GUIDE

Top 10 Signs You’ve Got Intercompany Problems

Intercompany is not a zero-sum game

An intercompany transaction should be as simple as moving money from one department to another, but for large organizations which deal with millions, and even billions, of dollars of intercompany charges, things are not so simple. Compounding things, for many multi-national organizations total intercompany dollar volume is frequently larger than actual revenue and is managed across dozens or even 100+ jurisdictions. Surprisingly, however, many CFOs and heads of finance may not know they’ve got intercompany problems that reduce operational efficiency and may be costing their organizations millions of dollars every year.
Clear Warning Signs

So how do you know when your organization is processing intercompany transactions inefficiently and your team is facing challenges? There are clear warning signs that signal intercompany is not working well at your company.

Below are the top ten signs that you may have an intercompany problem. If you recognize these happening in your own organization, don’t despair. Even more important than knowing you’ve got a problem is understanding what it takes to fix it—and fix it you can. We’ll share some tips on how to do so shortly.

Top 10 Signs

1. **Costs Showing Up in the Wrong Places**
   Are costs being allocated to the wrong cost centers? Do department heads frequently complain about charges which don’t belong to them or that they don’t understand? Is lack of transparency of what is being charged, leading to time spent on transaction specifics?
   If so, you may want to investigate how intercompany financial management allows you to create billing routes, so costs always route properly eliminating human error.

2. **Paying Unanticipated Taxes in Jurisdictions**
   Does the effective tax rate in certain jurisdictions seem higher than it nominally should be? Do you hear about cumbersome tax audits relating to non-deductible expenses? Are you sure you can reclaim all your input VAT/GST?
   If so, you may want to speak to intercompany management expert to learn how you can optimize your statutory tax positions and plug tax leakage.

3. **Growing Statutory Audit Costs**
   Has your audit bill increased or do you have cost overruns from your auditors? Are your auditors telling you that they are spending more hours tracking down intercompany allocated costs?
   If so, intercompany financial management implements an intercompany subledger so you’re always audit-ready minimizing audit preparation and diligence efforts—and thereby driving down overall costs.
4 **Overdue and Unsettled Intercompany Balances**

Are your subsidiaries billing each other and the open balances keep growing period over period? Do you know who owes who? Can you fully offset intercompany balances as part of your closing process?

If so, consider technology that books both sides of the transaction, and on each ledger, and performs netting to optimize your settlement and treasury processes thereby helping you increase your reconciliation rates and save on transaction costs.

5 **Finger Pointing Amongst Controllers, FP&A and Tax Management**

Are controllers complaining that intercompany recharges initiated by Tax delay the closing process? Are FP&A claiming that they cannot make year-over-year comparisons because the transfer prices keep changing? Is Tax claiming that unnecessary intercompany charges are being made because local finance managers are trying to keep their budgets clean?

Different finance departments have different requirements when it comes to intercompany recharges, and at times they clash-sometimes without teams even realizing it. If this happens, you may want to learn more about how centralized intercompany transparency can address each department’s unique data perspective, leveraging a single source of intercompany truth.

6 **Never Ending Charge Disputes**

Does your accounting team waste weeks, even months waiting on replies to inquiries about intercompany charges? Are disputes being escalated to executives when they are not resolved? Can you actually measure the cost of a dispute?

If so, a centralized dispute management system, integral to intercompany financial management, can seamlessly resolve disputes in a timely manner.

7 **Continuous Statutory and Tax Audits**

Are issues around intercompany frequently being highlighted in audit letters? Do auditors continuously challenge your statutory tax documentation?

If so, it’s no surprise since intercompany charges are the leading source for tax audits conducted by the governments globally. And once a penalty is assessed, the company will typically be subjected to further audits for several years in most countries. When this is the case, you may want to investigate a solution that readily supports tax compliant intercompany documentation to proactively address your auditors’ concerns.
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8 Increased Staffing Demands for Accounting
Does your accounting team continually request and budget for additional FTE’s as their transaction volume grows? Have your Shared Services centers multiplied yet are still falling short of meeting productivity gains?

Manual processes frequently and increasingly restrict an organization’s ability to gain expected productivity. Intercompany financial management automates manual processes speeding transaction flow, increasing accuracy and scaling operations with no incremental expense.

9 A Slow Close Process
Do your monthly and quarterly closes take longer than they should? Do questions about intercompany charges and balances frequently arise which your accounting team must resolve, slowing the time it takes to close the books? Does the year-end close become the nightmare close where those transactions that were not fully resolved in the periods preceding now need to be closed leading to late night sessions and working weekends?

If so, you may want to learn more about how you can automate internal chargebacks with full billing details, including all data necessary for tax substantiation.

10 Intercompany Issue Avoidance
Is your organization comfortable with your intercompany status quo? Do you know you’ve got intercompany issues, but no one team is responsible for solving them? Do you have a single process leader accountable for Intercompany processes?

If not, consider adopting purpose-built process and technology that has been created by Finance, Accounting and Tax experts with experience automating intercompany operations at the world’s largest corporations.

If you recognize these signs happening in your organization, like many multi-national organizations, you are more than likely facing intercompany challenges. These problems will cost your organization time and money and the resulting inefficiencies can hobble even the best run financial operations.
There is a Fix
As intercompany volumes grow, too often organizations simply spend more to scale an inefficient and ineffective process—this is akin to trying to suppress the symptoms of a sickness versus seeking a cure. Cures exist and are found in new technology and an approach called intercompany financial management.

Discover How BlackLine Intercompany Can Transform Your Company’s Intercompany Processes
Intercompany Financial Management integrates, orchestrates, and automates the structuring and handling of intercompany transactions, so organizations can vastly improve operational efficiencies while driving the most tax-effective processes to unlock new horizons for growth. Leading class organizations do not strive for zero.

Leading class organizations go Beyond Zero.

Learn more about going Beyond Zero