



DynamicFinance

Connecting Business Finance with
Commercial and Supply Chain

January 2023 | Adapt. Thrive. Lead.



“No one can whistle a symphony.
It takes a whole orchestra to play it.”

- Halford E. Luccock

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The big picture – Spotlight on Finance, Commercial and Supply Chain

SPOTLIGHT ON THREE KEY FUNCTIONS

Cross-functional collaboration, executed effectively, has made the difference between "average performing" organisations and those that are leaders in their markets, able to collaborate seamlessly and pivot efficiently to fast changing market conditions.

In recent times, factors like the pandemic, geo-political crises and volatile macro environments have catalysed the need for robust integration across planning & reporting - between Finance, Commercial, and Supply Chain functions, attracting significant attention from organisations.

Commercial has to react to fast changing consumer habits, Supply Chain has to cope with demand volatility alongside network disruption, and Finance has to model the impacts of all these changes, near real-time, with increasing accuracy to ensure enterprise financial performance remains on course.

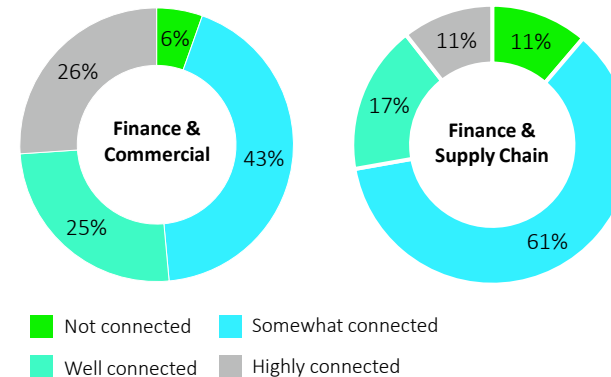
Whilst collaboration between Finance, Commercial, and Supply Chain has improved, the connect with Finance remains reactive, inflexible and manually-intensive.

CHALLENGES REMAIN

Whilst collaboration between Finance, Commercial, and Supply Chain has improved, the connection with Finance remains reactive, inflexible and manually-intensive. This is highlighted by figure 1, where 49% of respondents still see Commercial and Finance functions as not connected or somewhat connected, and 72% for Supply Chain and Finance.

The collaboration between operations and Finance for many companies still often occurs too late in the planning & reporting cycle. As a result, Finance miss the opportunity to influence Commercial and Supply Chain decisions at the right time, improve the quality of planning decisions and steer enterprise financial performance.

Figure 1. How connected are plans, budgets and forecasts between Finance and Commercial or Supply Chain?



Source: Deloitte Global Planning, Budgeting, & Forecasting survey

WHAT'S NEW?

What if in your organisation, financial, commercial and supply chain data was finally connected without heavy manipulation? Couple this with an intelligent connected planning & reporting tool, able to show the real-time financial impact of operational decisions. The result? A rapid, transparent and agile performance management cycle across all three functions. Our experience has shown that connecting these functions effectively can free up as much as 40% more time in the financial planning cycle.

CFOs, often at the heart of enterprise-wide transformations, can help make this happen. Over the next few pages, we will explore how.

Traditional collaboration – The impacts of disconnection

FINANCE & COMMERCIAL

2 days later...

Finance
Hi John, sector revenue performance is down by 15% to plan in Q2....I heard the launch of Brand Y would help drive growth? Variance explanations are needed by end of week.

Finance
John, I calculated promoted sales growth for Brand Y in Excel earlier. Net revenue has been in decline since Q1. Why wasn't this flagged to Finance sooner?

Commercial
Well...the volumes haven't been as high as we expected, we're hoping our promotional campaigns launched gain traction to close our demand plan gap.

Commercial
Really? We don't have visibility of this Finance data... could you send me that Excel when you get a chance?

FINANCE & SUPPLY CHAIN

3 days later...

