The Strategic CFO and Supply Chain Planning
Moving Beyond Numbers

Product Groups by Region

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These companies were responsive because they picked dynamic changes in demand signals, cut down pipeline inventory, aligned resources, and balanced capacity bottlenecks. A valuable lesson to learn from these companies is the strategic importance of data information and the integration between supply chain finance and planning.

**Abstract**

While traditional supply chain planning was mainly a tactical function, the recent upheavals in the business landscape have brought forth its strategic importance. Leaner, meaner, nimbler supply chains can make or break the future of a manufacturing company. CFOs with their unique understanding of a company’s sources of value can enable better supply chain planning.

The manufacturing CFO is still tied up in the traditional role of driving cash balances, credit availability and liquidity for business operations. However, it is now time for them to look beyond numbers to improve financial viability.

This white paper discusses how CFOs need to be actively involved in supply chain initiatives, supporting them with operational policies for better performance and business sustainability and the role of Analytics in driving this transformation.

The recent global recession triggered a downturn in the manufacturing industry and many inflicted organizations saw a sharp decline in their sales revenue. Most companies were cash-strapped due to order cancellations, excess & obsolescence (E &O) stock piles, poor inventory turnover, increased cash-to-cash cycle times, and under-utilized assets.

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Refocusing Effort – Driving Economic Value

A Gartner study ‘What if the CFO Owned S&OP?’ in December 2010 emphasizes the need for CFO involvement in supply chain planning - “Supply chain leaders recognize that a mature S&OP process supports better financial results, but about two-thirds still don’t have finance participating in the process, nor do they translate demand/supply risks and opportunities into financial terms. This limits their understanding of financial impacts and hinders their ability to make decisions that best reflect beneficial trade-offs for the company and its customers.”

From being gatekeepers of financial, accounting and business operations, CFOs are now expected to get a holistic view of the organization beyond shareholder value. This is also manifesting itself in those financial linkages that can demonstrate clear quantifiable benefits. For e.g., returns on the organization’s supply chain processes in terms of costs and savings attributed to cycle time reduction, holding inventory stocks, and capital projects. It is now imperative for the CFO’s office to get adequately involved in the initiatives of supply chain operations, planning, and monitoring execution mapped to the various budgeted plans as shown in the cluster diagram (figure 1) below.

Involving the CFO in manufacturing and supply chain operations will foster a more competitive end-to-end supply chain that is both cost and risk effective. Additionally the CFO can make relevant policy decisions related to Accounts Receivable (AR) and Accounts Payable (AP) lowering the total cost of material acquisitions. She/he can also reduce the cost of capital by securing low cost funding enabling stronger cash flows that can be used to upgrade or expand the company’s infrastructure with new capital assets like productive machinery, fast assembly lines, ERP systems and warehouse management systems.

To make the supply chain a strategic and competitive advantage, the CFO must be charged with the goal of driving the organization towards economic value orientation with common measures to judge all corporate activities.

![Figure 1: Budget Plan](image-url)
As can be seen from figure 2, to improve on efficiency, effectiveness and to have a positive impact on the bottom line, an organization has to look at multiple levers during strategic planning. The CFO’s involvement is vital to determine the right course of action in trade-off situations with conflicting decision scenarios such as cash flow vs. profit margin, demand vs. lead time, inventory vs. flexibility, liability vs. security, supply chain costs vs. customer responsiveness etc.

Here is when analytics driven decision making can lay out a roadmap for a successful organization equipped to deal with economic uncertainties. Though necessary, this role transition is fraught with complexities, not the least of which is linking supply chain operations seamlessly with financial planning.

**Figure 2: Economic Value Orientation**
A Tale of Two (Disjointed) Processes and the CFO

Typical supply chain challenges include functions in silo, lack of visibility, misaligned planning and forecasting, and lack of supporting data for decision making. Disjointed planning makes it difficult to produce accurate results, especially with respect to:

1. Deciding product type and frequency based on product margins
2. Controlling intercompany and inbound distribution costs
3. Allocation and measurement of capacity expressed in collateral
4. Estimation for mid-term and long term cash flow and working capital
5. Qualifying risk factors (under stocking, overstocking, over-planning, poorly planning, costs of disconnects )
6. Quantifying risk factors with financial implications

Let’s take a live example where a beverage manufacturing company was facing inventory and forecasting challenges that had stalled its profitable growth. Without much buy in from the CFO, translation of disconnects from costs, lost margins, poor customer service levels, inventory swells from diminished accuracies, and misaligned supply plans to meet demand were not communicated to those accountable in the business. As a result, product marketing dealt differently with capacity usage and inventory risk from the manufacturing or purchasing department who were measured as a low-cost sourcing provider. The single biggest reason for inventory buildup was the lack of end-to-end visibility in the supply chain.

