CCH® Tagetik e-Book

How to bring supply chain operations on the xP&A journey

Why achieving full visibility between finance and operations will not occur unless the supply chain is included

Wolters Kluwer

The events of the last few years have highlighted just how diverse and scattered business drivers can be

Lending rate and FX movement, supplier outages or bottlenecks, changes in buyer behavior and sales demand: these and countless other variables highlight the fact that no element of the supply chain exists in isolation.

It should seem obvious that, if a particular driver is relevant to an organisation's planning, it needs to be incorporated within planning processes, as failure to include it could risk drawing conclusions and making decisions that do not fully reflect reality.

Logical though it may be in theory, this principle is not always easy to follow in practice. This is especially true when those drivers originate at arm's length from the organisation itself, including the wider supply chain. Changes to what may seem a fairly peripheral element can have severe and often hard-to-predict consequences for the business.

Let's explore why it's imperative to have full visibility between finance and operations — and give you a map for how to get this advanced alignment.

This e-Book will break down:

- Why supply chains and finance are disconnected
- How to bridge the gap between supply chain and finance
- What's missing in existing supply chain planning processes and technologies
- The difference between IBP and xP&A solutions
- How xP&A can help you read supply chain warning signs.

The great divide: For many companies, supply chains and finance are miles apart

Wolters Kluwer recently hosted an expert-led webinar on supply chain best practices where participants were invited to assess the extent their supply chain was integrated into their finance planning. Here are a few of their findings:

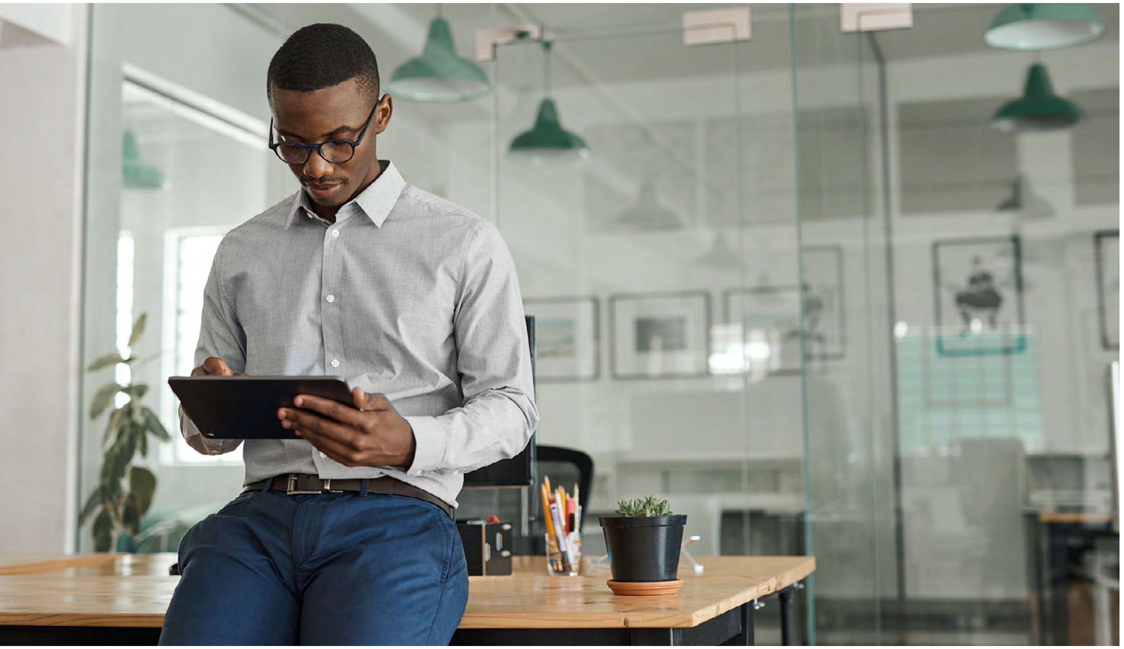
- **Only 10% of respondents had achieved full integration status**
- **52% had achieved partial integration**
- **38% of organisations, ‘supply chain planning’ and ‘finance planning’ were completely disconnected.**

There is nothing new about attempting to achieve formalised integration between supply chain planning and finance. It seems, however, that legacy processes and technologies are failing short in this aim.

xP&A is the evolution of planning beyond the finance function. This evolution does not have to be limited to just a handful of proximal business activities. Rather, the approach can and should be extended to all elements of the supply chain.

