



**Run Simple with VAT**  
Discrete Manufacturing and Auto



# VAT - The New Beginning

Financial Year 2018-19 will be the defining year for GCC. With the advent of much awaited Value Added Tax (VAT) reform. VAT is expected to have a far reaching and wide impact on business, society and general economy. Smooth transition to VAT is one of the top 3 agenda items on the Board and Management's strategy and execution list. With VAT, the past no longer holds good and future is laden with number of implementation challenges. **Discrete Manufacturing and Automobiles** is one of the key industries to witness the massive impact on account of VAT implementation.



VAT regime has a high level impact on end to end business model of companies engaged into Discrete Manufacturing and Automobile

## Supply Chain

- High level of dependency on area based incentives
- CNF agency arrangements
- Consolidation of warehousing and logistics
- Supply rules impacting movement of goods

## Working Capital

- Inventory management and SKU management
- Tax credit and compliance management
- Grandfathering of accumulated tax credit

## Manufacturing

- Multi-locational manufacturing facilities
- Sub-contracting arrangements

## Customer

- High level of B2B and B2C exposure
- High level of direct marketing costs
- Emergence of alternate distribution arrangements
- Price control measures

## Business Model

- Co-marketing and bundle product arrangements
- Use of intellectual property
- High level of foreign and domestic investments
- Complex transfer pricing arrangements
- Changes in valuation rules



An organization needs to re-evaluate the business models, business processes and carry

out significant changes in order to sail through the VAT implementation journey smoothly

Impacted Processes/ Functions/Departments	Impact Sub-areas	Key Imperatives	SAP S/4HANA Solutions
<b>Procurement to Pay (P2P), Manufacturing</b>	<ul style="list-style-type: none"> <li>Consolidation of the Warehousing, Logistics and Distribution facilities</li> <li>Renegotiation of the transportation and logistics contracts</li> <li>Transition of vendors to the new tax model</li> <li>Business allocation to vendors</li> <li>Supply of raw materials/ inputs to the vendors</li> <li>Stock transfers between suppliers/manufacturing locations to other locations</li> <li>Withdrawals of area based incentives impacting cost of sourcing</li> </ul>	<ul style="list-style-type: none"> <li>Comprehensive review of the existing supply chain and modelling of the required supply chain with scenario analysis</li> <li>Re-alignment of the procurement function</li> <li>Re-calibrated supply chain design</li> <li>Review the volume and value of interstate movement of the key inputs</li> <li>End to end visibility of the supply chain</li> <li>Build adequate flexibility in the overall supply chain</li> <li>Review the volume and value of interstate movement of the products</li> </ul>	<ul style="list-style-type: none"> <li>SAP Business Planning add-on on SAP S/4HANA</li> <li>SAP Predictive Analytics</li> <li>SAP Profitability and Cost Management</li> <li>SAP Net Margin Analysis on SAP S/4HANA</li> <li>SAP GRC - Access Control, Process Control</li> </ul>
<b>Order to Cash (O2C)</b>	<ul style="list-style-type: none"> <li>Pricing of the products</li> <li>Pricing arrangements with channel partners</li> <li>Warranty component in the price of the product may attract different tax rate</li> <li>Withdrawals of area based incentives impacting the pricing of key products</li> <li>Re-modelling of the dealer and distributor commissions</li> </ul>	<ul style="list-style-type: none"> <li>Evaluate channel partner's margin neutral pricing</li> <li>Formulation of a new geography linked distribution plan</li> <li>Channel partner education, awareness and transition plan</li> </ul>	<ul style="list-style-type: none"> <li>SAP Business Planning add-on on SAP S/4HANA</li> <li>SAP Predictive Analytics</li> <li>SAP Profitability and Cost Management</li> <li>SAP Net Margin Analysis on SAP S/4HANA</li> <li>SAP CRC - Access Control, Process Control</li> </ul>



Impacted Processes/ Functions/Departments	Impact Sub-areas	Key Imperatives	SAP S/4HANA Solutions
<b>Record to Report (R2R)</b>	<ul style="list-style-type: none"> <li>Accurate recording and reporting of the tax credits</li> <li>Correct administration of the taxable and exempt inputs/products</li> <li>Generation of multiple reports and returns and timely filing</li> </ul>	<ul style="list-style-type: none"> <li>Initiatives for increasing awareness of the key reporting requirements across business functions</li> <li>Establishment of strong internal controls for transaction capture, record, review and reporting</li> </ul>	<ul style="list-style-type: none"> <li>SAP CRC - Access Control. Process Control</li> <li>SAP Master Data Governance</li> <li>SAP S/4HANA</li> <li>SAP Financial Closing Cockpit</li> <li>SAP Receivables Management</li> <li>SAP Disclosure &amp; Notes Management</li> <li>SAP Shared Services Framework</li> </ul>
<b>Tax and Compliance Management</b>	<ul style="list-style-type: none"> <li>Upgradation of the vendor data base and tax registration details</li> <li>Applications of the necessary tax masters /rules to vendors</li> </ul>	<ul style="list-style-type: none"> <li>Collaboration with multiple business functions to ensure tax compliances</li> <li>Ensuring technology readiness</li> </ul>	<ul style="list-style-type: none"> <li>SAP GRC - Access Control, Process Control</li> <li>SAP Master Data Governance</li> <li>SAP TAO</li> <li>SAP Shared Services Framework</li> </ul>
<b>Working Capital Management</b>	<ul style="list-style-type: none"> <li>Identification, recording and efficient Utilization of the input tax credit</li> <li>End to end visibility of the inventory across the re-modelled supply chain</li> </ul>	<ul style="list-style-type: none"> <li>Understanding and evaluation the working capital efficiencies due to elimination of cascading taxes</li> </ul>	<ul style="list-style-type: none"> <li>SAP Cash Management on SAP S/4HANA</li> </ul>



Impacted Processes/ Functions/Departments	Impact Sub-areas	Key Imperatives	SAP S/4HANA Solutions
<b>Business Planning and forecasting</b>	<ul style="list-style-type: none"><li>• Accurate planning and management of volume</li><li>• Channel Partner Profitability and efficiency analysis</li></ul>	<ul style="list-style-type: none"><li>• Formulation of robust budget and operations plan incorporating the impact of VAT regime</li><li>• Frequent review, monitoring and sharing insights with business to reframe operations strategy</li><li>• Recording and reporting of the savings in supply chain costs</li><li>• Understand, evaluate and guide business team for leveraging opportunities arising due to VAT implementation like expansion of margin. better realizations etc.</li><li>• Evaluate impact of VAT on key capital investment decisions</li></ul>	<ul style="list-style-type: none"><li>• SAP Business planning add-on SAP s/4HANA</li><li>• SAP Predictive Analytics</li><li>• SAP Profitability and Cost Management</li></ul>

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With SAP S/4HANA, companies engaged into Discrete Manufacturing and Automobile Sector will be able to analyze high volume of data on the basis of market, demand, production and inventory across various locations and compare

with the post-VAT scenario. Such analysis will enable the management of the companies to capture the opportunities in disguise which will be unfolded only after the launch of the new tax regime.