KDD017 - Intercompany Processing in the new ERP Solution

Status	Approved
Owner	NARAHARI-ext, Bhargavi
Stakeholders	GONZALVEZ-ext, Antonio BOSE-ext, Subhrajit MCCARTNEY-ext, Stephen SCHWARTZ-ext, Stefanie HE-ext, Cindy VAN OS-ext, Nico NICASTRI-ext, Michele TAMIOLAKIS-ext, Emmanouel BECHTER-ext, Alex

Issue

Syensqo has multiple intercompany processes implemented across the GBU's with manual tracking of stock in transit. Complex master data and Enterprise structure data (port plants, trading plants etc..) is maintained in order to support this process. There are also multiple custom applications /reports to track the stock in transit. This KDD is to assess the options to harmonise the intercompany processes and evaluate the advanced intercompany process available in SAP.

Recommendation

It is recommended to **implement Advanced Intercompany Sales / Advanced Intercompany Stock Transfer processes** for Syensqo for all intercompany scenarios. Implementing the Advanced intercompany processes will ensure simplification and standardization across Syensqo by ensuring application of intercompany policies, procedures, regulatory compliance, process governance, reporting etc. The Advanced intercompany processes reduce manual effort by automating the intercompany transactions, providing a better error handling mechanism, and improved Intercompany Reconciliation. Following are some of the differentiating factors of Advanced intercompany process compared with the classic

- Classic and Advanced intercompany both support stock in transit, however Advanced intercompany provides more flexibility/automation in terms of the incoterms and control on when the stock in transit needs to be posted in the system (Transfer of Control of Goods | SAP Help Portal)
- Advanced intercompany processes are supported by "Monitor Value Chain apps" which will provide detail reporting/automation of end-to-end processes and allow to retrigger the documents manually in case of errors. Link: Monitor Value Chains | SAP Help Portal

The following processes are classified as intercompany in Syensqo. Based on the comprehensive analysis, many of these intercompany processes can be effectively managed using standard Sales, Intracompany, or other existing processes and the recommendation is documented in the table below.

Process	Description	Process Recommendation	Transfer Price Recommendation
Stock Replenishment	Transfer stock from one entity to another entity	Advanced Intercompany Stock Transfer	Advanced intercompany processes support the transfer price conditions in Purchase and Sales Orders for Cost+, Sales-, Trading price as a standard. KDD008 - Transfer Pricing
Direct Shipment (Drop Shipment / Intercompany Sales)	Sales done by the selling entity to customer with sending entity's plant, goods are shipped from the sending entity	Advanced Intercompany Sales	
Direct Trading (Third Party Sales)	Sales done by Syensqo and the sale is fulfilled using an external purchase order. The goods are shipped directly to the customer from the vendor	3rd Party Sales Order + External Purchase Order	N/A
Indirect Trading (Buy - Sell)	Sales done by Syensqo and the sale is fulfilled using an external purchase order. The goods are shipped to the warehouse and then sent to the customer	Sales Order between customer and the selling entity, External Purchase Order between Selling entity and the supplier	N/A
Consignment	Goods are sent to the customer and stored in customer site. Customer is billed only when the goods are consumed	Consignment Sales Process	N/A
Stock Transfer	Stock is moved to different plants within the same entity	Standard Intracompany Stock Transfer	N/A No transfer price required.
Sample / Free goods	Samples and free goods are sent to the customers / distributors	Sales order process to send the samples from the sending entity to customer Advanced Intercompany Stock Transfer to move the stock with valuation from one entity to another entity.	N/A
Intercompany Returns	Return of the goods from one entity to another entity	Advanced Intercompany returns process	N/A
Intercompany Recharges	Intercompany process allocating costs or revenues from one legal entity within a corporate group to another legal entity within the same group. There are no logistics processes in this process	Standard Intercompany Recharges	N/A

Background & Context

Following are all the As-Is processes that are treated as intercompany processes in Syensqo and following the details of the same. You can note that each of these processes have a different logistics and finance flows and are dependent on manual triggering the GI/GR documents.

