
IMPROVING FINANCIAL & SUPPLY CHAIN ALIGNMENT

Eliminating Bottlenecks



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Disclosure

To write this report, David Food, Head of Supply Chain with Board International, collaborated with Lora Cecere, Founder of Supply Chain Insights LLC. The supporting independent research for the report was sourced from the files of Supply Chain Insights.

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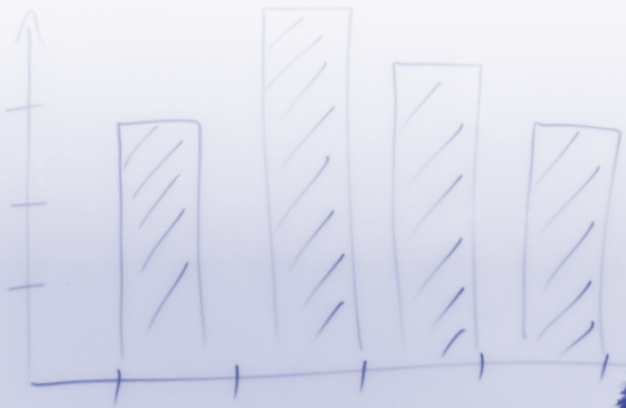
**“Driving
collaboration &
alignment is easier
to say than
accomplish.”**

Executive Overview

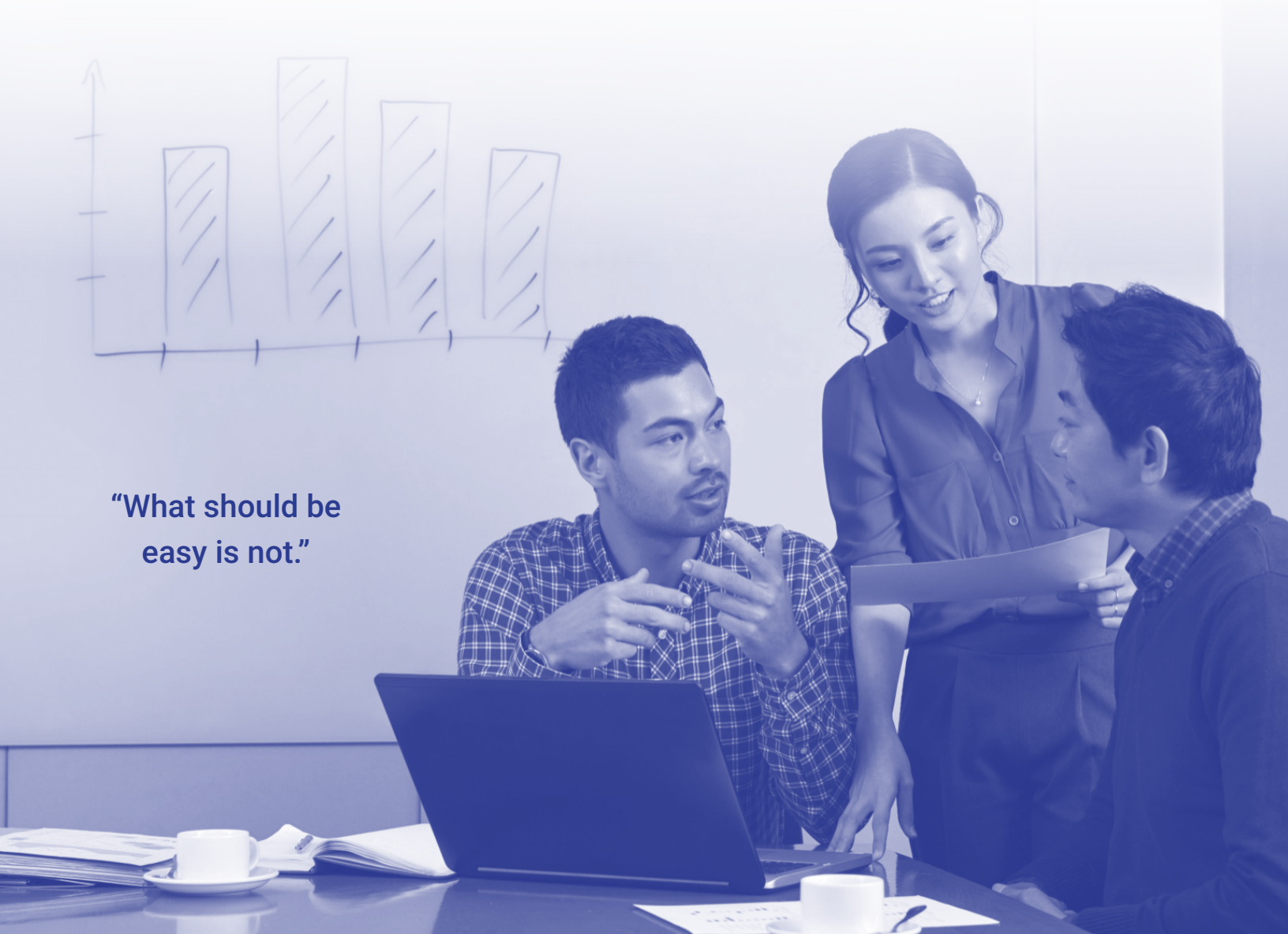
While many business leaders believe that collaboration between financial teams and supply chain operations should be easy, it is not. The reason? The two groups have a different line of sight, speak dissimilar languages, and hold inconsistent definitions of supply chain excellence.

The starting point is aligning on standard definitions. While finance groups talk of investment and the impact on Return on Invested Capital (ROIC), the supply chain group focuses on defining bottlenecks, constraints, and flows. The focus of the finance team is on headcount and cost mitigation while the supply chain group is trying to balance inventory, cost, and customer service.

The question is, *"How to help both groups to align to drive improvement in outcomes?"* This research is designed to give the reader these insights. ❁



**"What should be
easy is not."**



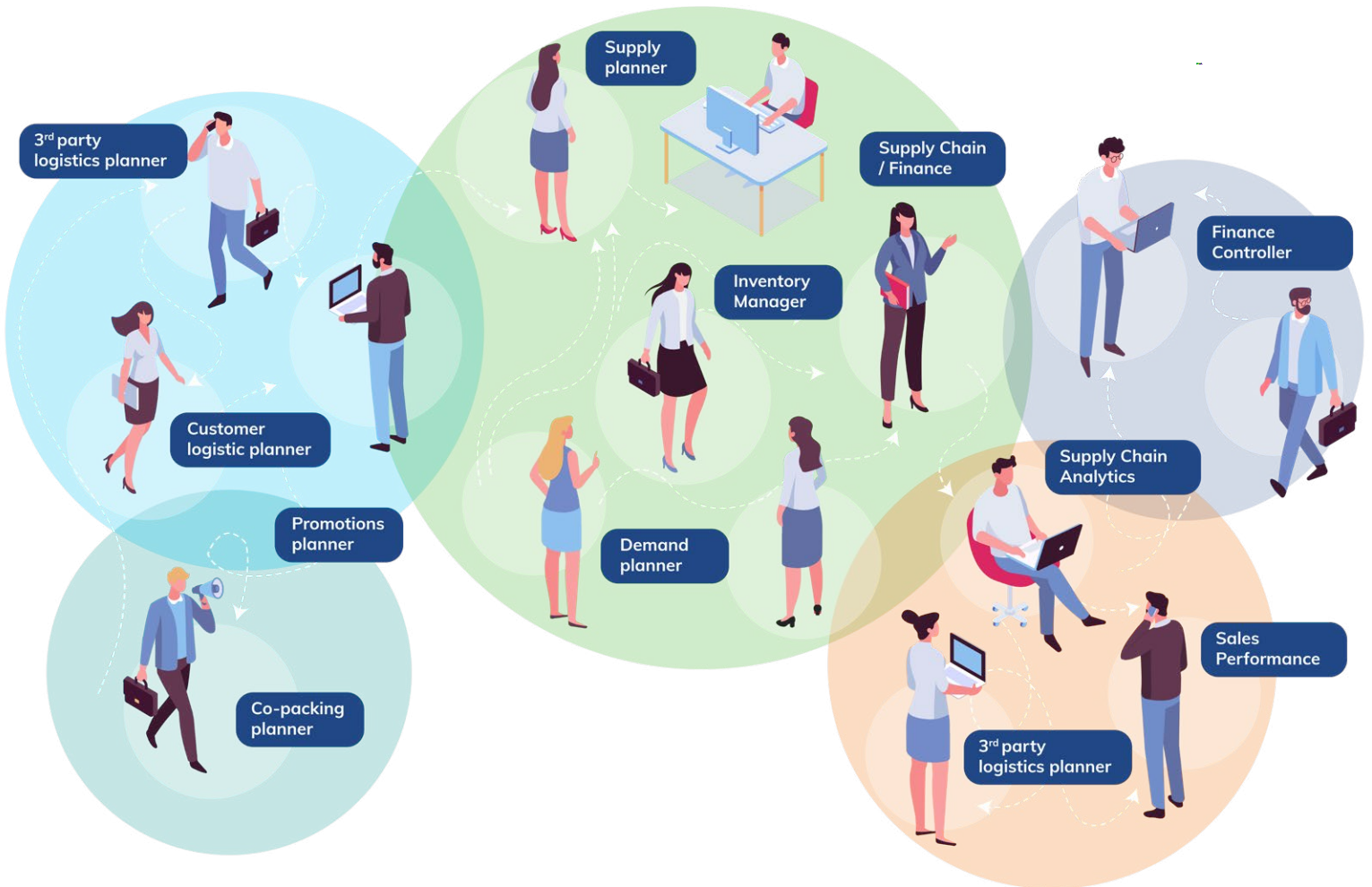
Different Languages: What is Supply Chain Excellence?

