

The Intercompany Buyers Guide

How to Find the Right Intercompany Solution for Your Organization

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Introduction

This guide provides you with a practical resource to assist you in your selection of intercompany software.

Intercompany is an extremely labor-intensive and time-consuming part of the close process. In large enterprises intercompany reconciliation and corrections can take hundreds of hours, which results in unresolved items that require topside adjustments and unnecessary scrutiny by group finance.

This guide helps you define a set of criteria that would take care of your current intercompany needs without potentially locking yourself into an application or tool that may need reviewing again in the near future.

While this guide concentrates on intercompany reconciliation and automation solutions the same principles are applicable to any software purchase. There are three important steps to consider. First is to define the scope, second is to research and explore the market for solutions that match the scope and the final step is to conduct evaluation prior to making your selection.

You will find a buyer's checklist and additional resources at the conclusion of this guide to assist you on your software selection journey.

Step 1: Define The Scope

It's important to understand the overall organizational goals and objectives you are trying to address and also the specific pains that would persist by not solving the problem. Be as specific as possible as you identify and connect these areas. This will allow you to generate a concise list of requirements that will guide you through the buying journey and lead you to a solution that is right for you.

■ Business Goals and Objectives

Understand the business goals and objectives of the purchase. Ask yourself or others some of these questions to uncover the purpose:

- **What is the purpose of the software purchase?**
- **How does the purchase align with organizational goals and objectives?**
- **Is the solution intended to create money? Or is it to save money? Or to mitigate risks? Or all of these?**

It's important to ask these questions and have a clear response. At some point during the buying process you will need to create a business case to prove return on investment and potentially compete with other organizational priorities and budgets. Without clear understanding and alignment, how can you measure success? One way to really focus on the true impact and alignment of the solution is to focus on the pain points.

■ Pain Points

Let's focus on intercompany activities and the associated pain.

Most ERP applications have functionality that allows you to manage intercompany transactions, including those for goods and products. But the reliance on manual preparation means finance teams can still spend days just collating the data and re-formatting it to find the correct matches before they can be eliminated or resolved prior to the month-end deadline. Far from being a minor source of frustration, 40% of senior finance professionals say difficulties in reconciliations and intercompany agreement is what delays the reporting process the most, according to a study by FSN¹.

This is an obvious pain to the finance team, which is responsible for collecting, reconciling and formatting the data to eliminate these intercompany transactions. But what about the labor cost of this manual effort too? And since these activities are repeated month after month across many parts of the organization, what does this mean in terms of close cycle times? Does the manual effort also delay the production of critical reports and statements used by senior leadership because

¹The Future of Financial Reporting (FSN, 2018)

unresolved items need to be resolved by the group reporting functions, which requires topside adjustments and, in turn, resolution in the next period?

This is why it's important to understand the full impact of your current intercompany scenario and the issues you are trying to address and how solving them will better align to your business goals and objectives.

■ Business Goals and Objectives

Next, consider the requirements of the software. We may already know that an intercompany solution should include features such as:

- **The ability to automatically extract counterparty transactions and balances from underlying ERPs**
- **Complex matching routines that allow for uncovering true missing entries**
- **Clear visibility for all parties to achieve agreements to resolve the imbalances**
- **Workflows and notifications to allow you to manage the whole process efficiently**

But do these features really solve the pain points that we have identified for intercompany? That pain is the manual effort endured by the finance team to collate, reconcile, notify, escalate and post missing entries to clear the unmatched items. These tasks are also often dealt with at the time of the month when finance activity is at its peak, which results in a longer closing cycle and latency in producing key reports and analytics.

The solution you are looking for should certainly include the core reconciliation features listed above for starters. But, based on the specific pains around manual effort, it should also automate the full intercompany agreement through to resolution, eliminating the need for any reconciliation.

There is a complete buyer's checklist with more information included at the end of this guide.

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Step 2: Explore The Market

By this point in the buying journey, you've probably done research on the internet and used other sources to identify potential vendors that have viable solutions for solving your problem. Now you need to evaluate these potential software solutions based on your true intercompany pain and organizational impact.

■ Research Solutions

Once you have created a shortlist of vendors you now need to research them again, but this time based on your expanded specific requirements list that is focused on solving the real pain points you have identified.

The claims by most intercompany solutions will sound similar. Expect to see words like automate, manage, approve, validate, electronically certify and archive. We know these words are needed as part of our requirements, but do they solve your problem? To what extent does the solution eliminate the true manual effort in the intercompany process? Make sure to focus on ubiquitous terms such as automation. What does automation actually mean in practice for the solutions you are evaluating? What level of automation do you need to solve your problem and which solution provides that level of automation?

■ Determine Best Fit

Now that you truly understand your requirements, how they solve your problem and the solutions offered by various vendors, it's time to determine best fit. This is simply mapping the solution's benefits to how it solves the pains you've identified. In some cases, there is a single vendor that clearly has the unique set of features or value proposition that solves your pains. Other times, there are several vendors that seem to be a good fit.

However, if there are more than three vendors, it's good practice to go back and re-evaluate the pain points, impact and alignment to ensure they are properly defined and quantified.