Process	Description	Logistics Flow	Transport Management	Transfer Price	SIT Definition
Stock Replenishment	Transfer goods/spares from one entity to another entity	Purchase Order: Standard purchase order Logistics: GI/GR Invoice: Posted with EDI Transportation Invoice: Posted against the Transportation Service Purchase order	Separate service purchase order: Multiple shipment cost documents are raised In case both sending and receiving entities are paying for the freight (depending on the arrangement agreed) - Multiple shipping documents and the split is done manually	Cost+ Trading price	It is defined as stock in transit in the selling company if the GR is not yet done in the receiving company
Direct Shipment (Drop Shipment / Intercompany Sales)	Sales done by the selling entity to customer with sending entity's plant, goods/spares are shipped from the sending entity	Sales Order: Standard sales order with sending entity plant Purchase Order: No Logistics: GI/GR Invoice: Automatic invoice is generated on the back of customer billing (EDI) Transportation Invoice: Posted against the Transportation Service Purchase order	Separate service purchase order: Multiple shipment cost documents are raised Service purchase order raised in the delivering company code	Cost+ Trading price Transfer price is determined and stored in the Sales Order	It is defined as stock in transit in the purchasing company if the invoice to final customer is not yet done
Direct Trading (Third Party Sales)	Sales done by Syensqo and the sale is fulfilled using an external purchase order. The goods/spares are shipped directly from the vendor	Sales Order: Standard sales order with a third-party item category Purchase order: Created from Sales Order Logistics: Customer inbound / GR(auto) Invoice/Billing: Generated on back of customer inbound. Transportation Invoice: Posted against the Transportation Service Purchase order	Separate service purchase order: Multiple shipment cost documents are raised shipment cost is captured against inbound delivery Note : Multiple trading plants are created to cater to the transportation and taxes for this scenario	Cost+	N/A
Indirect Trading (Buy - Sell)	Sales done by Syensqo and the sale is fulfilled using an external purchase order. The goods/spares are shipped to the warehouse and then sent to the customer	Sales Order: Standard sales order with a third-party item category Purchase order: Created from Sales Order Logistics: GI / GR Invoice/Billing: Standard PO invoice and Sales order billing	Separate service purchase order for PO and SO: Multiple shipment cost documents are raised	Cost+ Trading price	It is defined as stock in transit in the purchasing company if the delivery to final customer is not yet done
Customer Consignment	Goods/Spares are sent to the customer and stored in customer site. Customer is billed only when the goods are consumed	Sales Process: Consignment process Note: There are virtual plants created in the countries where Syensqo presence is not there. The movement of the stock to the virtual plant will follow the stock transfer process / Stock Replenishment process	Separate service purchase order: Multiple shipment cost documents are raised The shipment cost is captured against the SO inbound delivery	Sales Order	N/A
Stock Transfer	Transfer goods/Spares between plants in the same legal entity. This could be within the same country and across countries (i.e. Plants abroad scenario)	Purchase Order: Standard UB purchase order Logistics: GI / GR Invoice / Billing: Required only in the case of plants abroad. VAT invoice generated in such case	Separate service purchase order: Multiple shipment cost documents are raised in case of Plant abroad scenarios The shipment cost is captured against the stock transfer order	Standard cost of the material in the sending plant	N/A
Sample / Free goods	Samples and free goods are sent to the customers / distributors	Sales Process : Sample Sales process (KDD : KDD068 - CRM Platform Selection)	Sales orders raised to send the sample goods	N/A	N/A

Intercompany Returns	Return of the goods from one entity to another entity	Standard Purchase orders with the Return flag enabled Returns purchase order	Separate service purchase order: Multiple shipment cost documents are raised The shipment cost is captured against the purchase order	Cost + Sales - Traded Price	N/A
Intercompany Recharges	Intercompany process allocating costs or revenues from one legal entity within a corporate group to another legal entity within the same group. There are no logistics processes in this process	Standard Purchase / Sales invoices raised across the company codes	N/A	N/A	N/A

Assumptions

- Cross system intercompany processes are considered as External Purchases and External Sales - This is the case where there are more than one ERP systems existing and the transactions are across these multiple ERP systems
- Valuated stock in transit will be implemented for Syensqo and is part of the Intercompany Scenarios - The stock in transit stock will retain all the technical parameters of the stock i.e. Batch numbers, handling units, country of origin, expiry dates etc..
- Intercompany service sales, equipment transfer, repairs are not common in Syensqo and any such processes will be processed as Intercompany Recharges
- All direct materials use Outbound / Inbound delivery process
- Profit Center (Intracompany) valuation is not used in Syensqo
- Classic and Advanced Intercompany transactions can co-exist
- This KDD includes the scenarios that are known at the time of writing the document and this will be enhanced during the detailed design in case more scenarios/sub-scenarios are identified - The appropriate process i.e. classic or advanced intercompany process will be suggested at that time for those scenarios / sub-scenarios

Constraints

- Transfer price / Multiple valuation should be enabled in order to get the full benefits of Advanced Intercompany Processes. This is the subject of a separate KDD KDD018 - GAAP Ledgers and Currency Types.
- Classic Intercompany process is not supported with the universal parallel accounting (UPA) functionality delivered by SAP. SAP Roadmap and innovations heavily rely on UPA and Syensqo is aiming to be UPA ready so that it can be implemented as soon as it is mature and available.