The term supply chain excellence easily rolls off of the tongue, but it is easier to say than to explain. Few companies have a common vision of supply chain excellence. Most organizations focus on cost and efficiency (lowest cost per unit) while assuming homogeneity of flows and behavior.

The first step in driving better outcomes is to align leaders on definitions and strategy. Most companies, based on rhythms and cycles, have five-to-six supply chains. Each needs to be

optimized, aligned to outcomes, and managed with the right performance targets. Defining and managing the supply chain flows is job one for both teams.

The supply chain is a complex non-linear system. There is a relationship between the balance sheet metrics of growth, margin, inventory, customer service, and asset strategies and value (price to book or market capitalization). We define this inter-relationship as the **Effective Frontier**.



Maximizing performance requires understanding the interrelationships of metrics on the Effective Frontier and modeling to maximize potential. Even though over 90% of manufacturers with revenue of more than 1B\$ in revenue have advanced planning systems, 93% of decisions are made using spreadsheets. The use of a spreadsheet to guide supply chain decisions is a mistake.

While this was deleterious before the pandemic, the impact is now more pronounced. The reason? A spreadsheet is not equal to the challenge of modeling a complex non-linear system with increasing variability.

A second gap is the lack of alignment on a balanced scorecard. A balanced scorecard is essential. Due to the inter-relationships between metrics and capabilities, if a company pushes a single metric, the company's performance in other metrics is thrown out of balance. In short, the individual metric will improve,

COMMON MISTAKES

- **Managing flows assuming homogeneity of products and cycles. Companies have multiple supply chains.**
- **Not setting and aligning clear performance targets based on constraints and outcomes.**
- **Functional metrics and definitions without clarity of the supply chain as a complex non-linear system.**
- **A focus on cost and labor without understanding the trade-offs on inventory, customer service, and Return on Invested Capital.**
- **Assumption that the efficient supply chain is the most effective.**

but the performance on different metrics may suffer. Similarly, when companies push goals based on functional metrics, supply chain performance may improve within a function, but the outcomes of the entire system are diminished.

While each supply chain can be managed with the same metrics, the targets need to be aligned with capabilities in a feasible plan (realistic targets). Less than twenty percent of companies have a feasible plan. A common mistake is to set unrealistic targets without clarity on a balanced scorecard.

The greater the complexity (elongation of the product portfolio or the addition of new channel requirements) along with the increase in the number of nodes, or tiers, of the supply chain, the more fragile the supply chain. With increased complexity, the more urgent the need to establish a

common understanding between finance and operations on



supply chain excellence to improve planning.

Improving planning sounds easy, but process excellence depends on five factors—organizational alignment to a commonly-held definition of supply chain excellence, the building of supply chain talent, embracing innovation, management of complexity, and clarity in regional-global governance. It is not sufficient to implement planning technology without clarity on how teams should use the technologies to improve the decision-making process. The larger the organization, the greater the number of players, each with a separate agenda.

As shown in Figure 1, collaboration across stakeholders is not easy. Over the past decade, organizational alignment issues increased. The significant gaps between operational and financial teams are barriers to improving performance. Manufacturing is less aligned with

procurement; and the gaps between IT and operations have grown. These gaps were the largest in organizations focused on IT standardization initiatives.

Collaboration without alignment is impossible. For organizations to use planning systems well, they must be aligned. This happens when companies throw off the shackles of functional metrics to align to a balanced scorecard. For example, instead of aligning to functional costs, change the focus to margin. Instead of measuring and rewarding Operational Equipment Efficiency (OEE), align manufacturing teams to schedule adherence and first-pass yield. However, for organizations to accomplish this goal, the operations and finance team must learn a new language and align on the line of sight.

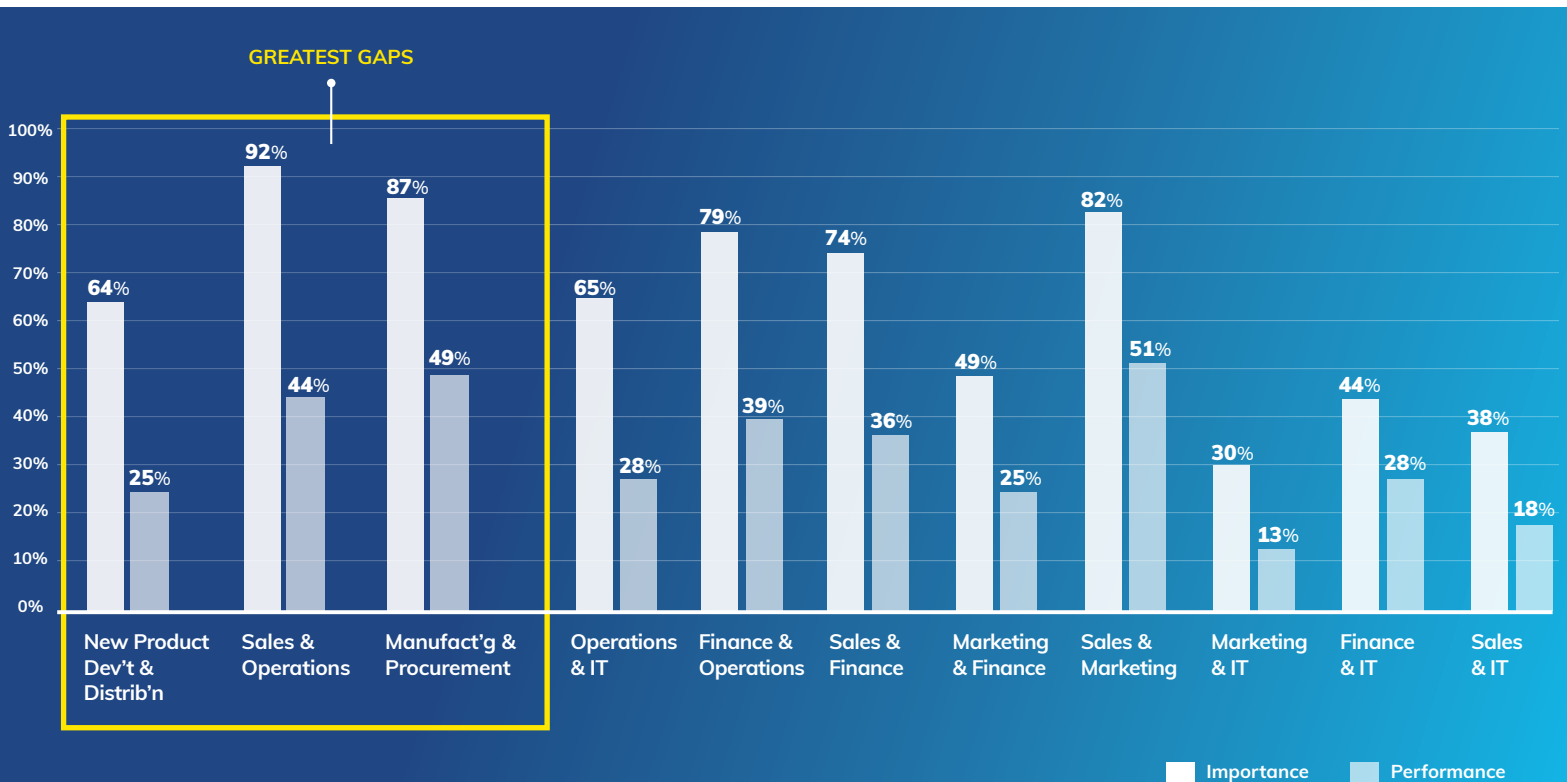


DEFINITIONS

Intelligent Planning: Intelligent Planning for the Supply Chain enables end-to-end visibility of resources and assets while synchronizing demand to supply.

