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to the financial custodian of the company – the CFO. Today's supply chain risk is pervasive to most organizations...

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Balancing risks throughout an organization and building business resiliency often falls to the financial custodian of the company – the CFO. Today's supply chain risk is pervasive to most organizations. Strong demand and unstable supply costs, as driven by the COVID-19 pandemic, result in difficult reporting and forecasting and challenges in cash management. Therefore, the responsibility of managing various implications from supply chain disruption has shifted to the finance organization. This is true for companies of all sizes and industries.

The consequences of supply chain disruptions have become as serious for small

products at the necessary rate to meet demand slows an organization's cash flow and many companies take on additional debt or even risk their ability to continue to operate.

The global supply chain has been riddled with kinks due to the labor shortages and country lockdowns resulting from COVID-19, geopolitical issues, inflation and increased cyber-attacks. As more people work online and away from company offices and IT security systems, organizations become increasingly vulnerable to attacks and viruses that disrupt business operations and supply chains. Margins continue to be squeezed to stay competitive with dramatically increased transportation and consumable costs that are difficult to pass on to customers.

With a view to reduce the impact this has on the business; the finance team can consider or undertake initiatives outlined below to addressing these challenges:

<u>Establish a foundation</u>

1. Identify, prioritize and address the risks in your supply chain and apply a collaborative contracting approach with comprehensive management accounting information

    a. Seek to understand your position in the extended supply chain- knowing more about tier 2 and tier 3 vendors can better inform contingency planning

    b. Secure more than one option for sourcing services/products to mitigate a single point of failure

    c. Incorporate supply chain protections or performance clauses within supplier contracts (e.g., financial penalties for delays, termination clauses for non-performance, performance bonds, rights to engage another supplier upon delivery failure, performance guarantees from a parent company)

d. Include continuous improvement provisions in supplier/vendor contracts

g. Understand suppliers' environmental, social and governance (ESG) impact efforts to determine the potential future costs (given regulatory or consumer demands) of partnering with suppliers that are not aligned with advancing ESG

<u>Drive collaboration within and beyond the organization</u>

2. Engage with business and operational units on a regular basis to obtain the necessary information for updating forecasts and developing model scenarios. A well-executed integrated business planning (IBP) process brings together sales, marketing, finance, purchasing and manufacturing to harmonize plans across traditional business silos.

Results of such will enable organizations to better evaluate responses to disruptions and identify the optimal path. For example, with more employees now preferring a mixture of in-person and remote working and organizations obliging, finance will need to forecast the equipment necessary to enable remote work and reflect a reduced real estate/office space investment in the budget.

Furthermore, maintaining a strong pulse on any permanent increases in logistics costs is important to understanding the true cost of services/goods sold and the need to identify opportunities to expand margins in other areas. Businesses need to refresh forecasts regularly to identify financial pinch-points and determine potential future funding requirements. Finance professionals should bring these forecasts, informed by real-time data, and supply chain resiliency plans to discussions with the leadership team, lenders and funders.

3. Consider open-book accounting to facilitate collaborative contracting and visibility across the supply chain. In open-book accounting, a network of suppliers, distributors, warehouse operators, and retailers share production data, assess the impact of specific SKUs, and manage the movement of goods to demand-driven locations.

Strengthened supplier and customer relationships will often result that enable the

Accordingly, geopolitical information can help anticipate future supply breakdowns and pivot warehousing plans. For example, the significant move toward more online shopping during the pandemic vs visiting bricks-and-mortar retail requires management accountants to evaluate the costs of fulfillment and delivery centers, service desks and reverse logistics (returns) in addition to managing the costs of maintain physical stores.

5. Implement just-in-case inventory to mitigate lost revenue through lost sales. Management accountants can prepare financial data related to just-in-time compared with just-in-case scenarios and provide information that evaluates meeting customer demand while managing trade-offs between cost, quality and time. Segmenting inventory thoughtfully can further refine inventory policies to balance service vs cost.

6. Continue to evaluate costing systems, value-chain accounting, and make-or-buy decisions around different warehouse and logistics configurations to address supply chain challenges. Periodic network analysis should be conducted to assure that a firm's supply chain still meets the business' needs.

7. Encourage supply chain leaders to advance beyond standard tools (such as request for proposal and historical datasets) to introduce new methods (e.g., real-time data analytics, omnichannel data sources and integrated supply chain planning) to avoid margin compression. In addition, identifying available discounts via early payment of invoices will help improve the overall bottom line. Quantifying the costs of instability via maintaining production or relationships with supplier offshore is critical to evaluating the quantifiable benefits of bringing supply chains onshore or nearshore.

In summary, balancing risks and developing risk mitigation strategies has long been the role of the financial steward of the organization. Supply chain risks are not new, but have been compounded by recent global events, highlighting how

which risk can be reduced or quickly addressed, organizations can align multiple departments, processes and individual goals with an integrated supply chain risk management process. Developing an integrated strategy allows teams to become *proactive* rather than *reactive* in managing risk, ensuring that the organization can remain a competitive force during challenging conditions and a constantly changing economy.

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Sean Hanley is Managing Director, Finance Transformation at MorganFranklin Consulting. Dan Luttner is Managing Partner, Supply Chain, at MorganFranklin Consulting.

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