AN INTRODUCTION TO

Intercompany Financial Management
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 that deal with millions, or billions, of dollars of intercompany charges, this isn’t so simple.

The continued rise of globalization has created highly complex supply chains that are causing intercompany volumes to soar. For multinationals, the sheer number of these transactions can be enormous and is often managed across dozens of jurisdictions. And, according to Deloitte, intercompany transactions for multinationals often dwarf their external sales by ten times or more. Plus, companies with global footprints have countless vendors, scores of legal entities, and frequent employee assignments across borders.

Many companies expect intercompany processes to just work. In reality, intercompany is a complex and challenging business process, and while finance leaders may be aware of intercompany problems—costs showing up in the wrong places, overdue and unsettled balances, charge disputes that seem unending—most are unaware of the impact beyond the long and arduous part associated with the accounting close. Reduced operational productivity, tax leakage, and diminished statutory tax positions are just a few of the challenges resulting from manual intercompany processes.

Why intercompany is becoming more complex everyday:

- **M&A AND FDI VOLUME**: Cross-border M&A has been on the rise, with ~ 10k deals annually and ~ $1T in annual deal value
- **TAX & REGULATORY CHANGES**: E-invoicing mandates and a potential global corporate tax rate
- **GLOBALIZATION**: US companies generate $2 overseas to every $1 of US-based revenue
- **GLOBAL SUPPLY CHAINS**: ~ 80% of global trade takes place within the value chains of large corporations
Why Are Organizations OVERWHELMED By Intercompany?

1. Lack of Ownership and/or Perceived Lack of Importance
   Intercompany processes are rarely owned by a single team—it’s a shared responsibility across controllership, tax, FP&A, and treasury. Added to that, there is probably not one single way that multinational groups handle intercompany transactions. In the end, managing all this activity creates an uncomfortable barrier that falls on the shoulders of the finance and accounting (F&A) function. Yet, intercompany is a systemic issue that must be tackled holistically. Companies are just not set up that way today—too often, skills and knowledge are siloed deep within organizational structures.

2. Spaghetti Financial Systems, Processes & Technology
   In many companies, different systems (ERP and related) are misaligned and unintegrated. This leads to inefficiencies and delays when marrying data, triggering costly exposure to FX risks and setbacks when earnings are reported. In addition, non-trade transaction categories are often more complex than typical trade.

3. The M&A Boom of Recent Years Plus Regulatory & Tax Changes
   Many companies are growing in a way that creates a vastly more complex internal environment. Business processes need to frequently flex and adapt to new and evolving statutory and tax laws and changing business models. This is especially true when working with trading partners and transactions that span multiple jurisdictions, making it much harder to effectively analyze performance, and exposing an organization to regulatory and reputational risks.
What’s the Price of Getting Intercompany Wrong?

All tax jurisdictions want their fair share of revenue from intercompany transactions, and these jurisdictions expect intercompany transactions to be governed with the same rigor as external transactions to unrelated companies.

That is because intercompany activity often shifts profits across borders. To manage increased scrutiny from tax authorities, tax teams are demanding more granular and frequently updated intercompany charges to maximize tax deductibility, which fly in the face of fast and efficient closing processes for the controllers. This creates clashing motivations between tax drivers on the one hand and the controllership on the other. Misaligned processes and muddled information impact more than just the accounting function.

F&A teams that rely on traditional, manual intercompany processes are vulnerable to noncompliance and increased financial risk. The problem is widespread. Dimensional Research conducted a global survey of intercompany stakeholders that indicates some troubling stats:

- 96% report challenges with intercompany
- 99% say intercompany is becoming increasingly complex and challenging
- All companies report their intercompany volume is greater than revenue, including 58% who say this volume is more than five times annual revenue
- 86% agree intercompany is a very misunderstood concept

When it comes to compliance and risk, organizations can’t afford to get intercompany wrong.

Intercompany Impacts on Your Company’s Goals

Accounting principles state the sum of intercompany activity should be zero. Truth be told, the problem is much larger than reconciling differences to zero, and the impacts go beyond financial reporting processes. Intercompany challenges can hurt your bottom line, create tax leakage, reduce liquidity, and hinder the value potential of F&A talent.

The way your business is growing creates internal complexity and can wreak havoc on your reputation and bottom line.
Pay Attention to These Four Key Intercompany Areas

**Time**
Effectively managing an avalanche of intercompany transactions is a function of time and effort. The volume of intercompany transactions, especially for large multinationals, can be massive. This results in data gravity, weighing down financial operations and slowing down business decisions as finance is distracted by reconciling intercompany differences to zero.

**Tax**
For multinationals, global tax risks and considerations weigh heavily on financial performance, strategy, and outlook. Each jurisdiction will have different tax requirements, treatments, and provisions that companies must adhere to.

**Profitability**
Intercompany charges are often lump amounts as it is hard to manually capture costs with the right categorization and at the right level of granularity. This makes it hard to reliably analyze and determine business performance, forecast, and defend intercompany prices when speaking with authorities.

**Liquidity**
Cash is the lifeblood of the organization. Maintaining a healthy level of liquidity helps ensure the business can meet current obligations, secure new financing, make essential purchases, and deploy needed capital. When inefficient processes bubble up, they indirectly tie up cash reserves.
Go Beyond Zero with Intercompany Financial Management

Intercompany is a problem many finance leaders don’t know how to solve. They need a new way to tackle intercompany—it’s time to Go Beyond Zero with intercompany financial management (IFM).

IFM is an entirely new approach that combines process re-engineering and technology designed to get companies to zero-out intercompany balances, and then go beyond to have a meaningful impact on the wider business. IFM integrates, orchestrates, and automates the structuring and handling of intercompany transactions, so organizations can vastly improve operational efficiencies while driving the most tax-effective intercompany processes that unlock new horizons for growth.

IFM addresses the intercompany goals of time, tax, profitability, and liquidity, while tackling the inherent risks and new challenges in an evolving and turbulent global environment.

By adopting IFM, companies can now think globally and holistically to address intercompany related concerns over transfer pricing, taxes, cross-border, cash management, technology, and compliance, while leaning into the idea of centralized data, touchless automation, deep reporting, and expert services.

Learn 5 Ways to Make Intercompany Transactions Easier