Modern Back-office Solutions Provide Reliability and Resiliency

Julian Dehn,
Portfolio Manager

Digital transformation has been a persistent trend over the past two decades, accelerated in recent years by the emergence of mobile and cloud computing. Building on these platforms, businesses have focused on modernizing their customer-facing solutions to improve the ease of doing business, drive better customer experience and retention, and help generate revenue. More recently, back-office processes–applications that help companies manage core functions such as finance, HR, supply chain management, and compliance–have come into focus.

The accumulation of data, evolving regulatory and reporting requirements, and increasingly dispersed workforces are putting increased pressure on outdated back-office processes. The pandemic-induced shift to remote and hybrid work arrangements has also surfaced the challenges of inefficient processes and spurred investments into modern cloud-based applications to make back-office operations more reliable and resilient. Providers of modern back-office solutions are well-positioned to benefit long-term as investments into such capabilities are poised to persist for years to come.

Since the 1990s, Enterprise Resource Planning (ERP) systems have been the foundation of the back office, allowing organizations to manage day-to-day activities such as finance, project management, and manufacturing. Their legacies, however, are tied to mainframes and extensive client customization, resulting in high ongoing costs for service and maintenance and fewer resources for further innovation. As a result, ERP systems have lagged in adopting cloud technology, creating opportunities for new companies to fill unmet needs with niche applications tailored to today's back office.

Workiva (WK), for example, provides a cloud-based platform helping companies better manage and report business data. Workiva's flexible platform enables its users to efficiently aggregate data from different systems, link documents, collaborate with colleagues across departments, and maintain audit trails. The company gained traction initially by supporting the process around SEC filings. As regulatory and compliance requirements have continued to evolve, the company and its customers have identified that

the platform is well-suited to improve efficiency and reduce the risk of errors across many back-office functions. Thus far, customers have adopted Workiva for more than 100 use cases, reflecting the platform's scalability and flexibility in creating transparency– internally and externally–for management, investors, and regulators.

Along the same lines, Blackline (BL) has developed a compelling platform to support the office of the controller and help automate the financial close process. A major benefit of Workiva's and Blackline's solutions is risk reduction, ensuring that information is accurately processed and reported on time. By utilizing modern back-office solutions, management teams can redirect employees' time from repetitive processes to more value-add projects, which is important in constrained labor markets.

Complex back-office processes have traditionally been associated with large enterprises but have become more of a reality for companies of all sizes. Small and medium-sized businesses are no longer bound to doing business locally and are now able to sell with ease across state borders and internationally through online platforms. Consequently, tax regulations have also evolved and require all businesses to track sales tax and file returns across all jurisdictions in which they do business. Avalara (AVLR), a leading provider of cloud-based sales tax compliance software, helps businesses address this compulsory compliance burden that is primarily still done manually. Through its vast and constantly updating tax library, Avalara can accurately determine sales tax, aggregate transaction data, and automatically prepare and file tax returns in any given tax jurisdiction.

While organizations primarily differentiate themselves through products or go-to-market strategies, having an efficient and reliable back office is becoming more imperative to scale and position a business for long-term growth. Companies like Workiva, Blackline, and Avalara help businesses to effectively manage increasingly complex core functions and will be well-positioned to benefit from persistent demand for such solutions. In addition to identifying compelling investment opportunities that help businesses with their mission-critical back-office processes, Riverbridge spends significant time understanding how our portfolio companies and management teams build their operations for scale and endurance.