Impacts

Change Management and Training

- Change in the process will largely impact the logistics / Sales / Finance teams. Additional training required for Business / IT to understand the new process, automation (value chain) and error handling

Data Cleansing and Collection

- There will be data cleansing required to create the Intercompany Business Partners along with the recon accounts etc..
- Material master data
- Material extensions at plant level for both Purchasing and Sales Views
- Source of supply data i.e. contracts etc.. for the MRP to create the correct

Cutover

- During the cutover planning an approach needs to be defined to cater for the Intercompany transactions which are in transit to be loaded into the new system

Finance

- Finance / Accounting team to cater for the change in the valuated stock in transit approach from the As-Is and update the current accounting principles/treatment
- The process to be verified and signed off by Tax / Legal / Audit / Regulatory teams to make sure that the proposed process fulfils all the regulatory requirement

Logistics

- More documented generated to capture the Intercompany process (technical sales and purchase orders) which would take some time to get used to - The training will help to identify the leading document and the corresponding downstream documents

Performance

- Because the total number of documents processed by the S/4HANA system is greater in the Advanced scenarios than the comparable Classic scenarios, a slight performance impact might be expected. Traditional system sizing uses the number of sales transactions as one input. When using the Advanced scenarios, the total number of documents processed by the system for any given business transaction could be doubled.

Business Rules

Following are the Business Rules proposed as part of this KDD

- There should at least be one plant per Sales Org where Intercompany Sales is applicable. In case a plant is not available then a virtual plant to be created
- Intercompany contracts (both procurement and sales) are mandatory for the Intercompany processes

Options considered

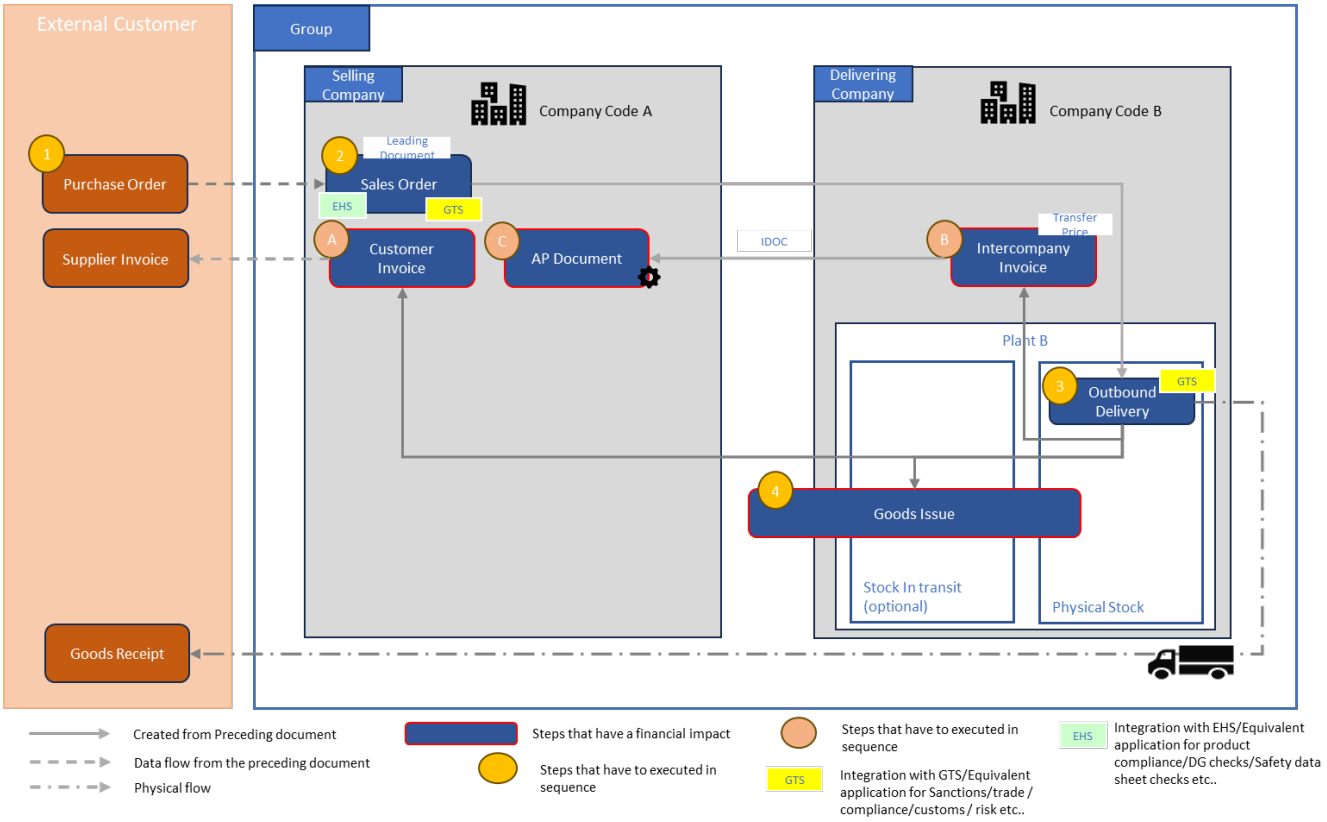
The following options were considered for the evaluation:

