New Perspectives on SAP S/4HANA Migration

The benefits of treating ERP and tax automation migrations as more than a technical exercise

As finance, IT and tax groups assess SAP ECC's December 2027 end-of-support date, they would do well to consider wisdom from the essayist Henry David Thoreau: "The question is not what you look at, but what you see."

When some organizations view cloud migrations, they see a technical mandate – an upgrade on the IT group's lengthy priority list. Others look at the same requirements and see a wealth of opportunities for finance (higher ROI, reductions in technical debt, more scalability, a platform for advanced tools), IT (reducing maintenance costs, improving security, streamlining database architectures) and tax (process enhancements, fewer manual interventions, efficiency gains, real-time reporting capabilities).

The latter approach enables companies to derive greater value from their SAP S/4HANA implementation. Tax groups are a principal participant in driving this value, which extends to their own domain in the form of advanced, cloud-based tax automation solutions.

Of course, new perspectives can be challenging to adopt, so it helps to keep in mind that:

- **Managing cloud migration as an IT project endorsed by the C-suite offers advantages:** The support of the senior leadership team helps frame cloud migration as a strategic imperative with business and IT benefits – and a specific deadline.

- **This is not a "lift and shift" activity:** SAP ECC customizations do not seamlessly transfer to SAP S/4HANA, nor should they. Harnessing the value of SAP S/4HANA's cloud environment, functionality, scalability, supporting tools and integrations requires the evaluation – and, in many cases, the optimization – of current finance, accounting, purchasing and tax processes.

- **Cloud migrations are IT projects, but not IT-only initiatives:** The shift from SAP ECC to SAP S/4HANA drives digital transformation, helps modernize the IT environment, and expands the portfolio of advanced applications and technologies solutions IT groups can quickly implement and integrate. Cloud migration also benefits the rest of the business when finance, tax, procurement and other groups, along with external experts (e.g. DuCharme, McMillen & Associates, Inc.), fulfill meaningful roles on the project team.

- **You're not alone:** If your company has yet to complete the SAP S/4HANA implementation, know that there is still time and that you're in good company. Less than 8% of organizations have completed the migration, and 23% have yet to formally begin their journey, according to respondents to a DMA-SAP-Vertex online survey.

In addition to embracing the right migration mindset, it helps to identify the full range of benefits the SAP S/4HANA implementation can yield before creating a game plan that addresses common implementation challenges.

> "The SAP S/4HANA migration is not an IT-only initiative… Rather, it's an opportunity to streamline processes and demonstrate a return on investment that benefits the finance group, tax, IT and the rest of the business."
>
> Vertex Senior Director - SAP Product Management, SAP Solutions Center Michael Galella

Core Strength is Crucial

SAP ECC's December 2027 end-of-service date is a major motivation for moving to SAP S/4HANA, but it is not the only driver. As digital transactions grow, finance, accounting, purchasing, and tax processes and supporting technology must become more flexible and scalable. Global expansion places similar requirements on the ERP ecosystem. New regulatory compliance requirements and e-invoicing mandates increase the need for the cloud's data access, security, flexibility, remote access, collaboration, and scalability.

When assessing the benefits of migrating to a cloud-based ERP system, it helps to view the solution as a core enabler of business value. This explains why cloud ERP is the foundation of SAP BTP, which unifies data, AI, app development, automation, and integration, while supporting processes such as HCM, spend, supply chain, and CRM.

Cloud ERP offers a ripple effect of benefits throughout the organization. IT groups can reduce time spent maintaining and updating legacy systems and databases. Improved system performance, data security enhancements, and modern application programming interfaces (APIs) also help IT allocate more time to higher-value activities.

Reducing technical debt – costs associated with supporting and trouble-shooting legacy systems – appeals to CFOs and the organization as a whole. Database improvements, built-for-purpose APIs and greater configuration and deployment flexibility enables companies to deploy emerging technologies and advanced tools that finance groups use to support business growth, innovation and other strategic goals.

Within tax groups, cloud infrastructure enables access to edge computing, AI, e-invoicing solutions and tax data analytics via convenient deployments. Frequent tax content (i.e., rules and rates) updates strengthen tax compliance capabilities while reducing audit exposure.

Top Challenges: Data, Skills and Participation

While the technical aspects of cloud migrations pose difficulties, people and process-related challenges also require the project team's attention:

- **Data:** Treating the SAP ECC to SAP S/4HANA migration as a "lift and shift" activity gives short shrift to data quality issues, and this neglect can devalue the investment. Project teams should identify and address inaccurate and obsolete data. Data cleansing activities also should scrutinize custom code within SAP ECC and related legacy systems.

