

# Managing the Multi-Company Corporation

# NETSUITE WORLD

A White Paper for Today's Growing Businesses

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## Managing the Multi-Company Corporation

### Executive Summary

Managing the books in any company is increasingly challenging in the face of GAAP, Sarbanes-Oxley, and the International Financial Reporting Standards (IFRS). The complexity increases for entrepreneurs who start and manage multiple companies, and for growing businesses that include subsidiaries in other countries. But the challenge in managing several separate entities isn't just in closing the books — it is also in the everyday issues of managing a diverse sales force, with forecasts, quotes, sales, and commission payouts, etc., perhaps in different currencies, with the need to see in an instant the total health of the enterprise through real-time data and key performance indicators.

This white paper, one in the **NetSuite Business Series for Growing Businesses**, reviews the issues and the solutions for the multi-organizational enterprise to manage both its sales and financial components, including requirements for addressing differing currencies, taxation rules and local and consolidated reporting.



## Managing the Multi-Company Corporation

### Introduction

Business models vary. Consider:

- The conglomerate corporation (large or small) that consists of multiple separate businesses
- The business that has both local and centralized reporting requirements
- The business that has distributed subsidiaries or entities

And there are some “givens” that influence how you consider managing whatever business model you have:

- The hyper-competitive marketplace that defines today’s business climate
- The need for immediate visibility across the scope of your entire business landscape
- The emphasis on compliance with statutory requirements such as Sarbanes-Oxley, FASB 52 or IFRS
- The risk mitigation of a transparent, automated financial consolidation process

In this white paper, we will look at two areas of critical importance for multi-company businesses: managing the disparate sales teams, and managing the consolidation of all financial reporting. The focus on the mix of sales and financial reporting is unique: rarely are the topics of sales management and financial reporting seen as a related management issues. Yet consider the finance-related concepts around selling: quotas, forecasts, sales, returns, and rollbacks and how each can affect the ability to close your books at the period’s end and successfully consolidate varying charts of accounts — especially if you are dealing with different currencies and taxation rules.

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### Challenges for Multinational Companies

- Financial reporting requirements vary
- Varying taxation rules
- Quotas in different currencies
- Forecasts in different currencies
- Commissions in different currencies
- Salaries in different currencies
- Protracted closing cycles
- Visibility at local, regional and corporate levels
- Visibility at separate legal entities and parent companies

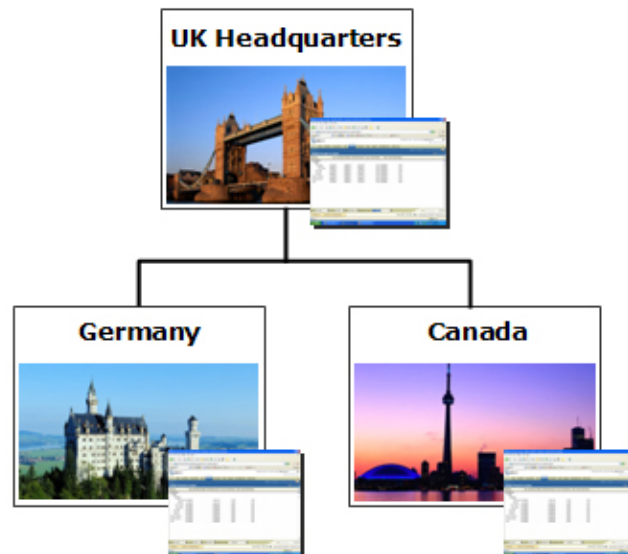
## Managing Across Borders

A business that has an international presence can easily face “double trouble” when it comes to financial reporting. Each division or subsidiary has to retain its books, pay its employees, manage accounts receivable and payable, and pay taxes in the currency of the region in which it is located. But there is always the functional monetary unit in which the corporation as a whole is run — and it is to that monetary unit that all charts of accounts have to be consolidated.

Traditionally, this was an arduous task managed manually or through multiple spreadsheets. The results were often fraught with inaccuracies, and reporting was prolonged. Month-end data aggregation and reconciliation could take weeks after the month really ended.

Real-world business reporting lines are just not as simple as Figure 1, where all companies report to one central headquarters.

**Figure 1. The “It Looks Clean On Paper” View of Multi-Company Financial Management**



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Each subsidiary may have its own sub-entities reporting to it (in another currency, language, and with a different tax and compliance system).