Finance
Hi Gulpreet, our labour costs have increased by 20% last quarter. I thought we bought a new machine to increase capacity and reduce overtime levels?

Finance
Gulpreet, I see we're now paying 30% more in outsourced labour for our co-manufacturer. Did we not check other internal plants first for spare capacity at lower cost?

Supply chain
One of our older machines broke down which we're still repairing. We ended up using our co-manufacturer, given the short notice.

Supply chain
We were only looking at volume and capacity data. Using a co-manufacturer seemed the easiest option at the time of planning. I didn't know they were that expensive!

Currently, a gap exists for Finance, from being 'linked' to Commercial and Supply Chain versus truly 'connected'. Interactions are still reactive instead of proactive, diluting Finance's ability to add value and influence Commercial and Supply Chain decisions at the right time.

BARRIERS TO CONNECTIVITY

IMPACT OF DISCONNECTION

Misaligned data hierarchies and definitions
Where e.g., 'product A' data isn't directly comparable between Finance, Commercial and Supply Chain

Manually-intensive data manipulation
Without readily aligned data, volume plans must first be manually converted to a compatible level for financial planning and reporting

Disconnected systems
Financial Planning solutions sit in silo to other Commercial solutions (i.e. TPM, DP) and Supply Chain solutions (i.e. MRP, TMS)

Multiple versions of the truth
Confusion arises on which plan is the 'right' one if different numbers are shown within different functional systems

Siloed governance forums
Commercial and Supply Chain (e.g. sales & operations planning) forums occur without any Finance representation

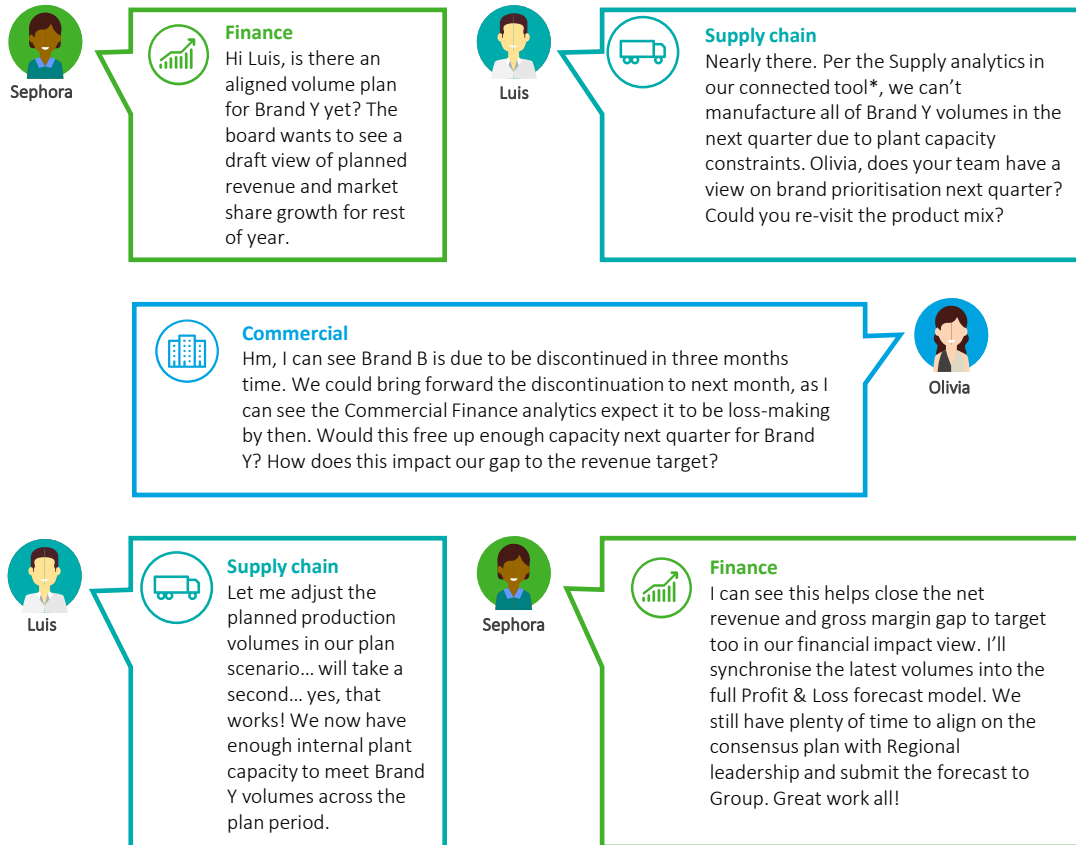
Incomplete decision making inputs
Decisions made by Commercial and Supply Chain risk being volume focused and counter-productive to enterprise financial performance or targets set