One other point to consider here. If it takes more than one vendor to solve your pain/problem, keep looking. In this intercompany scenario, you shouldn't have to purchase an intercompany application plus an automation technology, such as RPA, to achieve the level of automation you require.

If there are more than three vendors, it's good practice to go back and re-evaluate the pain points, impact and alignment to ensure they are properly defined and quantified.

Select

In the selection step, it's quite possible that all other solutions have been eliminated and there is only one viable vendor option. If that's the case, your pain definition, research and best fit analysis was successful. This can reduce buying cycle times and put you on a much quicker time-to-value curve.

If there is more than one viable vendor, make sure to include all relevant participants within your organization in the evaluation. This will ensure there are no "a-ha" moments later in the buying cycle. If you are unsure of who those participants are, ask the vendor. They will have knowledge from previous sales engagements to properly align your cycle with theirs. Also, follow the pain points to find those in your organization who are impacted by the selection.

■ Solve Your Pain

When you've followed the pain to the organizational goals and objectives, you should have a clear line of sight of who should be included in the evaluation. Let's look at the intercompany example.

The finance team is burdened by the manual effort of collecting, validating, reconciling and correcting the intercompany imbalances on a monthly basis. This creates employee morale issues, extends closing cycle times and delays reporting and analysis for senior executives.

If you want to solve that pain then you should include managers who understand the burden on the finance team, the person whose key performance indicators are measured by closing cycle times and also the executive sponsor whose strategic insight is impaired by delays in reporting. You can create a full pain chain, up through senior leadership. This will ensure that everyone who needs to be involved is onboard, aligned and creating an environment of success.

The finance team is burdened by the manual effort of collecting, validating, reconciling and correcting the intercompany imbalances on a monthly basis

■ Determine Best Fit

This is one of the most overlooked parts of the buyer's journey. Was the project successful? How do you know?

By following the steps outlined in this guide, you will have a clear measure of success. Did you successfully solve the problems created by your pain points with the solution you procured? Has it allowed our organization to save money and given senior leadership strategic insight more rapidly? Make sure you understand these KPIs at the beginning and quantify in terms of days, man hours, dollars, etc.

Buying Checklist

Between 20% and 40% of the period-end close can be spent reconciling and processing intercompany transactions. When selecting an intercompany software tool, people often focus on the reconciliation only. In reality, most of the intercompany issues are created upstream throughout the month, but this is often overlooked.

The basic functionality of intercompany reconciliation applications will automate 20% to 30% of the effort. However, an intercompany solution that includes automation of reconciliation of goods as well as services, from agreement to resolution, can eventually eliminate the need for any downstream reconciliation at month-end.

Your investment in a solution should cover intercompany agreements, posting of respective invoices in counterparty's books and comprehensive reconciliation capabilities. Organizations should put an equal, if not higher, priority on the retrieval of underlying data, transformation of and reconciliation of data, and automated posting of the respective invoices directly into the counterparty books. This will substantially improve controls and reduce your time to close.

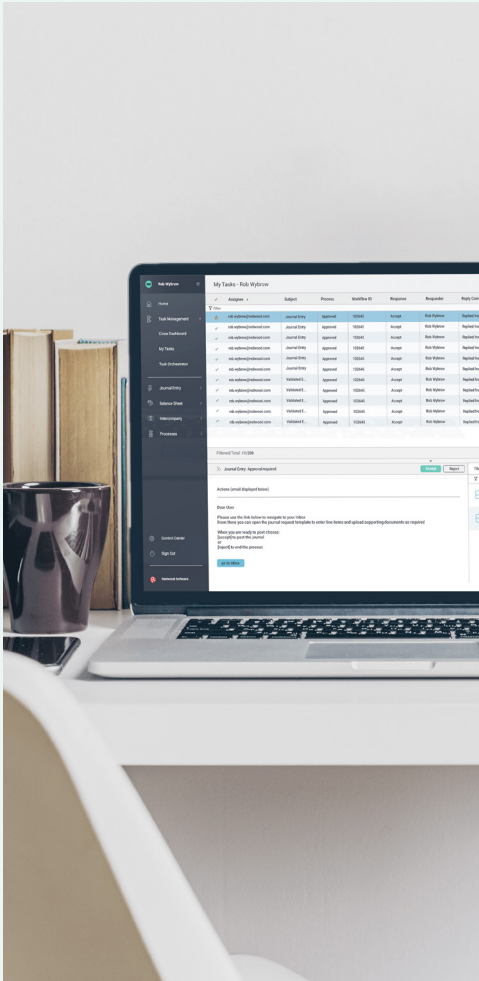
Functionality (Basic – Intercompany reconciliation and accrual or offset posting)		
Features	Functionality	Description
Retrieve data	From standard ERP via application programming interfaces (APIs)	Link to common ERP systems through a flexible and stable back-end connection that uses standard APIs.
	From files	Pick-up and process files with the intercompany transaction information being sent from smaller entities without a standard ERP system.
Match data	Rule-based matching	Define company-specific matching rules that will be applied to the periodic data to identify matches and non-matching items from intercompany transfer.
	Tolerance	Support absolute as well as relative tolerances in order to define matching criteria.
	Many-to-many matches	In addition to 1:1 matches also supports many-to-many matches where one or multiple lines from a sender correspond to one or multiple lines of a recipient.
	Grouping criteria	Match data based on multiple, flexible grouping criteria such as counterparty, currency and period.
	Multi-level matching	Being able to define multiple levels of matching e.g. full-match, partial match within small tolerance, partial match within larger tolerance