However, in the past, these subsidiaries had no way of leveraging the rest of the company; they had no visibility across borders into inventory, for example, or customers that were themselves multi-national (nor the sales teams that supported them). The subsidiaries lacked visibility into other subsidiaries: if a customer wants a product in France, and the local subsidiary does not have that product in local inventory, ordinarily it would re-order from corporate headquarters and face a lengthy for the product to get through customs. On the other hand, if it had visibility across borders, the sub would know that the item exists in the Netherlands. With NetSuite OneWorld, employees can have visibility and communication transparently across subsidiary boundaries. Without NetSuite OneWorld, the results were often inefficiencies in both sales and delivery, lack of visibility into disparate sales activities with the same customer, and on-going accounting nightmares. Let's look first at the implications for sales management:

- Sales reps and sales management in each country require control of their quota and orders, forecast, order management, and commissions in appropriate local currency.
- Headquarters requires accurate currency translation for roll-up of subsidiary costs, revenue, and commissions, both regionally and to corporate.
- All levels require management of selling partners with the ability for them to forecast deals in the local currency of their customers, place orders that support local taxation conventions and be paid commissions in their currency, while retaining management visibility in the corporate currency. Until now, partner relationship management programs (PRM) were unable to provide cross-boundary partner visibility and control.
- Finance departments need to maintain of all currency exchange rates — both the local currency conversion rate and the rates used to determine roll-up into corporate currency — at the time an order is placed, or the commission payout is made, to ensure accuracy of historical sales data.
- Clear lines of visibility must exist for all sales management to all activities and results of both direct and indirect sales teams.
- Multi-currency forecast roll-up within and across multi-national sales entities is required, allowing an individual sales representative or a selling partner to manage orders and forecast against quota in local currency, while providing management visibility rolled up in the currency for the region or headquarters — ensuring consistent global order, forecast, and commission management.

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These issues cause many hours of time-consuming, manual translation, which is prone to error. Regional sales management has to manually compute how transactions in local currency roll up and compare to the metrics by which they are being measured at corporate headquarters for overall performance, and particularly, for sales compensation. And companies that sell through both direct and channel sales compound the problem as local partners forecast and are compensated in local currency, but corporate headquarters has a need to see all numbers normalized across the organization in the currency of record. With typical sales force automation point systems, sales, forecasts, quotas and commission calculations cannot be accurately consolidated as they cross borders or continents.

## The Implications for Consolidation

Companies with multi-national entities need to perform local accounting functions in the local currencies represented and consolidate all that financial data into the “ledger of record” and maintain the information over time. While these issues affect any company with multi-organizational requirements, regulations such as the Sarbanes-Oxley Act place increased pressure on public companies to comply with defensible, auditable procedures.

In the past, companies tried to track consolidated financial data on Excel worksheets, often having to wait for data from their subsidiaries, adding to the delays inherent in manual accounting processes. Only with a totally automated system is the ability to close the books in a timely fashion accommodated — but more important than just timeliness, is the resulting accuracy. This streamlined efficiency stems from real-time financial systems that can provide hierarchical accounting — from the subs of subsidiaries to the corporate headquarters — accommodating all the conversions in currency, and the differing taxation rules. The results are always up to date and always available. And, significant for compliance, the entire financial transaction environment is readily auditable.

## Reporting Financial Results

Rapid, easy report generation and distribution is an inherent requirement in all financial management. Consolidated reporting has to clearly show the relation of all the parts — the separate subsidiaries, entities, business units, accounts, or any of many other areas. And the data from all the subsidiary companies has to be trustworthy and accurate for the resulting consolidation to be accurate. The primary requirement here is a robust system for financial transaction management and reporting that “speaks the same language” across the total business environment. And of course, the ability to easily drill-down into all figures is a necessity.

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## The Missing Link: Managing Sales as Well as Managing the Books

International business management requires more than the roll-up of numbers to central headquarters — it requires the actual management of the sales people and processes, and the partners and affiliates within each country, region, or business unit. In the past, corporate headquarters had limited visibility into the quotas, forecasts, and actual sales of the international sales team. And visibility into the global partner community was next to impossible. The results included:

- Inability to manage a complex multi-national sales organization with varied multi-lingual and multi-currency needs
- No corporate insight into international quotas, commissions, or payouts nor the ability to accommodate quotas, forecasts and commissions in the sales person's local currency
- Lack of real-time conversion into the currency of record, and no ability to retain the currency rates by the date they occurred to evaluate past transactions, or reverse or back out sales or commissions
- No way to see the "big picture." With no real-time roll up at country, region, or area level, executives had no ability to measure the accuracy of their global sales and trend forecasts over time against quotas and actual revenues
- No ability for global decision support capabilities for sales management. Decision making is impaired by the inability to measure accuracy by a sales representative, partner or manager, and by the inability to analyze forecasts by class of business, sales department, or location and compare to actual performance.
- Inability to produce real-time, consolidated sales reports that mimic the same process that finance uses. Without this, whatever numbers can be produced by the sales organization will have little bearing on what the 'real' revenue numbers will be at the end of the month or the quarter.