Option A: Implement the Classic Intercompany Sales / Classic Intercompany Stock Transfer

Classic Intercompany Sales

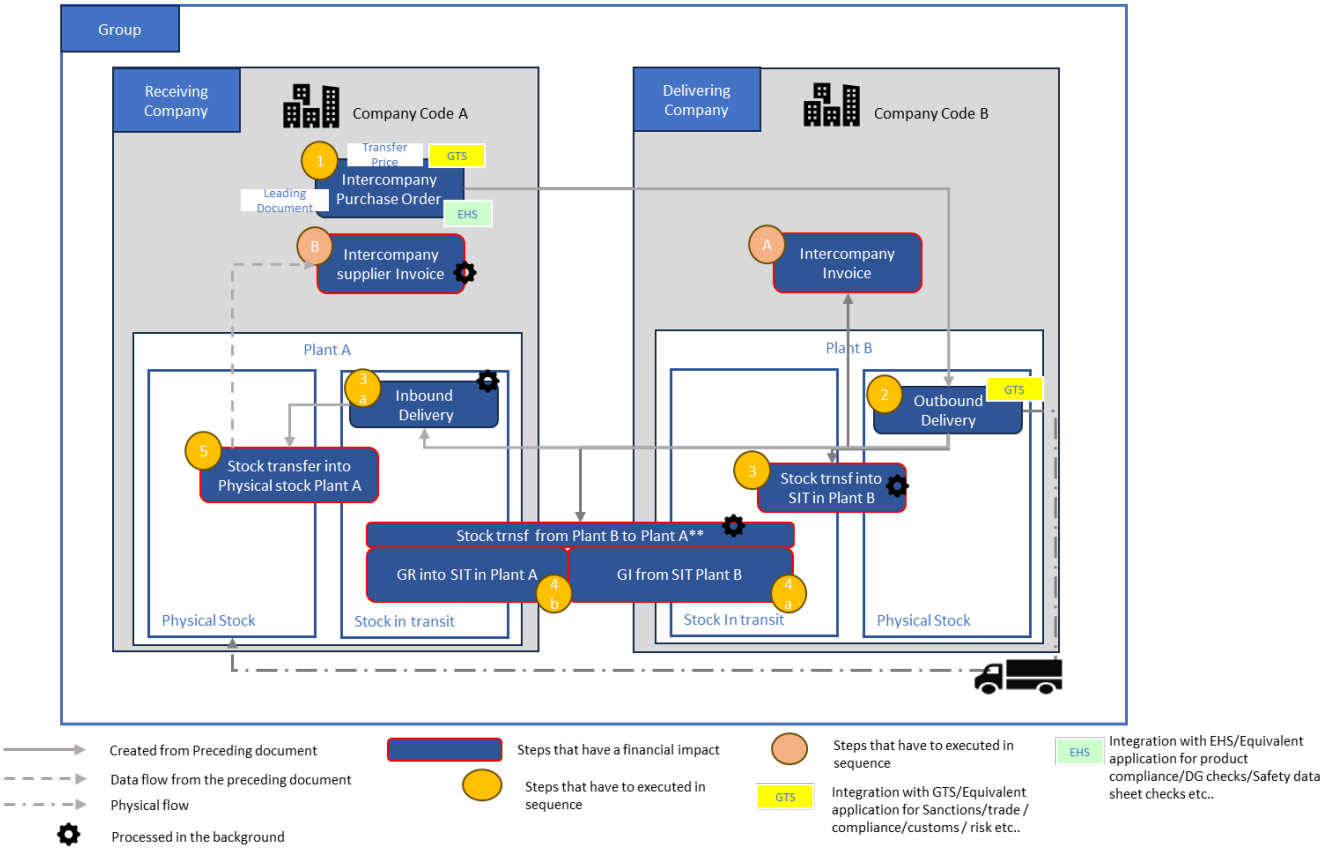
Classic Intercompany Sales involves a scenario where one company within a group sells goods or services to another company within the same group. The process ensures proper documentation and accounting for these transactions, adhering to regulatory requirements. It typically includes order processing, billing, and delivery, managed seamlessly within the SAP system.

