


*white paper*

# How to Align Supply Chain and Finance Teams to Respond to Market Disruptions



# How to Align Supply Chain and Finance Teams to Respond to Market Disruptions

 **In today's challenging business environment, strewn with major and unexpected disruptions, operational challenges, and non-traditional competitors, supply chain leaders must collaborate across the enterprise more than ever.**

Although company-wide collaboration is essential, the need for strong alignment between supply chain and finance has never been greater. However, communication between supply chain leaders and finance teams has historically been quite limited. Recent events – the global pandemic and the resulting supply chain crisis, economic uncertainty, and increased geopolitical instability – have necessitated the need for regular collaboration between CSCOs and CFOs to ensure both roles possess a greater understanding of mutually shared goals.

Supply chain issues like transportation capacity constraints, soaring commodity prices, and scarce and more expensive labor markets are certainly not new. However, the combination of these challenges occurring simultaneously, coupled with the velocity of change, is generating new forms of financial and operational risk that supply chain and finance teams must tackle in tandem.

Consider the warning that General Electric sent to investors in February 2022, when the conglomerate stated that supply chain issues, labor shortages and inflation would negatively impact financial results during the first half of the year. Specifically, the company expects these issues to “present pressure” on overall growth, profit and free cash flow. GE is not alone. Dozens of companies have referred to supply chain's impact on finances in public earnings reports.

Although many companies have partially integrated finance and supply chain operations in the past, the primary focus has been on monetizing the S&OP plan, assessing budget impacts and creating reports, and KPI views. This is far short of the collaboration that must occur today. Ever changing business climates require the supply chain to closely align with the company's overall strategic plans, including finance.

To respond to current market challenges and future uncertainty, organizations need to model for a broader set of financial drivers to drive profitability, capitalize on market growth opportunities, and maximize performance.

**“It is critical to have the ability to quickly analyze and predict the business wide financial, supply chain, workforce and other implications of sudden changes in assumptions by using a digital model of the business based on a broad set of data sourced from a range of business areas in order to make the right decisions at the right times.”- Gartner**

*Seven examples of financial drivers that supply chain and finance must tackle in tandem include:*



### **Soaring inflation**

Inflation has not been an issue for many years but has soared during the last 12 months. Companies that were able to predict price increases for raw materials and had the financial resources to stockpile inventory or switch to lower priced alternatives may have achieved a competitive advantage.



### **Price indexes**

2021, for example, saw the cost of all items tracked in the consumer price index soar by 7%, marking the highest inflationary period in nearly 40 years. This inflationary pressure, coupled with multiple macroeconomic and global disruptive events, has caused severe stress to supply chain organizations.



### **Exchange rate fluctuations**

Companies must account for varying exchange rates and plan across multiple currencies, requiring close collaboration between supply chain and finance.



### **Cost components**

The cost of electricity and fuel charges must be considered, especially in transportation-heavy sectors. There are key cost tradeoffs for ocean freight versus air, for example, especially during disruptions when expedited freight may be required. Additionally, collaboration is required when considering emerging sustainable options, such as converting fossil fuel vehicles to electric fleets. This can carry high upfront costs but can pay dividends for years to come, not only from fuel savings but by building brand loyalty.



### **Supplier sourcing**

Collaboration with finance is critical for sourcing, including sustainable sourcing, which may cost more for raw materials, but can pay back through higher prices for products and increased consumer loyalty.



### **Tariffs, taxation, and trade policies**

These must be considered for the country, regional and local jurisdictions. The implication of tariffs and taxation can mean lower profits from absorbing tariff and taxation related costs. Collaborating with finance is essential before considering networking design or other changes designed to lessen the financial impact of tariffs.