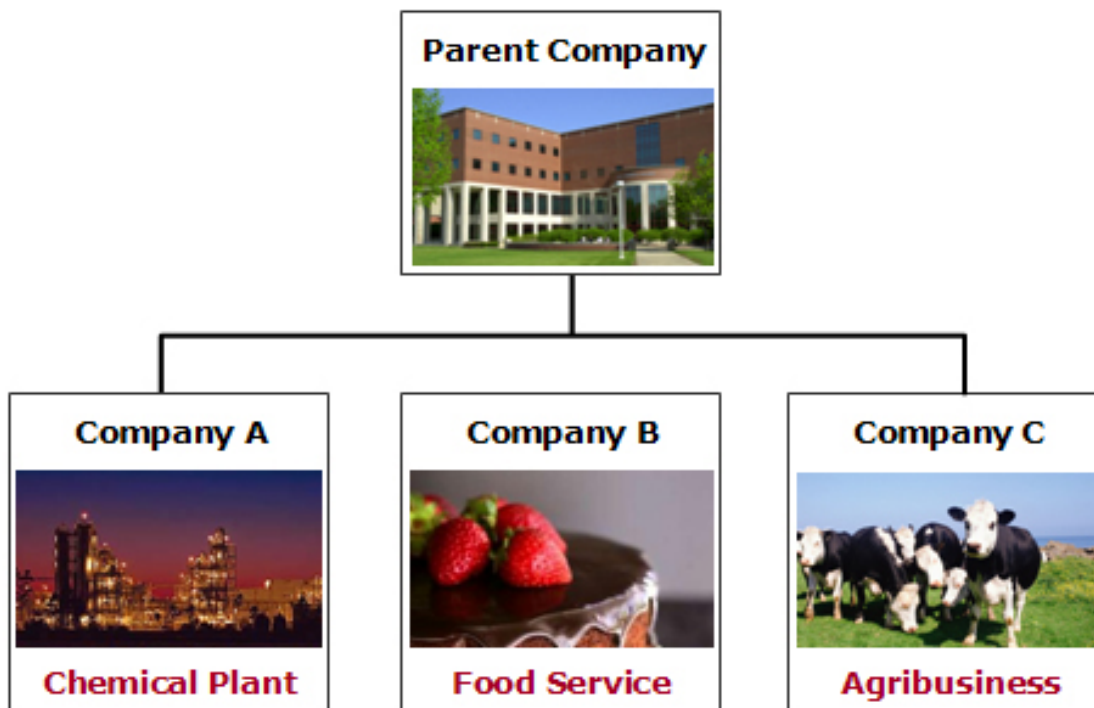
Revenue leakage occurs when complete visibility into the entire sales and order management process is obscured.

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## Managing the Multi-Company Enterprise