The goal is to allow organizations to assess the profitability of plans before, during, and after decisions.

Figure 1. Organizational Alignment at the Start of the Pandemic
Team Alignment: Importance vs. Performance*



Establishing Common Definitions

While both groups bandy-about terms like resilience, efficiency, responsiveness, and agility as desired outcomes, each is a very different supply chain definition. They are mutually exclusive. Each requires the design of the supply chain to drive specific outcomes. Each flow needs to be built around well-defined targets and a balanced scorecard as part of the strategy. As complexity increases, the greater the need for innovation and team alignment.

The lowest cost supply chain is the most efficient. The danger is that most companies blindly assume that the efficient supply chain is the most effective. For 88% of supply chain flows, the efficient supply chain is determinantal to overall performance in order reliability and inventory management. 🌱

DEFINITIONS

Supply Chain Resilience: Building adaptive capabilities for the supply chain to prepare for unexpected events, respond to disruptions, and maintain continuity of operations at the desired level of connectedness and control over structure and function.

Supply Chain Efficiency: The lowest cost of operations with maximum output.

Responsive Supply Chain: The shortest cycle time and quickest response to market requirements.

Agile Supply Chain: The supply chain is designed to drive the same cost, quality, and customer service despite demand and supply variability.



Why Do We Plan?

Good plans identify probabilities and feasibilities while driving team collaboration/visibility on an array of possible outcomes. In many organizations, a misaligned argument is a focus on precision or speed. Neither should be the goal of planning.

Over the last decade, in the journey from regional to global supply chains, organizations grew larger and more political. Supply chain processes grew in importance and as organizations became less aligned and less sure on the definition of supply chain excellence.

Organizational alignment gaps increased decision latency—the time to make a decision—while introducing bias and gaming. Too few companies (less than 15%) developed clear governance for the organization of how to use technology to make better decisions. With the increase in visibility and optimization, what was the role of the corporate team? The regions? Each division? Leaders within functions?

Before the implementation of technology, each leader had the freedom to make decisions based on their line of sight. The implementation of supply chain planning imposed a new way of

working. Centralized planning and the role of the planner often created organizational friction.

The issue? For most companies, the focus was on the implementation of technology not the redefinition of work. Change management is often the “elephant in the room.” As a result, over the decade, analytics capabilities increased greatly, while organizational capabilities precipitously declined.

As a result, while many groups talk “end-to-end,” the work happens in silos and pockets that are not aligned. Manufacturing is not aligned with procurement. Logistics and customer service struggle to align on the best way to ship an order. Finance and treasury knock heads on capital investments and terms.

Frequently, special teams focus on cost, customer service, and inventory, but lack alignment on a standard definition of supply chain excellence and the potential as defined by the Effective Frontier.

In the development of supply chain planning in the 1990s, the focus was on outcomes. This is no longer the case. Today, the

“In preparing for battle, I have always found that plans are useless, but planning is indispensable.”

Dwight D. Eisenhower, 34th president of the United States



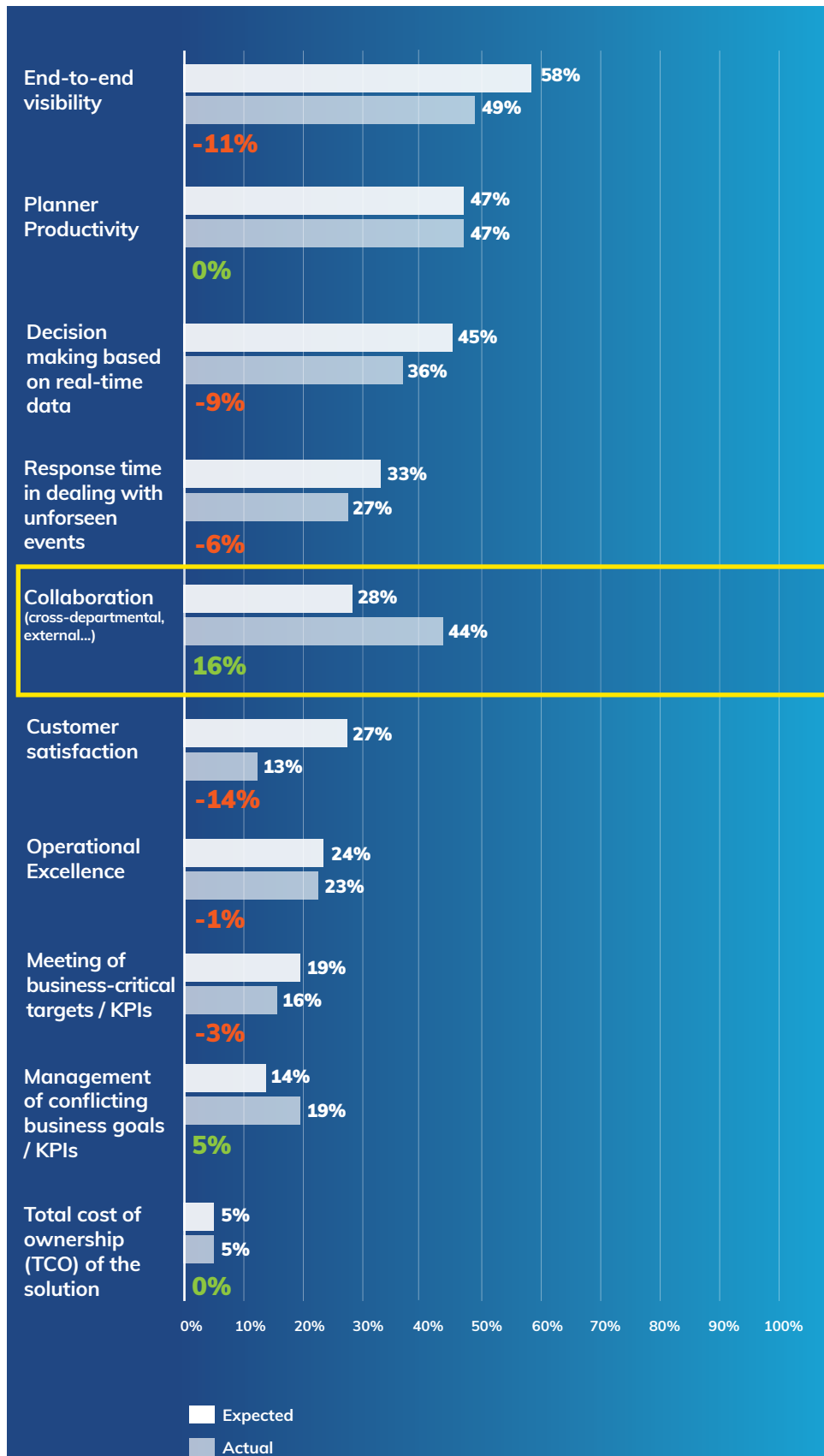
focus is on visibility, planner productivity, and speed of reaction. In the research, note the low expectations on cross-functional planning, that are often exceeded with the deployments of planning systems. One of the under-valued benefits of planning is the improvement of cross-functional collaboration and alignment on options for a feasible plan.

Sadly, today, there is less focus on optimization to drive outcomes than two decades ago and in many organizations finance feels the need to be the "sheriff" in town dictating budget compliance. This is a mistake. The budget is out of date with the market when published. As a result, the budget should be used as an input, but never used as a constraint. The modeling of market drivers and the impact of decisions helps the finance and supply chain groups to align.

The unfortunate reality is that companies talk "end-to-end" while perpetuating "islands of optimization." Due to the lack of clear governance, the sad reality is that misaligned groups introduce turbulence by gaming the system to make bonus goals.