### **Labor costs**

The increasing price of labor is severely impacting financials. Labor is increasingly becoming a constrained asset, especially in the transportation and warehousing sectors. Many companies are offering rich signing bonuses and have boosted hourly wages well above minimum wage to attract and retain employees. These issues vary by region and country but show no signs of receding. Companies that have full collaboration between supply chain and finance are best prepared to minimize these costs, lessen their impact on profitability, and retain a competitive advantage.

## Collaboration Between Supply Chain and Finance Can Increase Preparedness for Disruptions and Improve Outcomes

**To successfully deal with these issues, companies need to view their supply chain and financial networks as one and ensure visibility at every level of granularity throughout the supply chain.**

Reacting quickly is no longer the only requirement; possessing the ability to anticipate future disruptions is crucial, such as increased fuel costs that often result from a geopolitical tension. According to the 2021 Gartner CFO Input Price Inflation Rapid Poll, 61% of CFOs are passing on cost increases in the form of higher prices to customers. CSCOs are now facing pressure from CEOs, CFOs and other board members to maintain supply continuity and guarantee customers the desired quantity at optimum cost.

The rapid changes in customer demand and supplier availability due to sudden disruptions call for fast market action. For example, during the pandemic, Full Compass Systems saw its product mix swing sharply, away from its audio products toward the video sector, given the wide shift to work-from-home (WFH) and video meetings. The 45-year-old US based manufacturer's inventory was aligned with its current sales patterns and had to shift quickly to acquire the video inventory needed to support its customer's new business needs. At the same time, Full Compass had to recognize the financial responsibility that came with that process.

To do so, the supply chain and finance teams met frequently to consider what the shift in business meant, how much more new inventory was actually required, and how they would get out of other inventory not needed for the foreseeable future.

**“It was absolutely mission critical for us to be on the same page with the finance team to ensure that the supply chain team was balancing out what made sense for our business, and what made sense for our customers.”** - Rebecca Haerter, VP Supply Chain,  
Full Compass

**A strong S&OP process with constant communication with finance and other cross-functional teams enabled Full Compass to manage a challenging balancing act impacted by suppliers who couldn't deliver – and many times didn't know when they could deliver – with staying ahead of its customers evolving needs.**

This also helped the company to cope with the sourcing costs of supplies. For example, many of the chips it uses in its video products were increasing in price by 5X, requiring strong collaboration to balance the margin side of the business, and ensuring that finance was aware of new sourcing minefields.

Learn more about this collaboration at Full Compass Systems in the webcast, *Linking Supply Chain & Finance to Manage Variability & Complexity at Full Compass Systems*.

Companies cannot respond effectively to market shifts like these without a strong relationship with finance. During the pandemic, some companies sped up payments to at-risk suppliers to keep them afloat and to decrease the likelihood of supply risks.

Lisa M. Ellram, Rees Distinguished Professor of Supply Chain Management at Miami University's Farmer School of Business, says that companies must address these issues on a one-on-one basis. Ellram and her co-editors of *"Supply Chain Finance: Risk Management, Resilience and Supplier Management,"* note that "those who really value their supply base and want long-term relationships are all about understanding how much the cash costs different people, and whom they should be paying more quickly and slowly."

As an example, she references Honda, which continued to pay key suppliers weekly or even more frequently during the last recession because it viewed those vendors as being at risk.

Companies that lack agility and internal collaborative efforts to be able to implement flexible sourcing policies risk losing market share and increasing financial instability, especially when responding to disruptions.

**Companies that lack agility and internal collaborative efforts to be able to implement flexible sourcing policies risk losing market share and increasing financial instability, especially when responding to disruptions.**

*An advanced S&OP process that features a strong partnership between supply chain planning and finance can help shift the tide in your favor.*

*Here is an overview of how you can link supply chain processes with the role of finance:*

