensors in the "internet of things" wave.

As manufacturers seek to expand into other geographies, tax compliance has emerged as a significant complicating factor. The survey results indicate that manufacturers are simplifying indirect tax processes through cloud-based tax automation solutions to improve agility, scalability, and global reach. With many already looking to upgrade mission-critical applications, now is a good time for them to look at improving tax agility as well.

A Powerful Integration for the M&D Industry

Vertex partners with SAP to deliver tax technology solutions that enable M&D companies to address their need and keep the SAP core clean. With integrations to SAP S/4HANA, SAP Ariba, SAP Public Cloud, and other SAP systems, Vertex solutions enable more accurate and consistent taxation in the sales and procurement process — helping organizations achieve optimal tax performance by increasing transparency, reducing tax-related risk, and streamlining the audit process.

Learn more

Learn how Vertex tax automation solutions for SAP can streamline the tax processes for M&D businesses.

In addition to integrating a tax engine to SAP ERP and procurement systems, the Vertex Accelerators and PLUS tools for SAP provide additional functionality in SAP to streamline tax processes:

Advanced integration and reporting tools for rapid deployments

- Includes Tax Code & data mapping, detailed reports, conversions and more
- Uses SAP-Certified RFC integration for US and Canada (with SIC)
- Supports Extension countries (India, Argentina)

Configurable logic for complex VAT transaction scenarios

- SAP-Certified add-on that replaces native SAP ERP tax method
- Uses REST API integration with Vertex Tax Services and O Series
- Supports all single-level tax countries in EMEA and APAC. (Planned support for extension countries.)

Specialized solutions for solving common P2P, O2C, and Data challenges

- Covers AP Vendor reconciliations, test automation, tax credits and more
- Compatible with SIC, Tax Services and Web Services integrations
- Supports numerous geographies and indirect tax types

Vertex provides a long-term, scalable solution that provides benefits that make it possible to:

- Use ONE tax platform for both sales and procurement transactions
- Simplify, streamline, and automate tax processes
- Help improve compliance locally and globally
- Enable digital transformation
- Empower Tax to advise the business
- Solve complex problems with confidence

Vertex and SAP have consistently delivered a seamless experience for customers for over 25 years and continue to work together to address emerging pain points, streamline tax processes, and drive a smooth transition to the intelligent enterprise for companies across the globe.

About Vertex

Vertex, Inc. is a leading global provider of indirect tax solutions. The Company's mission is to deliver the most trusted tax technology enabling global businesses to transact, comply and grow with confidence. Vertex provides solutions that can be tailored to specific industries for major lines of indirect tax, including sales and consumer use, value added and payroll. Headquartered in North America, and with offices in South America and Europe, Vertex employs over 1,400 professionals and serves companies across the globe.

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