Planning is indispensable, not because of precise and speedy output; but to drive collaboration and alignment across misaligned groups, as shown in Figure 2. Today, planning is more critical but less understood. Instead of a focus on precision and speed, companies should shift their direction to visualization and alignment on outcomes given potential market scenarios. 🌱

Figure 2. Expected versus Actual Benefits of Planning by 320 Manufacturing Companies



Building a Common Line of Sight

Why does it matter if operations and finance are aligned? The answer is in the results. When operations and finance teams are aligned, companies outperform their competitive peer group on operating margin and inventory turns (at an 80% confidence level). Gaining this alignment is easier said than done.

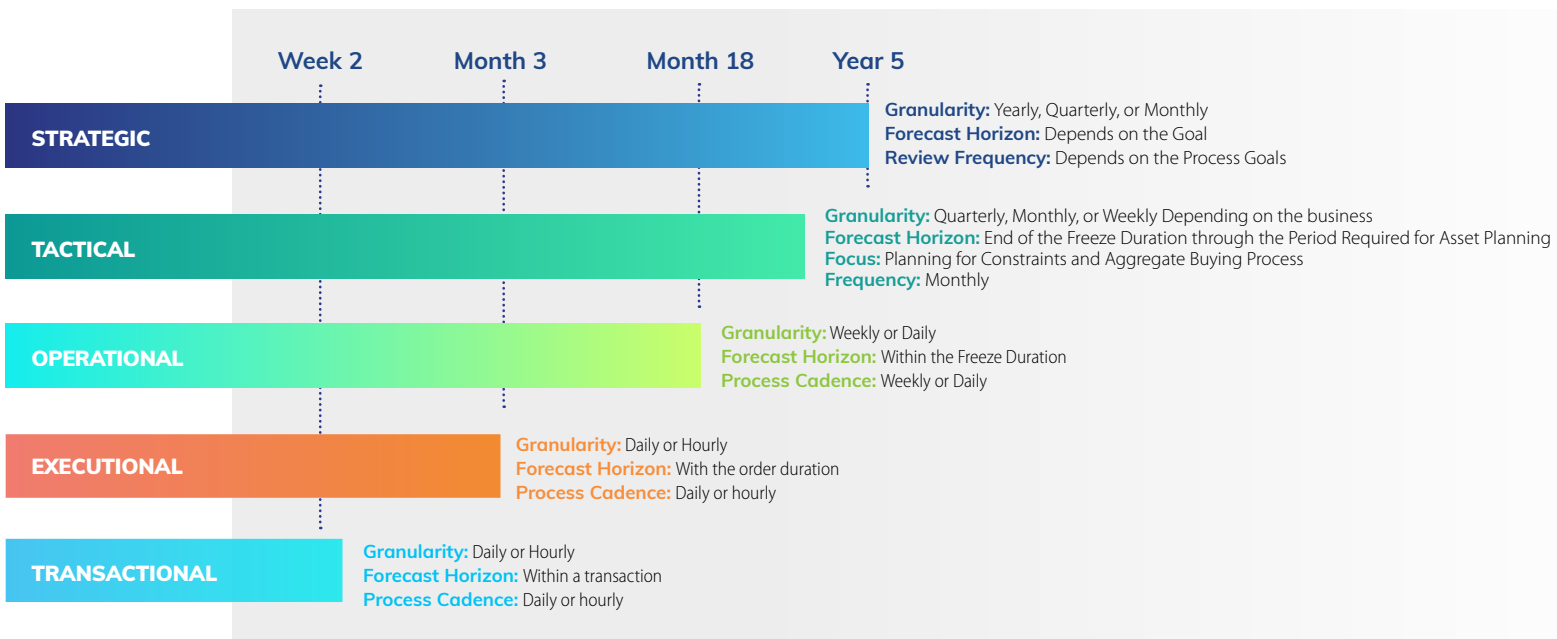
The reasons are many. The processes within operations and finance teams operate in parallel, but they are disconnected with a different line of sight. The lack of standard definitions makes discussions and alignment difficult. Both functions attempt to drive better outcomes but are not aligned at a definitional process level. In addition, the two groups are not clear on the role of the forecast in Sales and Operations Planning (S&OP) and how to align inventory strategies

to market variability. The issue for most companies is the lack of recognition of the root issues. The two groups cannot effectively collaborate without resolution.

One of the first steps to improve alignment is to agree on the role of the forecast and inventory strategy. This process discussion starts with a consensus on time horizons for decisions, appropriate data granularity, and a clear definition of supply chain excellence.

Companies average four-to-five supply chains, each with differing lead times. While many of the critical decisions of the operations groups are outside of product lead times (tactical planning horizon), the key focus of the financial teams is usually quarter-to-quarter within the reporting periods

DEFINITION
The Line of Sight is the line from an observer's eye to a distant point.
 Webster's Dictionary



¹ Supply Chains to Admire Analysis for the Period of 2012-2021, Supply Chain Insights, May 2022

(operational horizon). In parallel, the order-to-cash and procure-to-pay processes are within the order lead times (the executional time horizon), and the accounting group within finance usually operates within the transactional time horizon.

Mapping the decision points of each supply chain by role while

recognizing constraints and buffers is a prerequisite to enabling a holistic understanding. ❁

Managing Complexity

An analogy for complexity is cholesterol. Like cholesterol, within an organization, there is good and bad complexity. Good complexity helps a company grow, while bad complexity adds costs and risk without improving year-over-year growth. However, all forms of complexity increase operational risk and reduce supply chain resilience.

During the pandemic, lead times and variability increased. For example, ocean transit from the port of Shanghai to Southern California increased by 40%, but the variability of the unloading times increased by 54%. While companies can plan for longer lead times, the heightened variability requires team collaboration to align on product strategy outside of the lead times. This increase in complexity requires the building of buffers.

There are three buffers within the supply chain—inventory, converting capacity, or time. The elongation of transit periods may push a seasonal product out of the lead time window for planning, requiring pre-seasonal inventory builds. Simulation and what-if collaboration technologies allow teams to model inventory strategies to improve alignment. Collaborative technology platforms allow the two groups to see the impact of complexity while aligning future outcomes against a standard line of sight. ❁

The greater the organizational complexity, the increased importance of alignment between finance and operations.

Examples of complexity include:

1. Long lead times.
2. Multiplicity of nodes
3. Elongation of the product portfolio.
4. Global cross-continent supply flows.
5. Increased dependency on outsourcing.
6. Short lifecycle(s).
7. Increase in demand shaping activities.
8. Number of bottlenecks and constraints.
9. Intense governmental oversight.
10. Rise in demand error.
11. Increase in supply variability.

The Role of Inventory in Operational Planning

Companies invested in inventory management through many projects; yet inventory levels grew. Frustration reigns. As inventories grew, companies drove improvements in cash-to-cash over the decade by lengthening payables. First, it was 60 days, then it was 90 days, and for many now, the discussion is 120 days.

The lengthening of payables is like a harmful drug. It pushes waste and cost to the suppliers and gives the organizations a short-term benefit. The teams feel good because cash-to-cash metrics improve. Still, in many cases, the companies do not realize that they have reduced capabilities with suppliers

and have not improved inventory. In 2022 based on supply constraints, the elongation of payables is no longer possible. As a result, there needs to be a heightened focus on inventory to decrease waste and redesign inventory as a buffer. The greater the variability, the more critical it is for the finance and operational teams to align on an inventory strategy to improve reliability.

There are many inventory drivers, and the management of the suitable buffers requires discipline and a cross-functional focus. The rise of the global multinational has significantly impacted inventory requirements. How so? There is more in-transit inventory and complexity in today's global supply chain.

Figure 3. Days of Inventory Across Industry Sectors

INDUSTRY SEGMENT	YEARS					DIFFERENCE 2020-2021 vs 2004-2006
	2004-2006	2007-2008	2009-2013	2014-2019	2020-2021	
Beverage	95	98	114	160	153	57
Pharmaceuticals	146	135	158	184	182	36
Medical Device	100	107	120	129	145	44
Beauty	105	127	132	142	147	42
Household Products	50	51	57	74	78	29
Automotive Parts	47	52	61	66	76	29
Aerospace & Defense	94	89	97	103	122	28
Apparel Retail	62	65	66	69	83	21
Chemical	58	54	59	73	77	19
Semiconductor	61	69	80	92	76	15
Automotive	37	41	43	48	51	14
Food	50	51	57	59	61	11
Broadline Retail	65	62	63	66	59	-5

The changes may seem small, but they add up. Here are some examples:

1. Item and process complexity increase cycle and safety stock management inventory requirements.
2. Slow steaming and larger ocean vessels require building inventory levels to cover goods in transit.
3. Slower rates of intermodal shipments increases inventory
4. The greater the number of nodes in the supply chain, the more inventory is required.
5. The higher the demand and supply volatility, the more inventory is required.