Mindset and culture
Finance prioritise alignment to the financial budget targets, neglecting the need to be agile and collaborate around new Commercial or Supply Chain risks and opportunities

Lack of executive visibility
Upside opportunities or downside risks are not made visible for executive leadership to inform decision making (e.g. changes in strategy required), due to a bias around 'gap plugging' to target

Collaboration of the future – key enablers and benefits of being connected

FINANCE, COMMERCIAL AND SUPPLY CHAIN

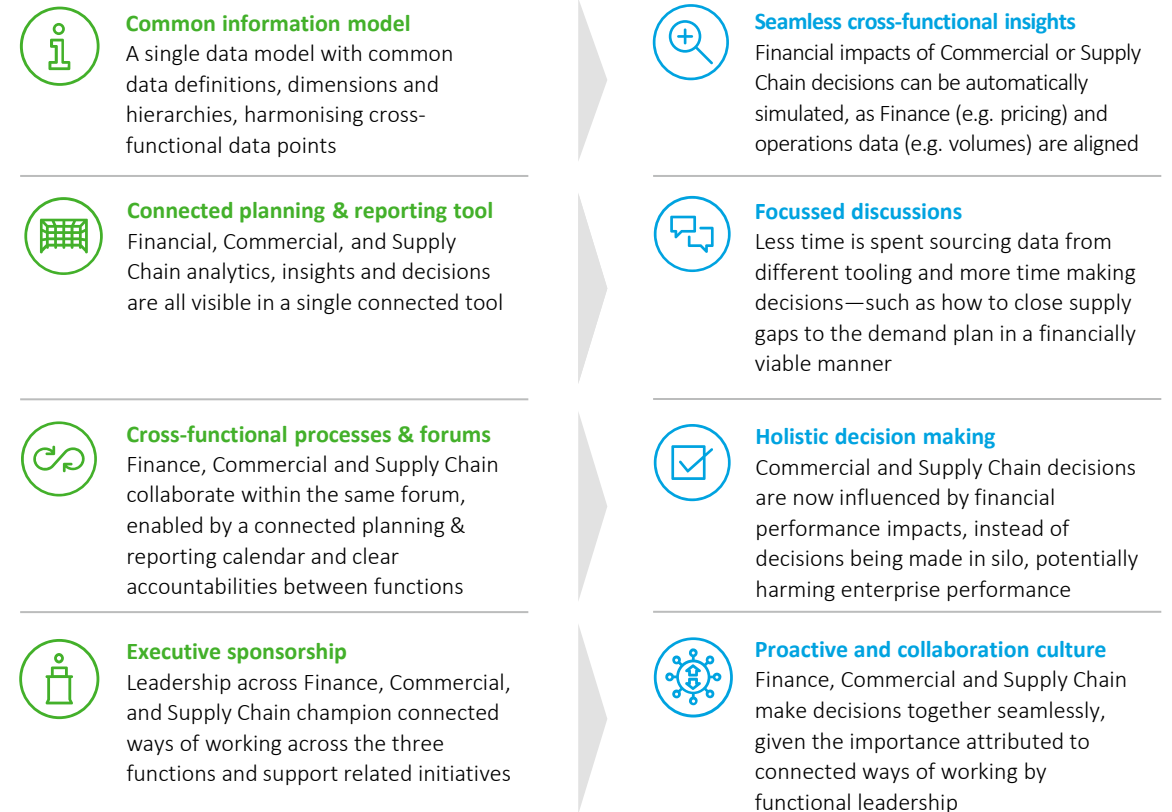


**Connected planning & reporting tool: For the purpose of this insight, the connected planning and reporting tool is the collaborative modelling solution supporting development of a consensus 'volume' plan - which Business Finance leverage as an input driver to create the full financial forecast*

On adoption of connected