Clearly, optimizing the entire supply chain offers huge potential for both short and long-term improvements in a company’s working capital position. It can also be seen that a company’s bottom line target is the culmination of inputs from a variety of departments and functions, duly moderated by an appropriate higher level office – ideally the CFO’s office, which can form an overall holistic view of the plan. In the above example, once the CFO’s office was involved they proved valuable in ensuring visibility of the S&OP decisions, collaboration within the organization, and identifying the process changes to continually improve inventory management & forecasting, leading the company to the next level of performance.

An involved CFO can essentially integrate individual departmental plans during the executive sales & operations planning (S&OP) process and drive all functions (finance, supply chain operations, manufacturing, engineering, logistics, and sales & marketing) towards a SINGLE NUMBER game plan.

However, such consensus based planning is not easy. The CFO’s role then gains importance in integrating and aligning the demand and supply plans using macro-economic factors such as exchange rates, GDP and inflation, providing a 12-month rolling forecast can be used as guidance for future revenue & budgetary planning. The CFO also provides validation and dollarization of the inputs to customer demand (volume & price) while examining cost of goods sold (COGS) and inventory liability. As an integrator, the CFO provides the organization with the Profit & Loss, Balance Sheet, Income statements and cash flow summary for the near and long term horizons. Lastly he/she also vets the assumptions and scenarios to maximize business value.

Figure 3: Supply Chain Process Continuum – Closing the loop with analytics
The CFO – Enabling Enterprise Performance with Analytics

Conventional financial, operational and transactional indicators, though crucial, provide a historical snapshot that tends to lag reality. This historical data needs to be transformed through analytical modeling, quantitative analysis, heuristics or optimization software to predict business outcomes or to project values for analytical measures, KPIs, as well as operational metrics far into the planning horizon.

Analytics can enable the CFO to gain insight into futuristic details such as projected revenue, estimated costs, gross-margins of upcoming promotion plans, retail inventory under price protection, etc. The CFO’s office supported by the information technology (IT, MIS) department can make necessary linkages between forward looking data and transactional data from core operations through analytical planning and provide guidance to internal & external stakeholders on how this can impact their performance measures, costs factors, inventory policies, reorder points and bottom line metrics.

The CFO can also provide guidance to all stakeholders and influence sales performance through speedier decision making applied to the company’s operating policies and business activities. Bottom-up or top-down adjustments should be done on fact based decisions (figure 4) provided by the CFO’s office instead of random adjustments by de-centralized planners or analysts.

The fact-based decision framework covers all significant performance metrics that are strong indicators of supply facing & customer facing processes with ‘predictive power’ and a broad measure of the productive use of the company’s tangible assets.

Conclusion

Cash and working capital performance is gaining strategic importance in a competitive landscape. This has led to the CFO gaining prominence in supply chain planning. The CFO can create linkages between organizational resources and financial performance, provide end-to-end visibility across functions, and explain the impact of decisions on the bottom line. A CFO led sales, operations, and financial planning will be more agile, detailed, reliable and efficient.

As CFOs gear up for this new role, technological advancements are making the transition smoother and empowering them to make strategic decision. Data gathered from supply chain functioning can prove to be of immense value to predict customer buying trends, supply-demand forecasting, inventory turns etc. Analytics can enable the CFO’s office to regularly track progress, quickly drill-down issues, and take corrective actions within the company. Analytics driven predictive capabilities can enable the organization to identify and manage a wide range of risks that could impact the supply chain and to cope with demand side uncertainties.

The technology enabled strategic CFO can chart a new course for supply chain as a competitive differentiator for the organization.
Reference

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About the Author

Ravishankar Ramachandran is a Practice Manager – Advanced Analytics, in the Analytics & Information Management Group of Wipro. He is a qualified Cost & Management Accountant, with an MBA degree in Finance for which he was awarded the gold medal on graduation. He has over 18 years of experience across a wide variety of industries and has handled most activities in the F&A spectrum, Banking & Insurance, Consulting, IT Pre-Sales, IT Support & IT Delivery, and Project Management.

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