Companies struggle to have the correct inventories. Only 12% of companies actively model the form and function of inventories. Instead, most companies manage inventories by focusing on establishing safety stock models in Distribution Requirements Planning (DRP). This approach is not sufficient. The reason? These technologies assumed reliability of the first mile and constant lead times. Today neither is consistent or reliable.

As a result of an increase in supply chain complexity, days of inventory today average thirty-three days greater than during the start of the 2007 recession.

In addition, due to the lack of alignment, many financial teams **game** the system to improve cash-to-cash for quarterly reporting. The most dangerous practice is to do a **haircut, or an even cut**, across inventory irrespective of demand and supply variability and constraints. This type of activity destroys reliability.

Implementing planning systems without understanding the form and function of inventory is a mistake. In implementing planning systems, work to gain agreement cross-functionally on the role of inventory in delivery supply chain excellence. The higher the variability, the greater the need to hold inventory as a semi-finished good or raw material using late-stage postponement. In addition, high variability items require pooling. The greater the variability, the more critical it is to use optimization and simulation to set inventory targets. For a definition of Form and Function of Inventory, reference Figure 4.

Many companies are surprised to see the rise in inventory shown in Figure 3. Mistakenly, companies believe that the investment in planning and the focus on safety stock reduces inventories. However, as can be seen in this analysis, the success in inventory management only happens when focused on a holistic strategy in an aligned organization that embraces the form and function of inventory as a buffer. ❁

Figure 4. **Form and Function of Inventory**

Form	Function
Supplier owned inventory: raw materials	In-transit Inventories: Inventory that is on trucks, barges, and containers. The longer the trade-lanes and the slower the mode, the larger the requirements for in-transit inventory.
Company owned inventory: raw materials	Cycle Stock: In the planning of production, finished good production is cycled to ensure that the production lines are fully utilized. The average rotation between products on the production lines in consumer packaged goods is three weeks.
Work in process inventory	Safety Stock: Inventory requirements to buffer demand and supply volatility.
Finished goods at the company warehouse	Safety Stock: Inventory requirements to buffer demand and supply volatility.
Finished goods in the channel	Promoted Items: Inventories to support the promotional lift to support a promotion.

Lessons Learned in the Pandemic

The global GDP in 2021 grew at an unexpected rate of 5.7% in the second year of the pandemic. The shift from services to products outstripped global logistics capacity. The result was an increase in lead times and in-transit inventories.

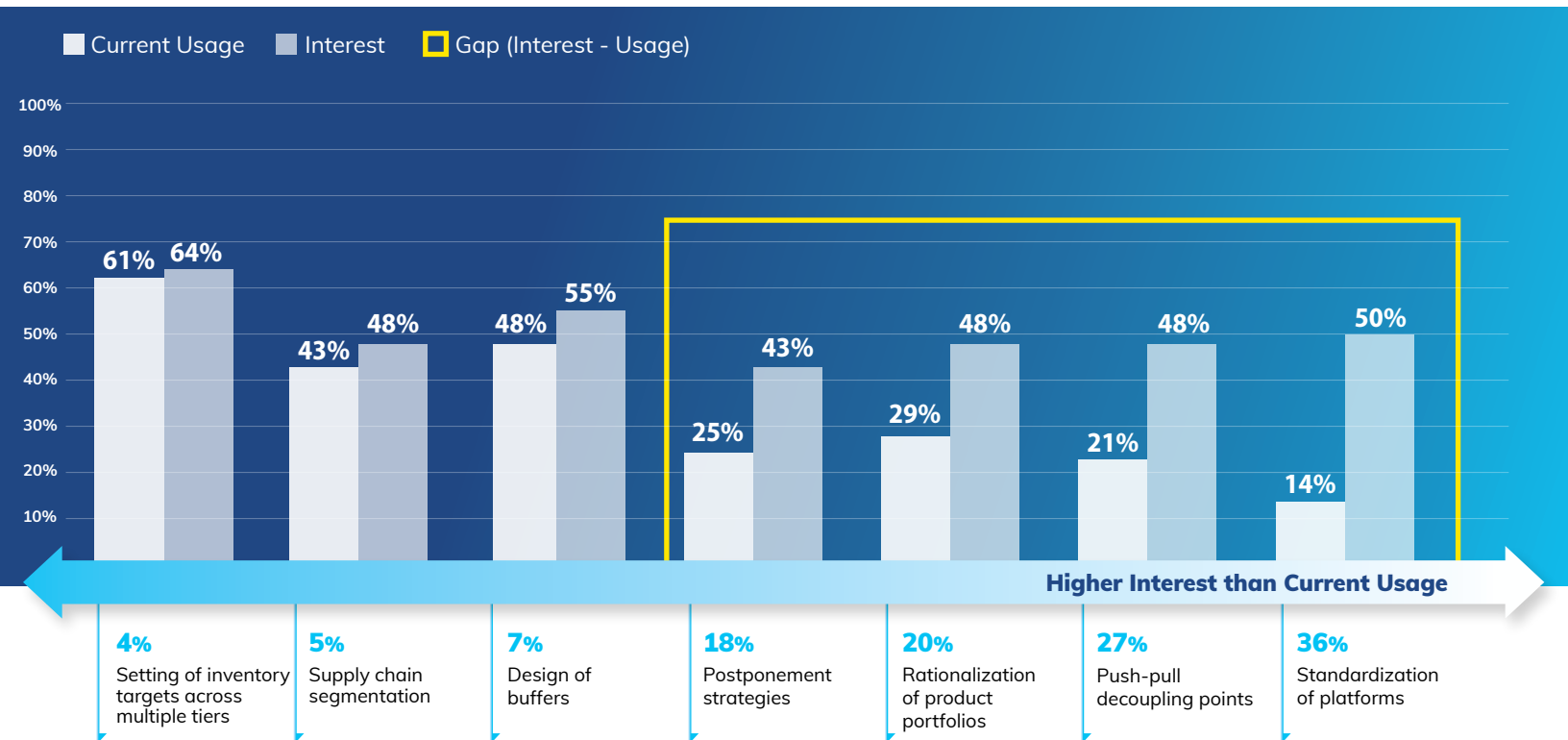
Companies that viewed the pandemic as another risk management event struggled the most in 2022. The reason? Traditional risk management approaches assume the presence of an event or abnormality and then establish a new normal. In this case, the only new normal was more variability—a possibility not covered as an outcome in traditional risk management thinking. The conventional focus of shutdowns, control room control, and supply reallocation worsened the problem.

Currently, market inflation sits at 7%—the highest since June 1982. With 65% of finance and supply chain managers members

of the Millennial and Gen X generations, managing operations with growing inflation is new. The challenge of managing a period of growth, inflation, and unprecedented supply variability creates unparalleled stress. Current technologies and processes focus on volume trade-offs. As a result, there is a need for collaborative modeling that enables what-if analysis showing volume/cost trade-offs and risk scenarios.

Over the last two decades and the myriad of mergers and acquisitions and the building of global supply chains, organizations have become larger and more political. With the increase in demand volatility, inventory is essential as a shock absorber of variability. It is the most critical buffer. Typical investments target safety stock while the opportunity is in the better management of cycle stock, platform rationalization, and the design of inventory strategies, as shown in Figure 5.

Figure 5. **Gaps in Inventory Strategies**
Current Usage of Technology vs. Interest in Purchasing* (Among Inventory Optimization Technology Users Only)



Supply chain planning is all about better math and modeling. Today, since many do not test the solutions and often buy based on IT standardization, the probability of success in implementing planning technologies is the same as playing the tables in Las Vegas. Only one-in-two business users are satisfied. The default? Most planning happens in Excel Spreadsheets.

While some believe that the root issue of the current problems is Just-in-Time (JIT) inventory or Vendor Managed Inventory (VMI) programs, this is not true. The schism is more systemic and rooted in traditional process thinking requiring alignment between operations and finance teams.