As Part of this process, the Sales Order is created in the system by the selling entity with the plant from the sending/delivery company. All the logistics transactions are carried out on the Sales Order which is created. There is no Stock in Transit for the selling company once the GI is done by the Delivering company.



Classic Intercompany Stock Transfer

Below is an overview of the Classic intercompany sales process. As Part of this process, Purchase Order is created in the system by the Receiving entity with supplier as the sending/delivery entity. All the logistics transactions are carried out on the Purchase Order which is created. The POD process is used to transfer the SIT stock from sending/delivery entity to receiving entity.



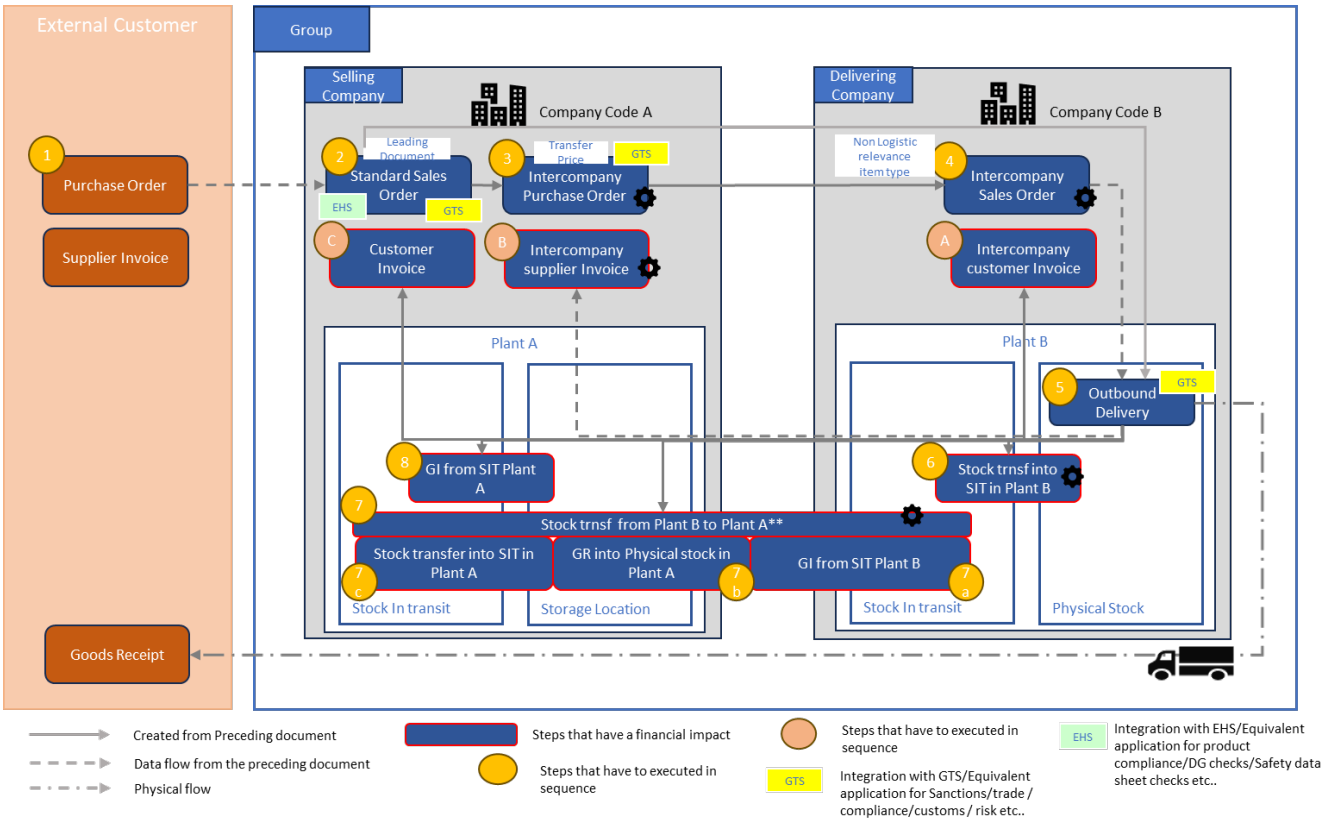
Option B: Implement the Advanced Intercompany Sales / Advanced Intercompany Stock Transfer

