Six ways CFOs and CSCOs can collectively drive value

EY Center for Executive Leadership

Building a better working world

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01 Why collaboration is critical — and challenging

Despite the challenges of frequently diverging objectives between finance and supply chain leaders, the value that these executives can collaboratively unlock is transformative.

In today's ever-changing environment, business success requires C-suite leaders who can align on goals, priorities and approaches. This is especially true of the chief financial officer (CFO) and the chief supply chain officer (CSCO).

Alignment between these critical leadership roles and their respective organizations can drive successful, efficient collaborations on six critical business issues:

- Effective cost management
- Digitalizing supply chain operations
- Redesigning the supply chain global architecture and operating model
- Inventory and working capital optimization
- Integrated business planning
- Mergers and acquisitions

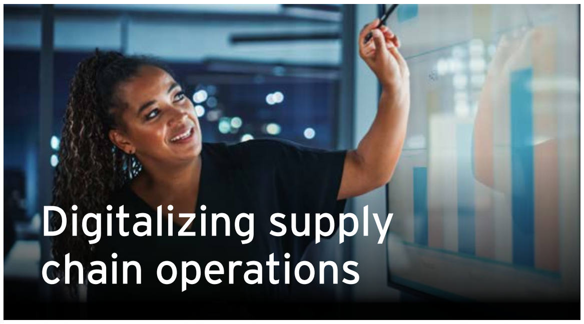
Organizations across industries and around the world are seeking to bolster their economic resilience and gain a competitive edge. A CFO-CSCO collaboration is instrumental to achieve these goals; however, it can be challenging to achieve as CFOs and CSCOs are faced with potential misalignments. For example, CFOs and CSCOs can differ on the optimal level of investments and budget required for operations and supply chain; they often have competing financial and supply chain priorities; they can be misaligned on risk management and resiliency; and they can have conflicting environmental, social and governance (ESG) goals.

In this article we explore six areas of collaboration that can boost the performance of these functions, connect them better and improve the overall organization results.

> "Supply chain transformation is a team sport that requires strong collaboration between CFOs, CSCOs and other key business leaders. Working together to drive alignment on organizational goals, prioritization of initiatives and investment profiles will ensure that a supply chain is appropriately optimized and digitally enabled to meet its customer and financial commitments.
>
> — Mike Dumais,
> EY COO/CTO Advisor in Residence

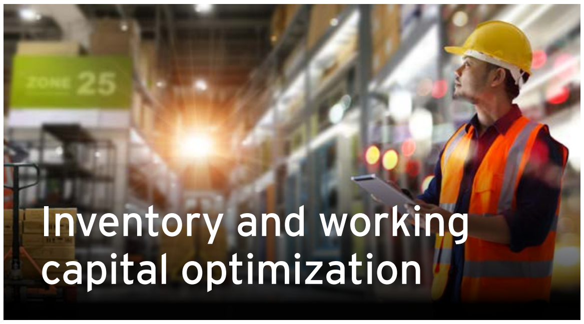
02 Six areas of CFO-CSCO collaboration

Effective cost management



Digitalizing supply chain operations

Redesigning supply chain architecture



Inventory and working capital optimization

Integrated business planning (IBP)

Mergers and acquisitions

Area 1 — Effective cost management

CFOs play a critical role in building and driving a holistic approach to cost management. CSCOs are vital partners to help CFOs achieve this goal, given the amount of operational and capital expenditures they control.

An effective solution is to prioritize supply chain cost management initiatives, such as:

- Sourcing from lower-cost manufacturers
- Driving inflation clawback from suppliers
- Reducing portfolio complexity
- Optimizing plant and distribution networks
- Enhancing plant operating efficiency
- Optimizing logistics spend
- Sourcing strategically

CFOs can build and leverage integrated data and analytics platforms to provide relevant and timely information to drive better cost management.

Three actions to collaborate on cost management:

- CFOs and CSCOs must collaboratively arrive at a **risk-adjusted cost optimization plan that is in sync with wider organization-level strategies. CFOs can help set the cross-functional targets, align on the required investments into talent, and support the change management efforts to deliver on the cost transformation efforts.**
- CSCOs must engage in **scenario planning** with CFOs to address different macro conditions with respect to governmental policies and regulations, the foreign exchange, and other volatile global scenarios that can impact supply chain strategy and operations.
- CFOs can help CSCOs regularly review the **company's contracts with vendors and their performance** to continuously **renegotiate better terms**.

Area 2 — Digitalizing supply chain operations

Many CSCOs are driving a substantial digitalization of their operations with initiatives around autonomous planning, procurement analytics, digital factory and digital logistics, among others. These initiatives not only need the budget support and funding from finance leadership, but CFOs insights and financial management can also be crucial to ensuring the financial returns from these initiatives materialize in the bottom line.

Three actions to collaborate on digitalization:

- CSCO **identifies digitalization opportunities** crucial for supply chain transformation, while CFO **performs cost-benefit analysis** to support those transformation efforts.
- CFO and CSCO work together to **assess and prioritize the most lucrative** business cases and "quick wins" for technology upgrade projects.
- **CFO and CSCO define and align on KPIs that measure the success of digitalization** efforts (including moving "from pilot to scale-up") and set up robust governance to track progress of the business case.

Area 3 — Redesigning the global supply chain architecture and operating model

CSCOs and CFOs can effectively collaborate to rethink and restructure a company's supply chain strategy, global footprint (plants, warehouse) and allocation across geographies to achieve its strategic goals, including asset-light strategy, operating model optimization (for standardization/efficiency vs. localization) and sustainability-led functions.