<p>Report and act on non-matches or near-matches</p>	<p>Identify responsible accountant</p> <p>Link to corporate directory</p> <p>Send email with reconciliation information</p> <p>Workflow reconciliation tasks</p>	<p>Responsible accountant can be identified based on organizational or other master data criteria.</p> <p>Email and further contact information can be retrieved via link to the corporate address book.</p> <p>All reconciliation information will be sent to the standard email inbox. In case of a required action item, a link to the workflow item will be included in the email.</p> <p>Reconciliation task with clear task description, action options and supporting documents can be sent to the responsible accountant. The processing of the workflow can be controlled, monitored and escalated.</p>
<p>Create accrual</p>	<p>Define rule-based accrual</p> <p>Auto reverse accrual</p>	<p>Rule-based accruals can be calculated, posted and documented to cater for non-matching items.</p> <p>A reversal can be defined when creating an accrual. It is possible to provide a reversal date as part of the accrual process and then accrual will be auto-reversed at the desired date.</p>
<p>Create offset posting</p>	<p>FI and MM posting to be defined</p> <p>Differentiated posting rules e.g. for goods and services</p> <p>Account determination</p>	<p>When defining the offset postings the material management aspects and the financial posting are catered for.</p> <p>The solution allows you to manage differentiated rules e.g. via decision tree logic to distinguish services and goods for the determination and calculation of the missing posting.</p> <p>The required account will be derived from the calculation rule and can be maintained in an account maintenance table.</p>
<p>Monitor and analyze</p>	<p>Dashboard</p> <p>Archive</p> <p>Reporting</p>	<p>Transparency on status and performance of current or previous periods closing activities. The dashboard allows flexible filtering and drill-down from highest to individual closing task level.</p> <p>A full audit trail stores the detailed task execution parameters as well as inputs and outputs for each task.</p> <p>Standard reporting needs to be provided to provide transparency of closing performance.</p>

Functionality (Sophisticated – Intercompany agreements)

Features	Functionality	Description
Intercompany agreement administration & approval	Load intercompany agreement	Load intercompany agreements from different formats as MS-Excel, MS-Word or from agreement DB.
	Intercompany agreement form	Identify and administer relevant intercompany positions and fields.
	Check intercompany agreement comprehensiveness	Provide checks that all mandatory fields for the intercompany agreement have been filled.
	Check intercompany agreement master data	Provide checks that all entities, products and contacts are consistent with the master data of the relevant ERP system.
	Approval matrix	Establish and trigger differentiated approval matrix based on type of intercompany position and value.
Approve intercompany agreement	Provide workflow capability to ensure intercompany agreement approval from buyer and seller responsible contact person.	
Defining and executing intercompany postings	Support leading ERP systems	Solution is able to integrate with leading ERP systems like SAP, Oracle and PeopleSoft.
	Purchase order creation	Based on the agreement data on the buyer side the creation of the purchase order will be fully automated.
	Invoice received and matching	On the buyer side the invoice receipt will be fully automated and the corresponding financial AP entries will be created.
	Sales order creation	On the seller side the creation of the sales order will be fully automated based on the agreement information.
	Billing	On the seller side the creation of the billing document will be fully automated and the corresponding financial AR entries will be posted.
Support complex process logic	Model sophisticated and differentiated process logic with decision trees, loops and data transformations to cater for different types of intercompany positions like goods or services.	
Monitor and analyze	Dashboard	Provide transparency on status and performance of current or previous periods closing activities. The dashboard allows flexible filtering and drill-down from highest to individual closing task level.
	Archive	A full audit trail stores the detailed task execution parameters as well as inputs and outputs for each task.
	Reporting	Standard reporting needs to be provided to provide transparency of closing performance.

About Redwood Finance Automation



Redwood Finance Automation is a cloud based automation platform that runs transparently across your entire end-to-end close process. It takes care of your SAP/ERP close tasks natively inside your ERP deployment across different instances and versions, including SAP HANA and S4. It also handles other closing items, such as automated calculations of accruals, provisions, re-classifications, intercompany reconciliations and postings, and close-related reconciliations, and manages reminders, notifications and dependencies to manual activities such as essential reviews and approvals.

Redwood Finance Automation is designed to be configured and used by non-technical business and accounting functions. Easy-to-administer workflows, approval flows and thresholds can be used in a way that means everyone from subsidiary accounting teams to corporate SSCs knows their responsibilities, next steps and exceptions. This frees them from onerous, repetitive, detailed and error-prone tasks to focus on higher-value analysis and insight work.

See Redwood Finance Automation In Action

Redwood Finance Automation can eliminate time-consuming manual efforts, increase confidence and gain control over your financial processes.

[Get a Demo](#)