Out of sight, out of mind? Putting the supply chain on finance's radar

Events within the wider supply chain can have direct repercussions for business continuity, liquidity, and reputation (e.g. the ability to deliver on service level agreements). In some cases, supply chain events can pose an existential threat to an entire organisation. This much should be self-evident to any corporate finance professional. But in terms of real or near-time visibility, the wider elements of the chain can often remain out of view from finance.

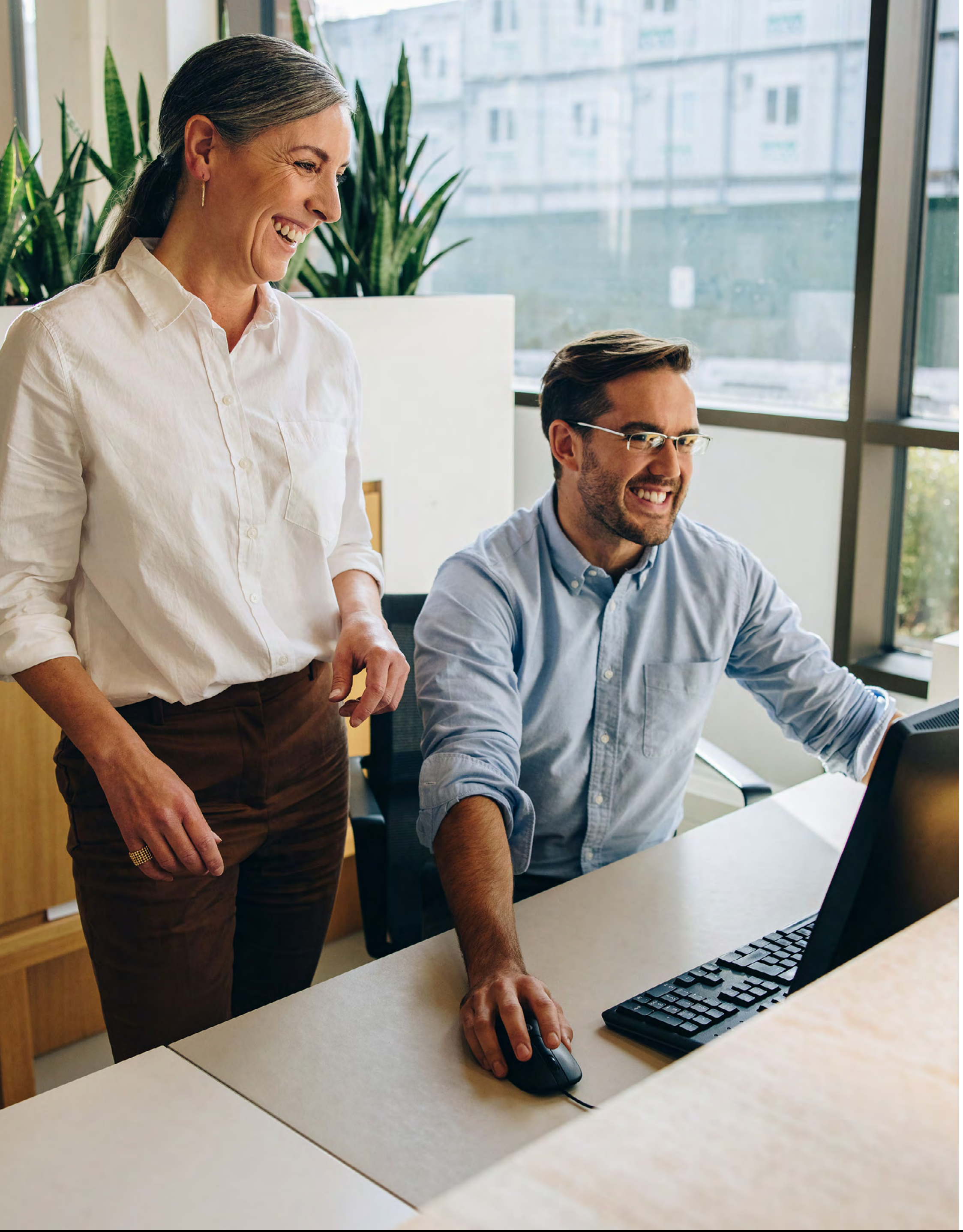


James McEntee, UK MD of CCH Tagetik points out the risks inherent in having supply chain blind spots:

"Supply chain issues historically haven't been seen as finance issues.