and collaborative practices, supported by a robust connected planning & reporting tool*, Finance, Commercial, and Supply Chain can shape scenarios rapidly together, aligning on decisions to drive forward enterprise performance with agility.

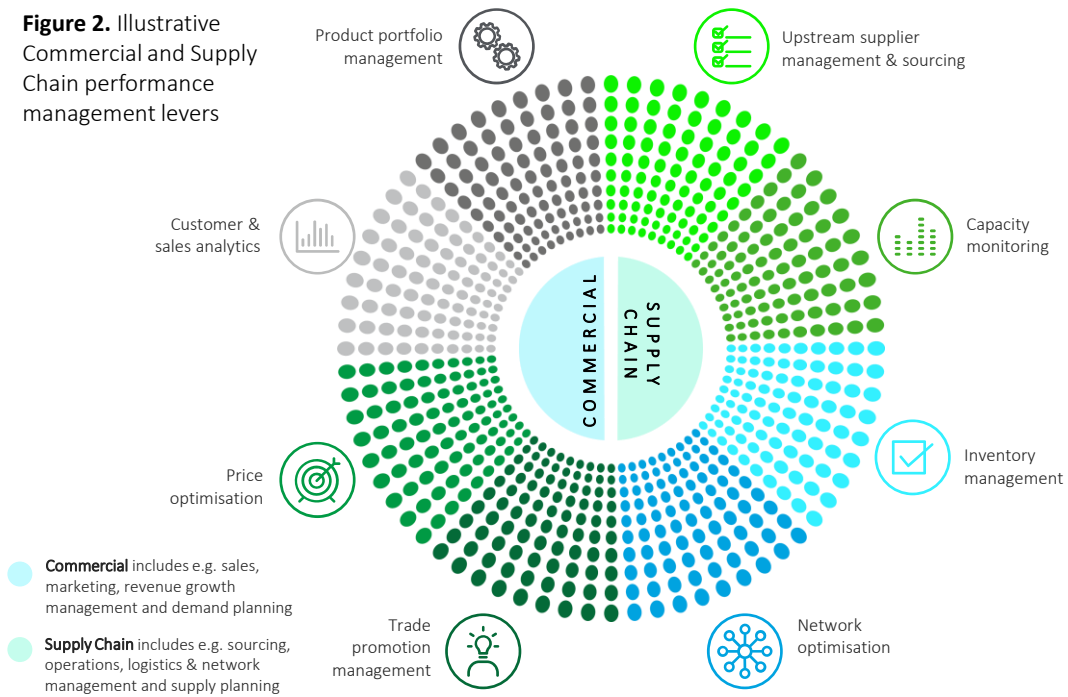
KEY ENABLERS OF CONNECTIVITY

BENEFITS OF CONNECTIVITY



More than a 'guest' – The leading role of Business Finance in a connected environment

Figure 2. Illustrative Commercial and Supply Chain performance management levers



Planning & reporting decisions made by Commercial and Supply Chain (per figure 2 levers) all attract knock-on financial impacts. However, today many Commercial and Supply Chain leaders remain uncertain on the role Finance should play in operational decision making. So how can Finance go from being an ad-hoc 'guest' to a valued 'partner' when working with Commercial and Supply Chain?