Let's take an example. The unloading delays at ports increase in-transit inventories, and the delays in unloading should increase safety stock buffers. However, improving reliability in the face of this variability requires alignment on the inventory strategy and gaining agreement on the form and function of inventory—the gaps in inventory planning. The requirements definitions are not in the current planning definitions,

requiring a more collaborative approach.

Over the last decade, companies made functional silos more efficient and the supply chain less effective. Cost reduction was the focus in the automation of functions to make them more efficient. Less than 2% of companies use a balanced scorecard across functions to drive alignment. Only 29% can see the impact of decisions on total cost, and less than 1% can actively track operating margins and customer service to complete root cause analysis within the week. So, as you read the headline news, don't you think that it is time for us to rethink the basics?

To drive improvement, implement a balanced scorecard and align the role of inventory as the most important buffer in the supply chain while resisting the temptation for knee-jerk reactions to meet quarterly earnings targets. ✨

WATCH OUTS

Avoid Artificially Constraining Inventory Levels. If the inventory is arbitrarily reduced, you can hurt the company's ability to meet orders. This will throw the supply chain out of balance. The longer the supply chain, the more difficult it is to regain balance. It can take weeks and months if the supply chain is complex.

Be Careful on Pushing Inventory into the Channel to Meet Quarterly Commitments. It is also very tempting to push inventory into the channel at the end of the quarter to meet financial commitments. This can also throw the supply chain out of balance. Instead of reactive, knee-jerk reactions, your supply chain results will be higher if you can work with the team every month and improve cross-functional processes.



How to Drive Improved Collaboration in Sales & Operations Planning

Sales and Operations Planning (S&OP) is a cross-functional process to align the commercial strategies of sales and marketing with the operational functions of supply. While many companies want better collaboration between finance and operations teams, it requires work.

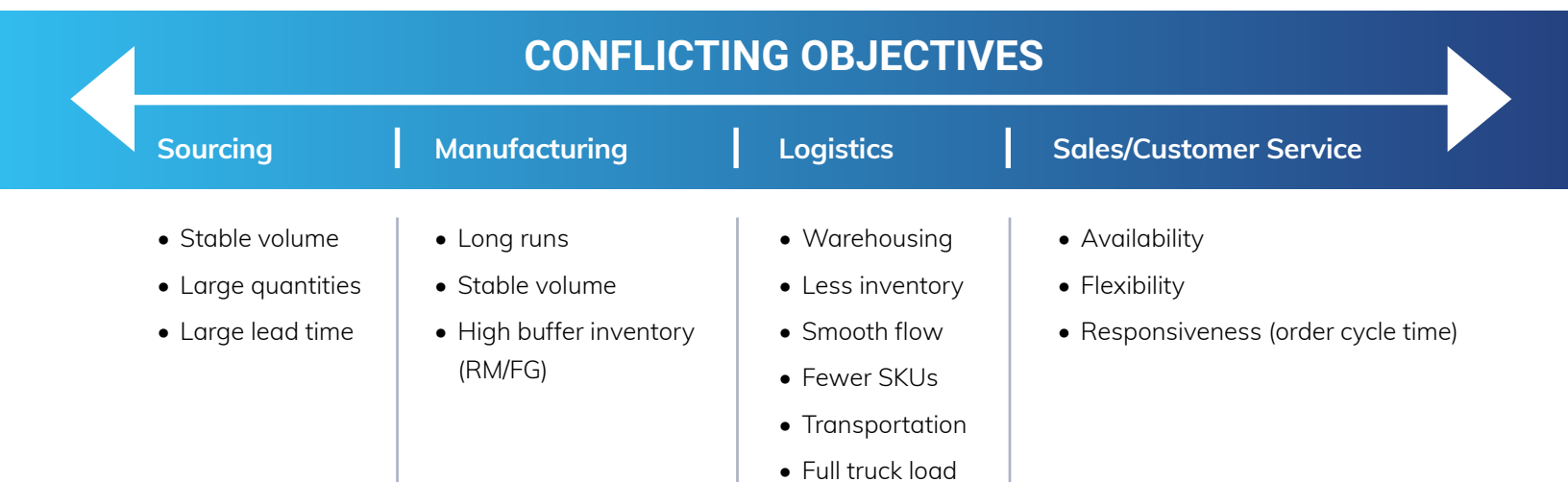
While S&OP process evolution spans thirty-five years, only two out of five manufacturing companies believe that their processes are effective. Why is it so hard? The root issue is the lack of alignment between the finance and operations organizations. Over the past decade, alignment gaps worsened, making it increasingly challenging to drive operational excellence, as shown in Figure 6.

Success happens when the S&OP processes report to a profit center manager. Ideally, the leader understands both the commercial drivers and the supply constraints. This is seldom the reality.

Making the right trade-offs in S&OP requires modeling and collaborative workflows. Only 1/3 of companies have technology capabilities to model "what-if scenarios." Scenario modeling enables executives to visualize to build alternative plans and grows in importance in the face of extreme demand and supply variability.

As companies grew more extensive, multiple S&OP processes evolved. A multinational company more significant than \$5 billion will have four to six separate and distinct S&OP processes--each with a different maturity level. At the same time, many try to drive improvements with significant technology initiatives; based on a decade of research, the most mature start with a clear definition of governance—how to make decisions—after a clear explanation of supply chain excellence. When governance is clear, each party in the process –regional, divisional, and global teams--understands their role in the use of planning technologies to make a decision.

Figure 6. Alignment Gaps



Here we share insights on the challenging organizational change management issues that operational and finance teams need to face together, as shown in Figure 7:

Issue # 1. The Barrier of the Functional Organization. Align Metrics. The first issue is that organizational functions, by definition, are not aligned. The metrics and incentives of business leaders' conflict. So, it is difficult for business leaders to align through cross-functional processes without redesigning metrics to be overarching across functions.

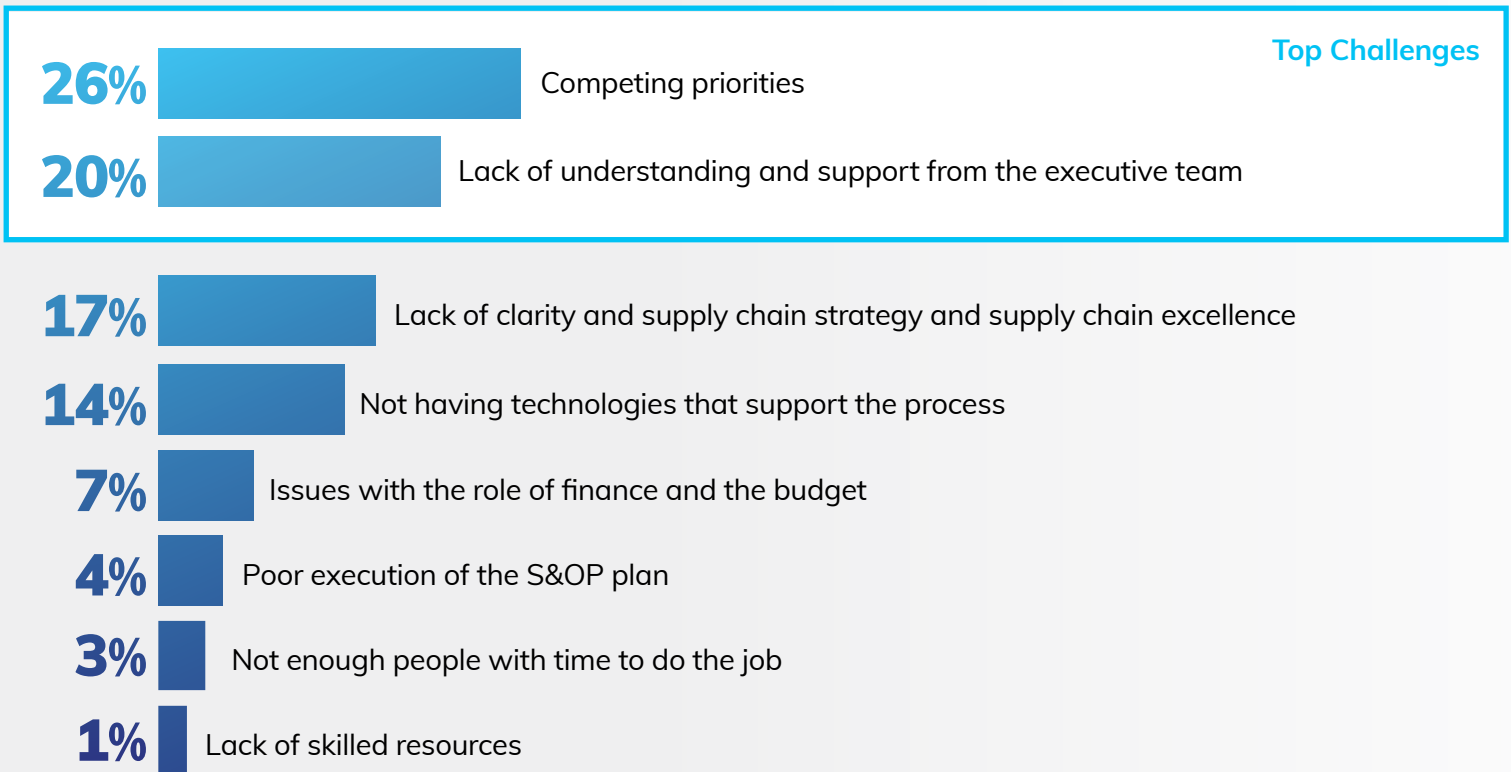
Issue #2. The Lack of Understanding of the Supply Chain as a Complex System. For many, supply chain management as a complex system is an enigma. Many executive teams struggle to understand supply chain metrics' tightly interconnected nonlinear relationships. As a result, the initiative fights to survive with ever-changing priorities or political agendas batter it. To drive the improvements that most companies want and crave, S&OP and aligned metrics need to be part of the operating strategy.

