

# Connecting supply chain and finance to optimize working capital and profitability

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With summer vacations behind them, many FP&A professionals will be sitting down at their desks wondering what they can do to improve their upcoming annual budgeting processes. Their top concerns are likely to include maintaining a tight grip on costs and working capital while striving to improve the accuracy of their budget and cash flow forecasts.

But many in finance realize they will never achieve these goals in isolation and are beginning to look into the benefits of connecting their core FP&A processes with other [enterprise planning cycles](#) such as sales planning or workforce planning. Recent research suggests that those in FP&A roles in businesses such as retail, distribution, and manufacturing, which have a large proportion of their working capital tied up in inventory, should do more to integrate their FP&A processes with supply chain planning as well.

## Cash conversion cycle slipped during 2016

Despite persistent global economic uncertainty, companies in these sectors are generally doing well. However, findings in the recently published [2017 Europe Working Capital Survey](#), commissioned by the global working capital management consultancy REL, show the cash conversion cycle (CCC) of Europe's top 1,000 non-financial companies slipped 3.6 percent in 2016 ([click to tweet](#)) as net working capital expanded. The authors of the report point out that, collectively, Europe's 1,000 largest public companies face another year where they will lose the use of over 1 trillion euros that is locked up in net working capital. So how and why has this happened?

Inventories build up when sales fall below what planners originally anticipated or when planners expect a sales uplift that has yet to materialize. Either way, it's due to sales forecasts, demand

planning, and supply chain planning being temporarily out of step. But no matter how or where the problem started, all the chickens come home to roost in finance, resulting in higher costs and working capital requirements, lower operating margins—and perhaps even the company's stock price taking a hit.

## Cross-functional processes between supply chain and finance are key

Reducing working capital requirements and creating a leaner and more cost-effective supply chain require the creation of agile planning processes that connect financial forecasts with sales and operations planning (S&OP) and supply chain planning. Anyone in a planning role in the retail, consumer packaged goods, or manufacturing sectors will tell you that this is complex and involves lots of trade-offs between conflicting factors such as stocking levels vs. customer service targets and the cost of goods vs. replenishment times. They are right—but it can be done.

Using the Anaplan platform, the food producer [Del Monte](#) aligned its supply chain planning and FP&A processes, reducing cycle times from two weeks to two days. Having everyone sharing information on the same real-time platform has also improved data accuracy, enabling Del Monte to run on-the-fly analyses. This is critical to assessing how best to respond to inevitable disruptions and sudden opportunities in a way that makes both operational and financial sense.

At a time of constantly fluctuating consumer demand and increasingly volatile raw material prices, connected planning is rapidly becoming a must-have capability. Read more about how Del Monte and other companies that have benefited from connecting planning processes across their organizations.



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## About the Author

An expert in the field of financial software, Richard Barrett spent half his career seeking out and working alongside entrepreneurs to maximize their companies' values and the other half in commercial roles in the multinationals that subsequently acquired them. His experience spans both large and small companies in sportswear, express parcels, insurance and, in the last two decades, financial software. He first became involved in cost management and driver based planning in the late '80s, has taught and written on them for the UK's Chartered Institute of Management Accounting and ended his career marketing them at ALG Software, BusinessObjects and SAP.

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