"But supply chain problems very quickly become cashflow problems, and land on the CFO's desk. Forewarned is forearmed.

"The office of finance can become a true business partner to demand and supply chain planning teams, ensuring clearer lines of sight and better-informed decisions right across the business."



There can sometimes be a tendency to ‘talk the talk’ on integrating supply chain data into finance planning and decision-making. However, the way in which a company’s operational network is organised can pose a barrier to achieving this. Under long-established structures, there may be a web of discrete systems that pass on fairly minimal data from one element to the next. Ultimately, some of this aggregated data may find its way to finance to be incorporated into the FP&A process. However, what this essentially comprises is topline information, i.e. static data that tells you in the broadest possible terms what happened yesterday or last quarter.

If true end-to-end visibility and integrated planning is to be achieved, a change of mindset may be needed. In other words, a realisation that the supply chain – including its operational elements – are very much finance’s business. Clearer, more comprehensive lines of sight need to be a top priority.

Existing supply chain planning processes and technologies: **What's missing here?**

Very young organisations aside, supply chains are rarely shaped by deliberate design. They morph and are subject to tweaks over time as business objectives and priorities evolve. If finance leaders want a truly integrated view of the business, the first step is to get into the weeds, to understand what discrete data repositories and systems are currently involved, what data they produce and how the systems speak to each other.

No supply chain can operate unless its various elements can communicate with each other and are somehow aligned to the overall business strategy. Over recent decades, the standard way of achieving this is through the business process known as integrated business planning (IBP). If a finance professional only has passing knowledge of IBP methodologies, this is entirely understandable: IBP is very much an operations-led approach, where the number one priority is usually predicting and meeting demand.

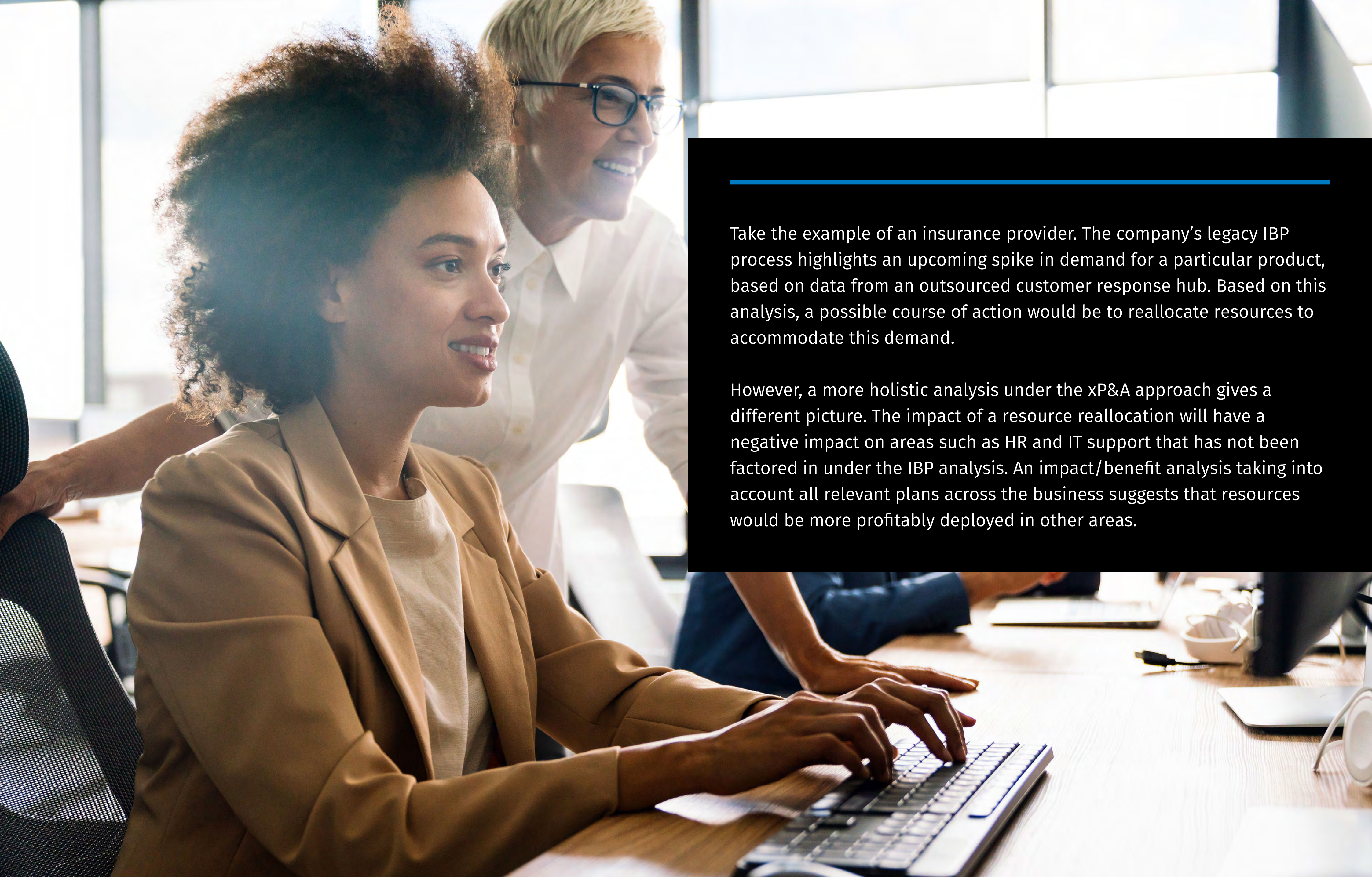
Delve a little deeper into existing IBP processes and the technologies that support them, and there may be certain reporting and even analytical capabilities within a business. Indeed, the consolidation of whatever supply chain data are currently integrated into existing FP&A processes may be reliant on this functionality.