Issue 3: The Lack of Balance. Only 22% of respondents in our recent research feel that the processes are balanced between the needs of commercial and operations teams, as shown in Figure 8a. When the S&OP approach is balanced, the organization can operate at lower costs with less inventory. Finance has the opportunity to be an arbitrator to improve balance. However, the path forward requires clear communication of the operating strategy and aligning the metrics across the organization.

Issue 4: Focus on the Translation of Planning to Execution. What good is planning if it is not tied to execution? Today, only 11% of companies feel they effectively connect the S&OP planning process to performance, as shown in Figure 8b. A correction is necessary to drive the impact of S&OP process improvement into business results. This requires agreement on the line of sight.

Issue 5: Clarity of the Role of the Budget. The financial department uses the budget as a control mechanism to allocate resources and set targets. However, the budget-based on shifts

Figure 7. Largest Challenge in Building an Effective S&OP



in the market potential and shopper preferences—is out-of-date when published. As a result, the S&OP process is an input for budget revisions, but the S&OP process should never be constrained based on the budget. Instead, use market signals (sell-through and competitive information) to understand actual demand and then use network design tools and the planning processes to update budget goals.

Issue 6: Clarity of Options. Align and Understand the Options. Focus on “What-if” Analysis. While good news travels fast within the organization –like success in a new product launch-- terrible news travels slowly. The time to decide grows if the results are unfavorable because organizations are slow to admit market failure. As a result, look for early warning signals and understand your options based on a “what-if” analysis. Capability.

Issue #7. Functional Goals. Sidestep Functional Goals. Functions compete. Go beyond the budget discussion and drive teamwork to ensure that the company can work together to minimize total costs while improving customer service and inventory levels. ❁

CHARACTERISTICS OF EFFECTIVE SALES AND OPERATIONS PLANNING PROCESSES

1. Achieved a balance between the “S” and the “OP” in the process with a focus on the “&”
2. Reports to a profit center manager.
3. S&OP planning builds “playbooks” through “what-if analysis” to guide S&OP execution.
4. S&OP execution of the plan is tightly controlled and disciplined.
5. Each S&OP cycle starts with an after-action review with a focus on continuous improvement.
6. A focus on reliability metrics of each function.
7. Clear role of the budget and the definition of supply chain excellence is well understood.
8. Design of the network flows at least quarterly.
9. Focus on the form & function of inventory.

Figure 8a. S&OP Balance

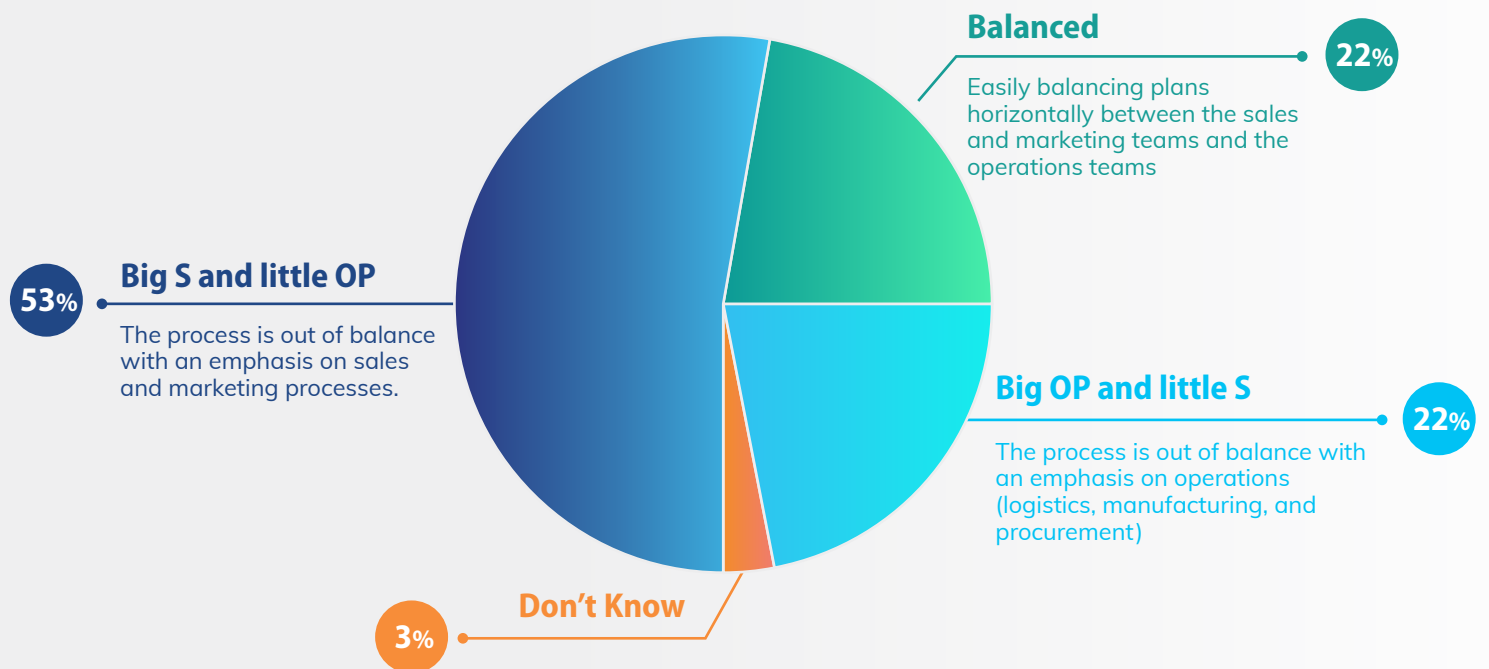
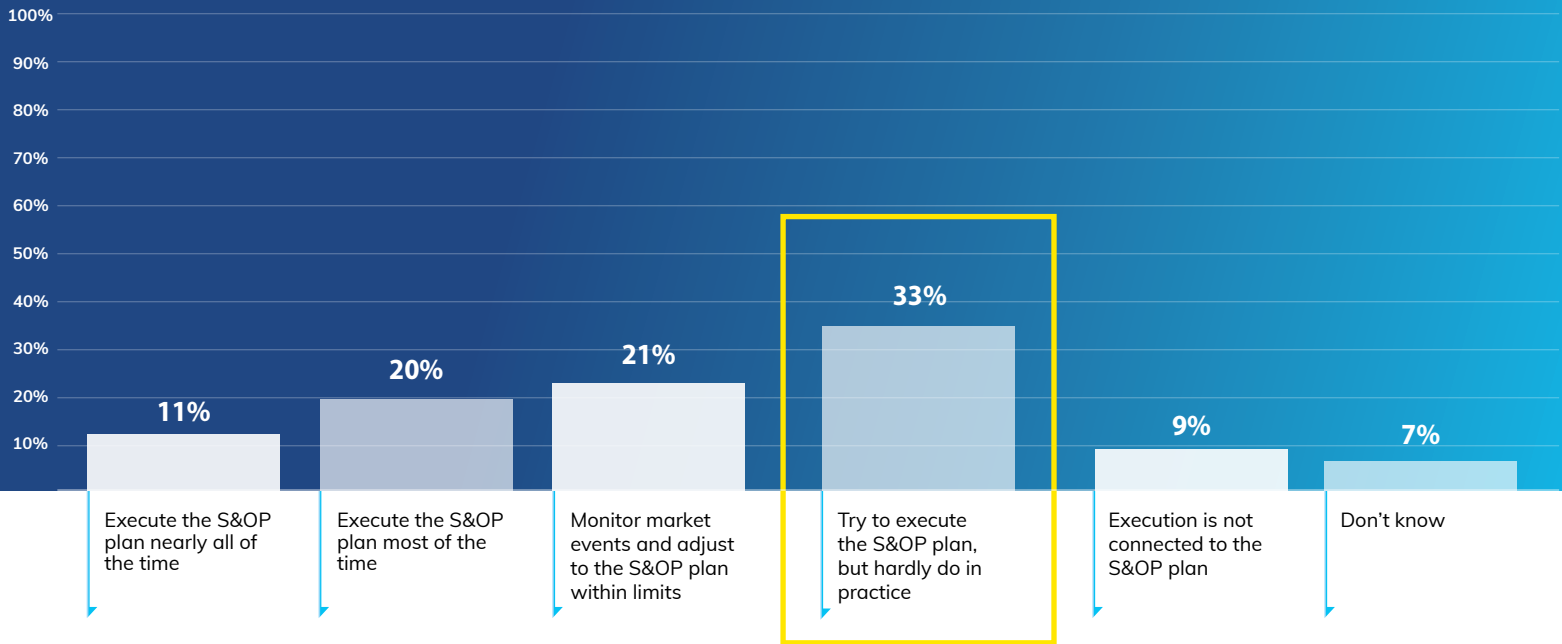