WHAT'S WRONG WITH THE ROLE BUSINESS FINANCE PLAY TODAY?

Today, without a defined role when collaborating with Commercial and Supply Chain from the outset, Finance becomes limited to 'score-keeping', analysing the 'bottom-up' forecast versus actuals. This often results in a series of unexplained variances and forecast accuracy issues that Finance has to retrospectively unpick - shifting their focus to 'hindsight' and away from 'foresight'.

HOW IS BUSINESS FINANCE'S ROLE EVOLVING IN A CONNECTED ENVIRONMENT?

As illustrated in **Figure 3**, Finance's role is now spanning the planning & reporting process with Commercial and Supply Chain, before arriving at a consensus plan. There are two distinct roles of Finance across this process, which we've highlighted below.



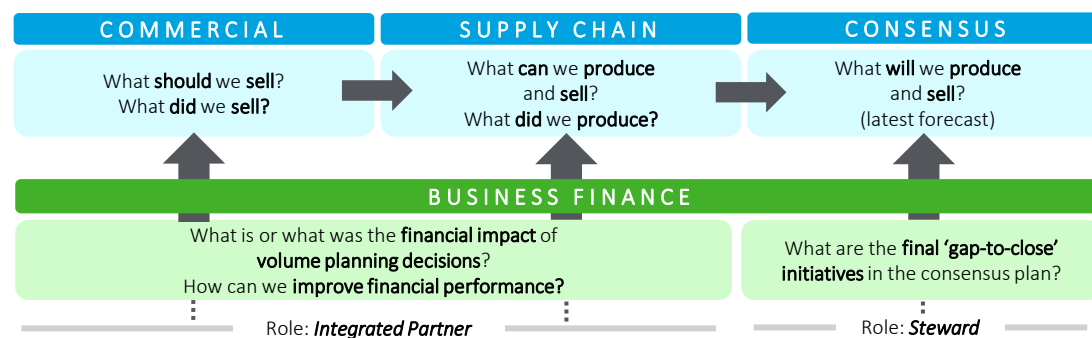
Integrated Partner: Finance have a seat at the table in operational forums, advising Commercial and Supply Chain planning leaders on financial implications of operational decisions made (e.g. product and customer mix, promotions, sourcing and distribution).

Finance also proactively highlight gaps to financial targets in real-time and quantify (£) gap-closure initiatives, helping to build alignment and integrity into operational forecasts.