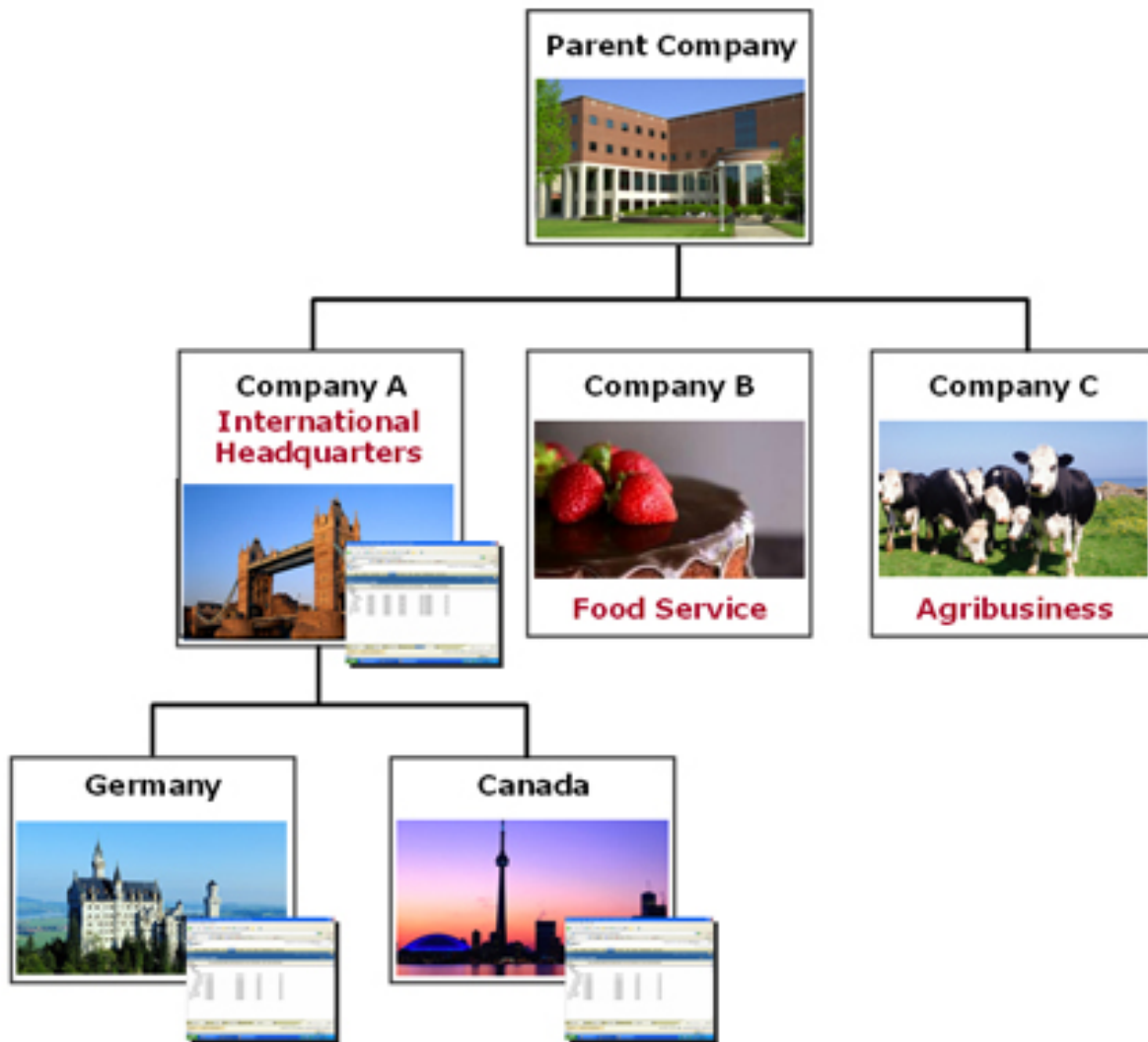
The issues do not just pertain to global companies nor just to very large companies. Owners of multiple separate companies also share the same difficulties in consolidating their total financial data across their separate legal entities, whether those entities are large or small. (See Figure 2).

**Figure 2. Managing the Multi-Company Enterprise**



The variations for corporate organizations are seemingly endless. Some companies that report up to a parent organization may themselves have subsidiaries that report up to them; some have other legal entities that they manage, perhaps all under the same parent corporation. The possibilities for accounting complexity are great (Figure 3).

**Figure 3. Managing in Complex Multi-Company Organizations**



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The challenges derive from the inability to roll up financial records in a timely way, especially with any assurance of accuracy and accordance with principles of good governance.

The ensuing business issues that derive from this lack of total enterprise visibility include:

- Revenue leakage that occurs when complete visibility into the entire sales and order management process is obscured
- Corporate CEO's that don't have the data to be confident in their decisions
- Data is lacking, incomplete or inaccurate, adversely affecting reporting and certification with regulatory bodies