This poses a question: if finance wants to achieve greater visibility across the supply chain, then why not simply make greater use of existing IBP solution features?

What's the difference between IBP and xP&A solutions?

Traditional IBP's main goal is to ensure that supply of your product or service offering meets demand. Certainly, this approach to planning considers broad business objectives, but those objectives are usually ones that originate outside of finance. Sales and marketing targets, for instance.

By contrast, the xP&A approach has a subtly different intent. It is designed to ensure that operational processes are fully aligned with an organisation's financial performance.



Take the example of an insurance provider. The company's legacy IBP process highlights an upcoming spike in demand for a particular product, based on data from an outsourced customer response hub. Based on this analysis, a possible course of action would be to reallocate resources to accommodate this demand.

However, a more holistic analysis under the xP&A approach gives a different picture. The impact of a resource reallocation will have a negative impact on areas such as HR and IT support that has not been factored in under the IBP analysis. An impact/benefit analysis taking into account all relevant plans across the business suggests that resources would be more profitably deployed in other areas.

How xP&A can help you read supply chain **warning signs**

Being able to see the whole picture is obviously crucial for effective end-to-end planning. But creating true agility – the ability to respond rapidly to unpredicted and uncertain events – requires several further steps.

Discrete, operation-specific software already in play across your organisation may have analysis capabilities. Typically, however, these are of the 'descriptive' type: the solution can tell you what happened, where, and why.

But true risk mitigation across the chain also requires companies to ask: 'What will – or might – happen?' thereby allowing for the amending or removal of any weak links at an early stage. This is the essence of [predictive analysis], a tool that is crucial for mitigating supply chain risk.

Using machine learning capabilities to 'train' predictive models allow planners to continuously update plans and generate increasingly accurate forecasts and predictions. If an event occurs or a driver alters, predictive insights give you the ability to measure its likely implications, right across the business.

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Where to next?

The robust approach to planning that xP&A gives you comes with the potential to understand not just what is happening across the business units, but beyond the business walls. The presence of world-class technology in support of your initiative makes it easier than ever for external partners (e.g. logistics and technical support) to share their data, helping to generate ever more accurate forecasts and predictions. The end result is that all relevant drivers are in the planning and decision-making mix.

With CCH Tagetik Extended Planning, you get planning and analysis for everyone. This xP&A solution gives leaders – across finance, sales, HR, supply chain, and operations – a deep, holistic understanding of enterprise planning data. By empowering teams to leverage the intelligence of the collective, planners can spot important signals to guide decisions, all while aligning plans to broader organisational goals.

Learn more about CCH Tagetik Extended Planning →