Advanced Intercompany Sales:

As Part of this process, the Sales Order is created in the system by the selling entity and the system then creates a corresponding Purchase Order and Sales Order to support the end-to-end process automatically. All the logistics transactions are carried out on the relevant sales / purchase order. Stock in transit is available in both Selling and Delivery companies.

Following is the high-level process flow for Advanced intercompany Sales.

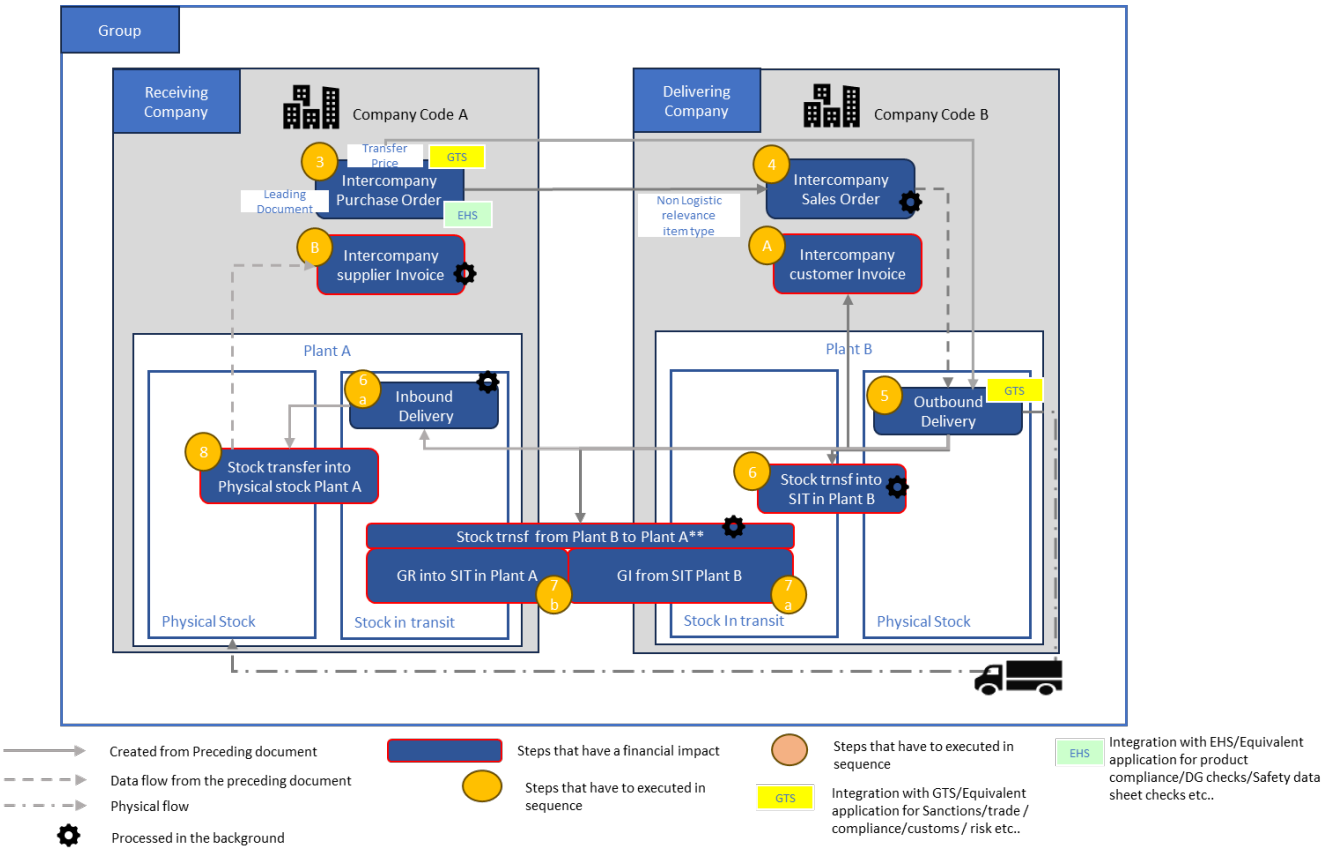
1. An external customer creates a purchase order (1).
2. A sales organization assigned to the selling company creates a standard sales order (2) of sales document type OR (standard order) that triggers the ordering of goods from another company, which acts as the delivering company. Sales order (2) is the leading document of the advanced intercompany sales process. The transfer price is derived based on the conditions maintained in the system. The Trade and compliance checks and the product compliance checks are performed at this stage
3. When the sales order (2) is saved, the system automatically creates an intercompany purchase order (3) in the selling company for all items relevant for advanced intercompany sales.
4. Subsequently, in the delivering company, the system automatically creates an intercompany sales order (4) per purchase order. The sales order created doesn't have any logistics relevance.
5. The delivering company creates an outbound delivery (5) with reference to the standard sales order (2) and delivers the physical goods directly to the external customer for whom the sales organization of the selling company placed the initial sales order (2).
6. As soon as the physical goods issue is posted in the physical plant of the delivering company, the system automatically creates a stock transfer into stock in transit (6). The billing clerk can now create the intercompany customer invoice (A). The stock in transit is always valuated.
7. The internal transfer of control dates in the outbound delivery (5) determines when the corresponding stock in transit postings are executed during the stock transfer (7) from the physical plant to the transit plant.
8. The system automatically creates the intercompany supplier invoice (B) after creation of the intercompany customer invoice (A) in the delivering company, or after goods receipt (7b) in selling company.
9. Customer invoice (C) can be created after goods issue of the delivery in the delivering company.