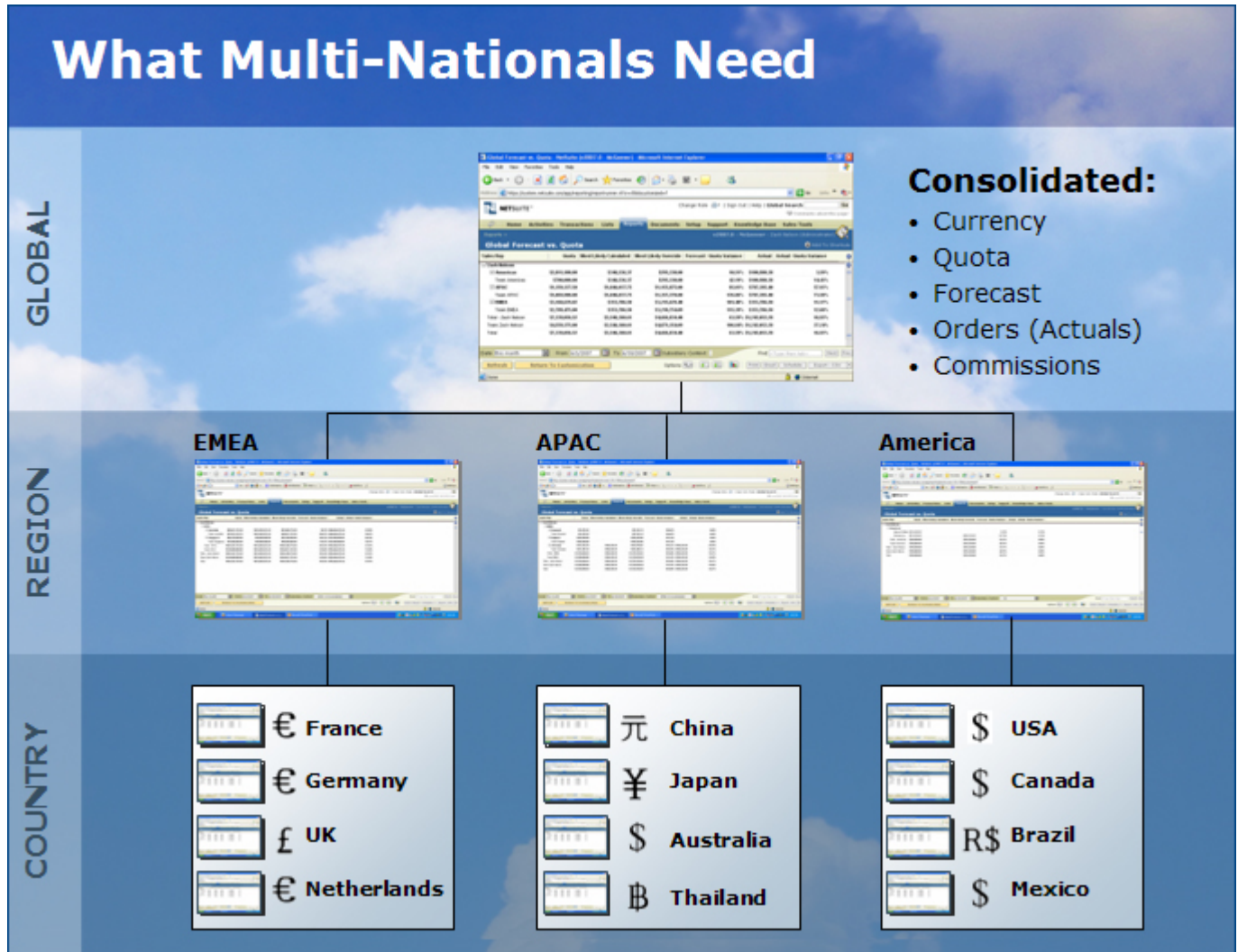
### **NetSuite OneWorld: Managing Across Boundaries**

NetSuite benefits multi-company enterprises or multi-national companies in several important ways:

Using NetSuite OneWorld, executives in corporate headquarters have consolidated sales data on orders, forecasts, quotas and commissions rolled up across all regions and areas, with direct drill-down capability to see details at any level of the organizational hierarchy (Figure 4). With NetSuite OneWorld, there is complete currency conversion at each step so all analytics and reporting are automatically personalized for the individual's role within the hierarchy. And because dashboards are inherent in NetSuite OneWorld, there is no tedious setup needed to achieve this level of visibility at either the local sales or partner office or at corporate headquarters.

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Figure 4. Managing a Multi-National Sales Organization



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NetSuite is uniquely positioned as a real-time, on-demand, end-to-end business management suite to meet all your multi-national or multi-company business needs. Whether you require total business management of your multi-national business, or solely wish to address the requirements of a global sales organization, NetSuite has solutions that will provide you with unprecedented control over your distributed business.

NetSuite OneWorld provides one integrated system for all global operations, combined with its support of twelve languages and 170 currencies that eases the efforts of selling in a given country, while providing the roll-up required for global visibility. NetSuite provides businesses with one system to successfully manage their global sales and tie together direct and partner selling for manageable growth. The ability to consolidate multiple charts of accounts creates a powerful advantage to enterprises with multiple separate business entities and global businesses with multiple distributed locations worldwide. NetSuite's sophisticated Web-based accounting software provides global and multi-company financial reporting, analysis, and consolidation in a single, highly scalable on-demand business management solution.

Integrated processes delivered via the Internet provide the ideal business management foundation to operate domestically, multi-nationally and globally.

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