Figure 8b. Typical S&OP Execution



Common Mistakes

In building a guiding coalition for change, there are common mistakes. Here we share observations of companies that struggle to develop successful S&OP processes.

Managing the Supply Chain to the Budget. The budget is out of step with the market the minute it is published. The goal of the supply chain is to maximize margin, minimize inventory and improve the reliability of customer service. Tight coupling of the supply chain to the budget is a death grip for the supply chain making these objectives difficult.

Myopic Focus on Cost. A singular focus on cost throws the supply chain out of balance. This is made even worse if costs are managed to budget. The most efficient (lowest cost per unit) supply chain is not the most effective, especially in these unprecedented times of heightened variability.

IT Standardization. Unfortunately, the large solution providers that were the basis of the IT standardization discussions underdelivered in the last decade on innovation. Today, companies that myopically focus on IT standardization are

statistically less able to use market data to make organizational decisions. While IT standardization makes logical sense, tight adherence denies the organization the opportunity to move with the market based on new forms of analytics.

Mandatory ROI on IT Investment. While we test and learn on product innovation, organizations shut down their ability to learn through technology innovation by mandating a fixed ROI from promising but untested technologies. The use of RFP processes also puts purchasing companies at an additional disadvantage. Instead of forcing all technology investments to meet a Return on Investment target provide funds for operations to test and learn through new technologies. ❁

Recommendations

This paper is written primarily for two audiences: supply chain finance and operations. Here we share recommendations for each party:

ADVICE FOR SUPPLY CHAIN FINANCE

- **Invest in Collaborative Work Technologies.** Use collaborative technologies to build and align work processes. Work together as a cross-functional team to build what-if models to represent true capabilities. In the process, align on the common definitions and line of sight. Jointly build an understanding of what matters and how to synchronize. Align on the required granularity and measures of success. Tether the work process to what is valued by the customer. Build the model from the customer back to operations.
- **Drive Unity.** At a personal level, manage self in day-to-day interactions. Listen for understanding and avoid building functional walls—instead, gain a common understanding of the impact of the decisions being made. Use technology, not spreadsheets, to visualize impacts on functional groups, constraints, and outcomes.
- **Ensure Action.** Gain cross-functional agreement on the definition of a feasible plan. Understand the required granularity and measures of success. Build the models to ensure the right discussions happen on Capex versus Opex trade-offs.
- **Governance.** Redefine work based on a common understanding of how to best use technologies to improve decisions. Clearly define the role of finance and operations along with the role of the division, region, and operating teams. Spend time educating the organization on how to improve decision-making using new technologies. Don't assume that this will be clear.
- **Decrease Process Latency.** Measure the time to make a decision. Use after-action review to analyze the success of the process. How good was the decision? How long did it take to drive action? How can this be improved?

ADVICE FOR SUPPLY CHAIN OPERATIONS

- **Drive Clarity on Supply Chain Excellence.** Overcome functional barriers within operations to implement a holistic design that focuses on the customer back for the right sizing of batches, run times, and lead times. Work with the cross-functional teams of manufacturing, procurement, customer service, and logistics to ensure a common understanding.
- **Synchronization.** Move past the concepts of integration to embrace the concepts of synchronization to understand the impact of flow and orchestrate the rhythms for supply chain tiers and inventory levels. Model form and function of inventory with each S&OP cycle and gain cross-functional alignment with finance.
- **Learn the Language of Finance.** Get clear on the definitions of key metrics. Gain agreement on the key metrics for corporate strategy and understand the levers within operations to improve performance. Build models to understand how the supply chain as a complex non-linear system impacts these metrics. Share and train the operations team to build a guiding coalition.
- **Educate.** Identify the trade-offs and constraints within the supply chain and gain buy-in from the executive team. Don't assume that these are obvious within the organization. Use visualization technologies to help others understand the trade-offs.
- **Be Clear on the Role of Time.** In the definition of supply chain excellence get clear on the role of time and variability in driving the supply chain response. Define this for each supply chain based on rhythms and cycles of supply chain flows. Define lead times and the impact of logistics trade-offs on cost and inventory levels. Help the organization to avoid reactive behavior.
- **Visibility.** Use visibility technologies to make better decisions on fulfillment. Use this data to improve allocation and Available to Promise (ATP) rules in the operational horizon. Drive visibility to outcomes. ❁

Conclusion

Organizational alignment between finance and operations is critical for improved business results, but the groups do not naturally align due to the lack of standard definitions and line of sight. Improving the collaboration between the two groups Requires work. The implementation of collaborative technologies and the redefinition of work is an opportunity to close the gap. In the face of growing business continuity gaps, improving planning between the two groups is critical. ✨

About Lora Cecere



Lora Cecere (Twitter ID @lcecere) is the Founder of Supply Chain Insights LLC and the author of the famous enterprise software blog Supply Chain Shaman, currently read by 28,000 supply chain professionals. She also writes as a LinkedIn Influencer and is a contributor to Forbes. She has written nine books.

With over twelve years as a research analyst with **AMR Research**, **Gartner Group**, and **Altimeter Group**, and now as a Founder of Supply Chain Insights, Lora understands supply chain. She has worked with over 600 companies on their supply chain strategy and speaks at over 50 conferences a year on the evolution of supply chain processes and technologies. Her research is designed for the early adopter seeking a first-mover advantage.

About David Food



David Food leads Supply Chain within Board International, developing future thinking for decision support platforms to enable Supply Chain Executives to make informed, effective decisions for Supply Chain empowered businesses. With over thirty years of experience in providing insights on Supply Chain strategy, systems, and solution usage, he is particularly interested in how companies can leverage emerging technologies and approaches to gain differentiation.



About Supply Chain Insights LLC

Founded in February 2012 by Lora Cecere, Supply Chain Insights LLC focuses on delivering **independent, actionable, and objective advice for supply chain leaders**. The company's focus is supply chain research to help innovators better understand supply chain trends, evolving technologies, and which metrics matter



About Board International

Board is the Intelligent Planning Platform that offers smarter planning, actionable insights and better outcomes for more than 2,000 companies worldwide. Board allows leading enterprises to discover crucial insights which drive business decisions and unify strategy, finance and operations to plan smarter and achieve full control of performance across the entire organization. With Board, companies can manage and control their entire planning process from goal setting down to operational execution in one, user-friendly environment.

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