- **Skills:** Those data-cleansing activities are often restricted due to skills and resources gaps. The IT professionals who customized SAP ECC and other legacy applications within the ERP ecosystem may have moved on. An organization contending with a shortage of tax professionals may be unable to assign a tax manager to the project team, which increases the likelihood that the new configuration will neglect essential compliance considerations. Project teams should also consider the skills needed to maximize the value of SAP S/4HANA once it is up and running.

- **Processes:** The SAP S/4HANA migration is an opportunity to reexamine and streamline existing finance, accounting and tax processes. When broken or suboptimal processes are left unaddressed in the new system, its scalability and ease of use declines.

- **Representation:** Disregarding tax compliance and planning considerations during initial project scoping and planning creates the need for more urgent work, after the new system is live. To avoid fire drills, ensure that a tax expert (from inside or outside the organization) sits on the project team and raises insightful questions related to tax data management and compliance needs.

Game-Planning Your Migration

The technical expertise, strategic support and proven project management methodologies an external firm like DMA provides is essential to an effective cloud migration. So, too, are the following approaches:

- **Treating the migration as a business initiative (vs. an IT upgrade):** Organizations that maximize the returns on their ERP cloud migrations use the project to achieve specific benefits beyond reductions in IT maintenance of legacy systems and aging databases. For CFOs, this value may stem from optimizing finance and accounting workflows and practices while laying the groundwork to adopt advanced tools and capabilities (e.g., AI-powered FP&A applications and strategic sourcing). Tax leaders can also use the cloud migration to pave the way for investments in tax data analytics and edge computing solutions. The cloud environment can also help the tax group bolster compliance accuracy and efficiency.

- **Addressing skills and resource gaps:** A shortage of tax professionals qualifies as a top indirect tax pain point, according to DMA-Vertex online survey. Leaders of lean tax departments know that it can be difficult to assign a staffer to the SAP S/4HANA project team given their daily operational duties. This challenge should be addressed, since cloud migrations require tax expertise from the initial planning stages through the go-live date and beyond.

- **Considering outside help:** Organizations performing ERP migrations should consider enlisting external resources who are fluent in tax compliance, finance and accounting processes, and SAP S/4HANA. This support enables the organization to leverage a proven migration methodology that addresses data quality, process optimization, and a comprehensive set of tax compliance and tax automation considerations.

- **Identifying related offerings:** A cloud-based ERP environment enables organizations to access a wider collection of technical capabilities and integrated applications. For example, SAP's Clean Core approach can strengthen master data quality and business process governance while reducing IT maintenance and reducing the ERP system's total cost of ownership (TCO).[1]

- **Planning ahead:** Although their maintenance and upkeep needs are minimal compared to legacy on-premises solutions, cloud-based ERP systems still require support and attention after they go live. Consider addressing the post-implementation support strategy – one that identifies the right mix of internal resources and external experts — early in the project planning process.

> "DMA has developed a unique form of reverse tax audit that can help fund the migration effort...It's been a game-changer for our clients because it both offsets migration costs while helping to ensure that tax processes are optimized for their future state."
>
> DMA Managing Director,
> Tax Technology
> Talal Antar

[1] https://learning.sap.com/learning-journeys/practicing-clean-core-extensibility-for-sap-s-4hana-cloud/introducing-the-clean-core-approach_fcb6c662-7041-4c99-88bd-345636fae7f3.

Freedom to Choose

Migrating from SAP ECC to SAP S/4HANA is not a choice but a necessity, given the December 2027 end-of-support date. Yet, tax, finance and IT groups very much have a say in how the organization performs, and benefits from, the migration.

One way to exercise this agency is by getting started today. Another way is to ask a wise question that sets the tone of the initiative: *How can SAP S/4HANA and the cloud environment improve our work and performance?*

Top Indirect Tax Challenges

1. Tax data quality
2. E-invoicing compliance
3. A shortage of tax professionals

Source: Online survey, DMA-Vertex webinar, December 2024

ERP Cloud Migrations Dos and Don'ts

Encourage:

- Early tax involvement in project planning
- A proven implementation approach
- An optimal blend of internal and external expertise
- Addressing post-implementation support and monitoring during the planning phase
- Treating the endeavor as a business initiative

Avoid:

- Treating the migration as an IT-only project
- "Lifting and shifting" current processes
- Underestimating change management needs
- Neglecting data quality management
- Subpar process documentation
- The tendency to delay process improvements until after the go-live date

About Vertex

Vertex is a leading global provider of indirect tax software and 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.

About DMA

DMA, a proudly employee-owned company, has been solving corporate tax challenges for its clients around the world since 1972 by minimizing their taxes, enhancing the efficiency of their tax administration through industry-leading technology solutions, and managing their tax compliance obligations. DMA boasts expertise with all major ERP and transaction tax software systems to help our clients implement new systems or update and realign what they already have to meet current business requirements. Whether our clients have a specific internal implementation issue to resolve or need comprehensive turnkey services, DMA's technical and tax teams are prepared to tackle their technology projects on time and on budget.

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