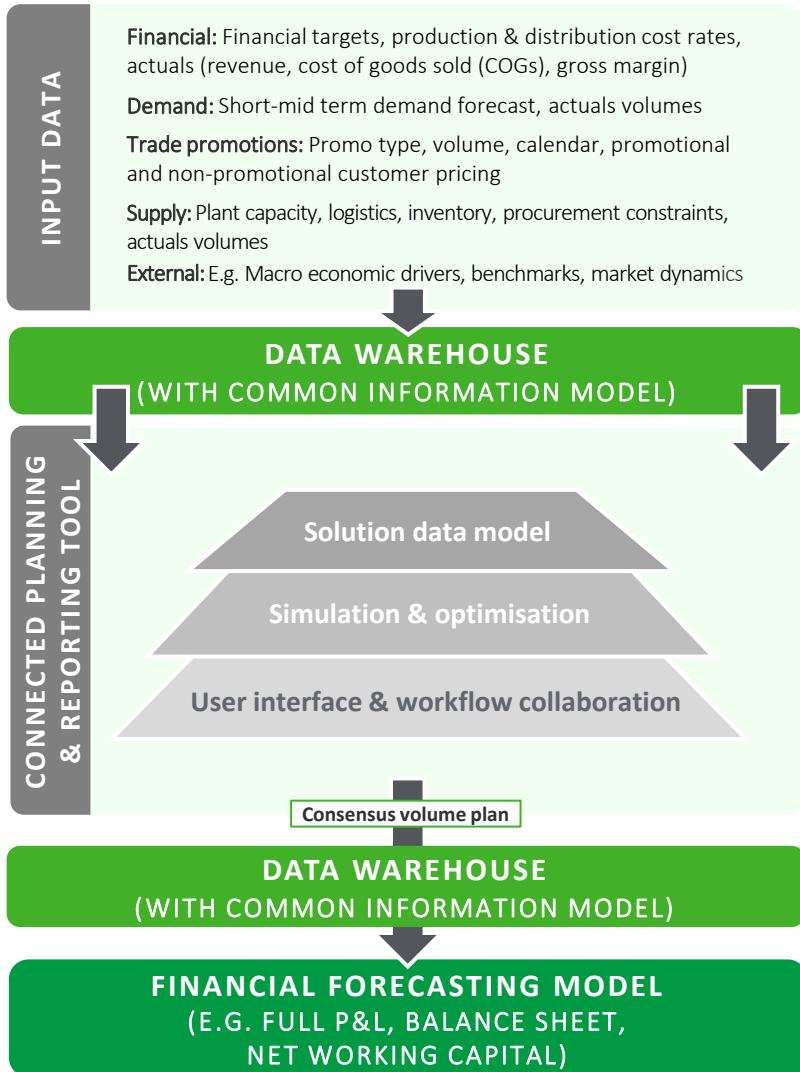
Steward: Once Supply Chain have provided option(s) of what can be produced following overlay of supply constraints, Finance steer formation of a consensus plan together with Commercial and Supply Chain. This includes driving accountability over gap-to-close initiatives and linkage to opportunities already identified in operational forums.

Figure 3. Connected planning & reporting: Key objectives and the role of Business Finance



Connected data & technology – Key components of connectivity

Figure 4. Illustrative Connected Planning & Reporting Architecture Overview



To unlock the benefits of cross-functional connectivity, organisations require well-defined and robust input data combined with a multi-faceted connected planning & reporting technology stack.

We have provided a ‘double-click’ on the key data and technology components in figure 4, below, which help facilitate effective collaboration and execution between Finance, Commercial, and Supply Chain when planning.

Input data: Input data sources are identified and agreed in accordance with the key decisions Commercial, Supply Chain and Finance need to make over the course of connected planning & reporting cycles. To develop the connected plan, data feeds are set up which are derived from functional systems or external sources, and collated in the Data Warehouse.

Data warehouse: Input data collected is engineered in the Data Warehouse, to ensure clean, high-quality data is available to drive connected planning and modelling capabilities. Data is structured, managed and stored in accordance with the Common Information Model, applying harmonised data definitions, dimensions and hierarchies across e.g. Product, Customer and Locations.

Simulation & optimisation: Once harmonised input data is made available in the connected solution, simulation and optimisation engines enable seamless scenario development, leveraging machine learning and artificial intelligence, proposing recommendations to improve plan accuracy. This enables simulation of e.g. customer product revenue and profitability through to projected cost impacts from different sourcing strategies and distribution options.

User interface and workflow collaboration: Simulations developed by the tool are presented via comprehensive and persona-driven user interfaces with relevant e.g. KPIs, used to collaborate and drive key planning decisions.

Consensus volume output: Once the consensus volume plan is aligned on within the connected tool between Finance, Commercial and Supply Chain, it is interfaced into the financial forecasting model, via the Data Warehouse for e.g. full P&L to net operating profit, balance sheet and net working capital forecast development.

Outcome of connecting Finance – Insights unlocked for Commercial and Supply Chain

We now know when Finance is geared with robust data, in collaborative forums, with advanced technologies—this recipe can create a new layer of automated financial insights for Commercial and Supply Chain decision making.

What do these insights look like?

In figure 5, we've delved deeper into some illustrative financial insights for Commercial and Supply Chain.