Advanced Intercompany Stock Transfer:

Following is the high level process flow for Advanced intercompany stock transfer:

1. A purchasing organization creates an intercompany purchase order (3) in the receiving company where the supplier represents a plant that is part of a different company code. Contractual agreements with the internal supplier for the internal business are stored in the intercompany purchase order in the receiving company. The transfer price is derived based on the conditions maintained in the system. The Trade and compliance checks and the product compliance checks are performed at this stage
2. The intercompany sales order (4) in the delivering company is created in the background. Contractual agreements with the internal customer for the internal business are stored in the sales order. The transfer price is copied over to the sales order.
3. The outbound delivery (5) in the delivering company, which is created with reference to the purchase order in the receiving company, controls the physical goods flow from the delivering plant.
4. The goods issue (6) for the outbound delivery posts the transfer from unrestricted physical stock into stock in transit (SIT), documenting that goods have left the plant. The inbound delivery (6') is automatically created and controls the physical goods flow into the receiving plant. When goods receipt is posted via the inbound delivery, the stock becomes unrestricted-use stock. The invoice can be posted after (6).
5. The stock transfer (7) between SIT managed by the delivering company and SIT managed by the receiving company records the transfer of control. Inventory at the receiving company supports material valuation.
6. The goods receipt (8) from the receiving company's valuated stock in transit into unrestricted stock in the receiving company ensures that the goods are available for follow-on processes such as local sales or production.
7. The intercompany customer invoice (A) in the delivering company triggers creation of the intercompany supplier invoice (B) in the receiving company.



Evaluation

**The evaluation scoring system ranges from Low to Very High. In this system, a low score indicates a negative attribute, such as high costs.*