PROCESS	ROLE OF FINANCE
Product Portfolio Planning	<ul style="list-style-type: none"> <li>Provide financial projections for ongoing New Product Introduction programs</li> <li>Validate assumptions to project sales, cost and discontinuing new products</li> <li>Estimate financial impact of changes in plan and identify gap closing actions</li> </ul>
Demand Planning	<ul style="list-style-type: none"> <li>Monetize the demand plan by collaborating with the demand planner</li> <li>Work with supply chain to shape demand towards available products or configurations that can be delivered within customer expected lead time</li> <li>Pressure test operational assumptions, correct demand forecast bias and own assumptions on metrics such as exchange rates and inflation rates</li> <li>Work with supply chain and commercial teams to prioritize demand and allocate product for known long-term shortages. Align on parameters such as revenue, profitability, strategic importance of customer, channels, competitive advantage</li> <li>Partner with sales to close gaps between financial forecast and budget</li> </ul>
Supply Planning	<ul style="list-style-type: none"> <li>Partner with supply chain to model cost, material, labor, overhead and inventory estimates</li> <li>Collaborate with supply chain and other internal stakeholders to ensure that supply chain's finite resources are directed toward maximizing value for the company</li> <li>Validate if assumptions of supply plan have changed and define ownership of assumptions on supplier credit, trade policies, foreign exchange, and commodity pricing.</li> <li>Partner with supply chain to close the identified gaps to financial plan and drive down cost</li> </ul>
Financial Alignment	<ul style="list-style-type: none"> <li>Forecast balance sheet and income statement at corporate level and share business performance with the organization</li> <li>Estimate risk and business impact of most likely scenarios and work with cross functional team to define response plan</li> </ul>
Executive S&OP	<ul style="list-style-type: none"> <li>Resolve outstanding supply-demand imbalances and gain executive approval</li> <li>Share company's performance scorecard through financial and business KPIs</li> <li>Present an update of ongoing initiatives agreed upon in prior S&amp;OP reviews</li> </ul>

## **Aligning Supply Chain and Finance is Critical to Prepare for Emerging Digital Ecosystems**

**To be successful in today's digital world full of complexities and unexpected disruptions, the traditional silos that exist between finance and supply chain must be torn down.**

Companies can no longer afford to operate in a silo. Today's business climate requires companies to rethink traditional operations and to be able to identify any number of financial impact drivers and, in turn, model different potential scenarios across time horizons optimizing for profitability, cash flow, market growth and spot opportunities, and more.

Further, it is essential for finance, supply chain and all other departments to begin to operate under a single umbrella in preparation for a future where internal teams not only mesh with each other, but with an entire ecosystem. According to Gartner, by 2026, more than 50% of large organizations will compete as collaborative digital ecosystems rather than discrete firms – sharing inputs, assets and innovations. It will be even more crucial for supply chain and finance to operate in tandem as early adopters in this emerging environment to gain the strongest competitive advantage.

**It is essential for finance, supply chain and all other departments to begin to operate under a single umbrella in preparation for a future where internal teams not only mesh with each other, but with an entire ecosystem.**

## NEXT STEPS

To learn more about how our Atlas Planning Platform can help your planning team handle a world of increasing supply chain volatility, please visit <https://johngalt.com/schedule-a-demo> or email us at [connect@johngalt.com](mailto:connect@johngalt.com) to set up a time to talk to one of our supply chain experts.



### STRENGTH IN PLANNING

It's Time to Reimagine Your Supply Chain

Focused on quickly delivering tangible business outcomes, John Galt Solutions brings to you a rich history of innovation in supply chain planning, advances in machine learning and AI, and unmatched customer service to continuously help you make better, faster and more confident decisions. Whether you're stuck in spreadsheets or further along in your digital supply chain journey, John Galt Solutions helps you create the right strategy wherever you are in your transformation.

John Galt's Atlas Planning Platform provides a comprehensive end-to-end supply chain planning solution with advanced analytics and machine learning to automate planning, break down business silos and deliver greater visibility. Atlas Planning, a SaaS-based platform, transforms S&OP processes; demand, replenishment; supply and inventory optimization; manufacturing planning and scheduling; and transportation optimization.