Three actions to collaborate on supply chain configuration:

- Align on a global supply chain architecture, operating model and the related investments that helps balance across multiple objectives including supply chain costs, resiliency, agility and delivering on stated ESG/sustainability goals.
- Collaborate to **improve the return on asset (ROA) profile of the organization, including exploring the ownership of high-cost assets on the balance sheet** and other network optimization opportunities that can drive higher returns (e.g., divesting or finding other structures for capital-intensive assets).
- **Build an integrated view of the investments and benefits expected by new strategic, enterprise transformation initiatives;** given the nature of these enterprise transformation (e.g., impacting many functions), the CFO together with the CSCO are key executive sponsors of any enterprise transformation program.

Area 4 — Inventory and working capital optimization

Optimizing working capital, which involves managing inventory levels, accounts receivable, and accounts payable, is crucial for both CSCOs and CFOs to ensure cost-efficient day-to-day operations.

Three actions to collaborate on working capital:

- Decide on **optimum inventory levels** that will neither lead to excess inventory nor affect the service levels due to shortages.
- Work together to **establish favorable accounts payable terms** with suppliers that will improve the company's cash flow.
- Develop **accurate cash flow forecasts** that consider the timing of cash inflows and outflows related to supply chain activities.

Area 5 — Integrated business planning (IBP)

IBP is a combination of two functions – Financial Planning & Analysis (FP&A) and Sales & Operations Planning (S&OP). FP&A focuses on revenue, cost and capital allocation; S&OP focuses on demand, inventory, production and supply. IBP solutions connect demand, finance, operations and supply chain data on a single platform to provide end-to-end visibility and improve forecasting capabilities. IBP helps business leaders make timely and informed decisions.

Three actions to collaborate on IBP:

- **Jointly implement IBP digital platform** that integrates sales and operations planning and financial planning and analysis.
- **Convene all stakeholders** (inventory managers, supply chain leaders, demand planners) for periodic IBP reviews to track accurate and timely data.
- Collaboratively **formulate and review contingency plans** addressing potential disruptions/constraints within the supply chain and organization that could impact financial performance.

Area 6 — Mergers and acquisitions

When dealing with company valuations, the CFO and CSCO can collaborate to assess potential supply chain and sourcing risks, such as long lead times, the need for a diverse supplier base, currency fluctuations and tariff restrictions. Both leaders can collaborate to identify assets that could be carved out for other players, improving ROI.

Three actions to achieve this:

- Outline **synergy opportunities and potential supply chain vulnerabilities** through a comprehensive risk assessment of the target company.
- Develop strategies to **mitigate probable risks** and ensure they are factored into company valuations and financial planning and build an integration plan for the supply chain.
- Identify and execute asset light strategy by collaborating and identifying options to reduce firm's assets.

The six areas above are not necessarily exhaustive. For example, CFOs and CSCO can collaborate on talent development and assign finance professionals to supply chain roles (and vice versa) to cross-pollinate the two functions and position high-potential talent for broader leadership roles in the future. But these six areas and actions can help bring together two even more distinct functions that are critical to the business and closely intertwined.

> “
> Supply chain is more than an operational function. It is a strategic capability that has the potential to strengthen a company's competitive edge and unlock meaningful shareholder value — outcomes that are enabled by intentional collaboration between the CFO and CSCO.
>
> **– Pat Grismer, EY CFO Advisor in Residence**

03 Key metrics to collectively target and track value

A CFO-CSCO collaboration benefits the organization through both intangible and tangible improvements. While measuring intangible indicators is subjective, standard tangible performance indicators that can help measure success of a collaboration include:

Cash conversion cycle	Indicates the time (days) it takes for a company to convert its investments in inventory and accounts receivable into cash, a vital metric for CFOs and supply chain officers to optimize working capital, inventory management, and ensure financial efficiency.
Operating margins	CFOs monitor margins to gauge profitability and financial health, while CSCOs use them to assess the cost-effectiveness of supply chain operations and pricing strategies, to ensure sustainable profitability.
Return on capital employed	This allows both the CFO and CSCO to assess how efficiently the capital was utilized to generate returns. This measure also helps in assessing the efficiency of the current asset strategy.

A note on alignment of sustainability goals

The recent EY supply chain sustainability report also shows that many executives have long-term sustainability goals for their supply chains, but only a few have the visibility, technology and comprehensive programs in place to measure their progress. Collaboration between CFOs and CSCOs can manage challenges in this area via structured and well-defined governance and KPIs.

When the CFO and CSCO meaningfully collaborate on enterprise priorities, all are better equipped to help the organization achieve strategic goals — and equip the supply chain to be more resilient and efficient. These are powerful contributions to the overall success of the organization.

In summary

In the ever-evolving modern business landscape, collaboration between CFOs and CSCOs has transcended traditional boundaries to become a pivotal driver of success. It unlocks efficiencies, reduces costs and ensures financial stability, while enhancing supply chain resilience, fostering innovation and positioning organizations to thrive in a rapidly changing world.

In an era where disruption is the new normal, global supply chains face unprecedented challenges and the "digital divide" is both widening and increasing in its level of impact, the synergy between CSCOs and CFOs is more critical than ever to convert supply chains from a "lights-on" function to a strategic differentiator for the organization. Together, through collaboration on cost management, digitalization, working capital optimization, supply chain redesign and integrated business planning, they can weather the storms and navigate the opportunities, charting a course toward sustainable success and delivering on the near- and long-term goals of the organization.

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