Criteria	Classic Intercompany Sales / Classic Intercompany Stock Transfer	Rating	Advanced Intercompany Sales / Advanced Intercompany Stock Transfer	Rating
Process Completeness	Process has gaps specifically for Intercompany Sales (Incoterm derivations , settlements etc..) and manual steps / customisations are required to patch the gaps	Medium	Seamless intercompany stock transfer between affiliated organizations	High
Document Flow	Simple Intercompany Sales: All the transactions are based on the Sales Order Intercompany Stock Transfer: All the transactions are based on the Purchase Order	High	Complex There are extra sales orders and purchase orders created to support the process. The logistics / finance documents are posted against the relevant Sales Order / Purchase Order These extra documents are created automatically in the background and provide extra tracking / audit capabilities (Transfer of Control of Goods | SAP Help Portal)	Medium
ATP fulfilment / Prioritisation	The changes in the customer sales order are not automatically applied across the document. Custom enhancements are required for the same	Low	Changes in a customer-facing sales order are consistently applied by the system throughout the end-to-end document flow	High
Usability	Multiple Fiori apps to support the process	High	Multiple Fiori apps to support the process	High
Valuated Stock in Transit (SIT)	There are gaps in the SIT process. Intercompany Sales: The valuated stock can be posted against the sending entity and not the selling entity.	Medium	SIT is supported Eliminate existing custom reports	High
Transportation	Incoterms: Not all combinations of Incoterms can be used due to the issue with the SIT Issues with Freight settlements, cost accruals and distributions	Low	All the incoterm combinations can be used Freight settlements, cost accruals and distributions will always be in the right company code	High

Costing	The costs are not captured in the selling entities for the Intercompany sales. The actual costs are captured for sending / receiving entities for Intercompany stock transfer	Medium	The costs are accurately captured in the selling / sending / receiving entities due to the presence of multiple documents	High
Margin Analysis	Intercompany Sales: Margin analysis is available only at the selling company	Low	Intercompany Sales: Margin analysis is available at both selling and sending entity	High
Automation	No out of the box automation	Low	Automation available via process value chains which can be configured as per the requirement Monitor Value Chains | SAP Help Portal	High
Legal / Regulatory	Doesn't fulfil all the legal compliance requirements ex: IFRS15 (For intercompany Sales)	Medium	Legal compliance with the IFRS 15 matching principle with EBRR Audit transparency	High
Reporting	Reports and KPI's are available only for the Sending / Receiving entities. Some additional reports required to be built for Margin analysis and SIT	Medium	Reporting and KPI's are available in Selling / Sending / Receiving entities Out of the box reports to support the operations and error management	High
Implementation Complexity	Medium Complex	Medium	Complex	Low
Total Evaluation		Medium		High

See also

Following is some additional content to support the above recommendation

Link
KDD008 - Transfer Pricing
KDD068 - CRM Platform Selection
Intercompany process documentation from SAP
Executing the Advanced Intercompany Sales and Stock Transfer Proc (sap.com)

Change log

Version	Published	Changed By	Comment
CURRENT (v. 62)	**Aug 29, 2024 17:23**	**GONZALVEZ-ext, Antonio**	
v. 61	Aug 22, 2024 08:22	**NARAHARI-ext, Bhargavi**	
v. 60	Aug 21, 2024 20:04	**NARAHARI-ext, Bhargavi**	
v. 59	Aug 21, 2024 19:21	**NARAHARI-ext, Bhargavi**	
v. 58	Aug 21, 2024 18:43	**NARAHARI-ext, Bhargavi**	
v. 57	Aug 15, 2024 12:01	**MARDLING, Louise**	
v. 56	Aug 15, 2024 12:00	**MARDLING, Louise**	
v. 55	Aug 15, 2024 11:59	**MARDLING, Louise**	
v. 54	Aug 15, 2024 11:57	**MARDLING, Louise**	
v. 53	Aug 15, 2024 11:54	**MARDLING, Louise**	

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Workflow history

Title	Last Updated By	Updated	Status
There are no pages at the moment.			

Workflow history

This view shows the 5 most recent entries. The complete workflow log is available from the 'Document Activity' menu item.

Nov 06, 2024	Actor	Type	Activity	Version
Approved	FALL-ext, Cheikh	State	changed state to Approved at 9:50 am	v62
Pending SteerCo Review	FALL-ext, Cheikh	State	gave *Final Approval* approval at 9:50 am	
		State	changed expiry date to '20 Nov, 2024 09:50 am' at 9:50 am	
		State	changed state to Pending SteerCo Review at 9:50 am	v62
Pending Stakeholder Review	FALL-ext, Cheikh	State	gave *Stakeholder Review* approval at 9:50 am	
Sept 11, 2024				
	FALL-ext, Cheikh	State	changed expiry date to '18 Sept, 2024 03:53 pm' at 3:53 pm	
		State	changed state to Pending Stakeholder Review at 3:53 pm	v62
Edited following DA Endorsement	FALL-ext, Cheikh	State	gave *Minor change* approval at 3:53 pm	