Such insights may not be net-new, however Finance today are manually crunching this data for hours if not days. At which point, a decision has already been made by Commercial and Supply Chain, the financial forecast is already due, and the opportunity for Finance to influence operations has been missed.

Instead, Commercial and Supply Chain have visibility of such insights on demand, during the connected planning & reporting process.

Figure 5. Illustrative insights unlocked from connected Business Finance analytics for Commercial and Supply Chain

FORUMS	EXAMPLE KEY BUSINESS INSIGHTS	FINANCIAL METRICS	TARGETED VALUE (£) OUTCOME
Product management	<ul style="list-style-type: none"> Impact on revenue and gross margin from new product introduction or changes to product mix Impact on net revenue growth from new product cannibalisation Highest to lowest performing brands or categories by revenue and gross margin 	<ul style="list-style-type: none"> Revenue Gross margin 	<ul style="list-style-type: none"> £ Sales growth £ Margin improvement Commercial alignment to strategic financial objectives
Demand management	<ul style="list-style-type: none"> Change in customer or brand revenues when applying non-promotional vs. promotional pricing to a SKU Price elasticity impacts by SKU when applying non-promotional vs. promotional pricing 	<ul style="list-style-type: none"> Non-promotional revenue Promotional revenue Gross margin 	
Supply management	<ul style="list-style-type: none"> Most cost-effective location to manufacture specific SKUs on shortage of plant capacity, to mitigate overtime Difference in production cost when manufacturing a SKU internally vs. externally via a co-manufacturer Most cost-effective distribution route to transport specific SKUs from plant to select distribution warehouse Cost impact of pre-building inventory vs. adding an additional overtime shift Optimised product mix that will maximise net revenue and gross margin where there is constrained production line capacity 	<ul style="list-style-type: none"> Variable costs (COGs, distribution, other variable costs) Gross margin Inventory value (working capital) 	<ul style="list-style-type: none"> £ COGs reduction £ Margin improvement £ Inventory reduction (working capital improvement) Supply chain alignment to strategic financial objectives

Key

SKU: Stock keeping unit

○ Commercial insights

○ Supply chain insights

Where we've done this before – A look at our past cases



A multi-national food & beverage producer lacked a globally consistent approach to Integrated Business Planning (IBP) between Finance, Commercial and Supply Chain.

Maturity gaps across markets drove inefficient and ineffective decisions around revenue growth, margin protection and asset utilisation.

Multiple volume and value plans were created each month and large reconciliation efforts in Excel were required to align both plans.

There was also no quick solution of seeing estimated financial impacts of volume planning, creating an operational 'bias' to IBP decisions.

Outcomes achieved:

- **A global IBP process design**, underpinned by leading practice Commercial, Supply Chain and Finance integration, serving as a 'North Star' for IBP transformation by market
- **Connected planning calendar**, creating up to 30% more time in the existing financial forecasting cycle
- **Real-time and flexible volume to value mechanism** in the IBP solution, to provide visibility of net revenue, production cost, distribution cost and margin impacts across volume plan scenarios



A global drinks manufacturer had a large activity cost attributed to Financial Performance Management and Finance Business Partnering, driven largely by their manual data preparation and reporting processes.

Inconsistent approaches and reporting outputs were being used across the business when analysing e.g. price-volume mix impacts on financial performance.

Conversion of Commercial Demand Plans into value was also performed manually, with little time left for valuable decision support activities by Finance Business Partners within Demand Planning.

Outcomes achieved:

- **A common and aligned data model** across Commercial, Supply Chain and Finance, providing a single source of truth for the new performance management technology platform
- **Automated volume to value model** for Commercial Demand Plans leveraging volume drivers, rates and allocation models relevant to the P&L
- **Automated financial performance dashboards**, to drive 'holistic' decision making and ownership across non-Finance (visible to 80% non-Finance platform users)



A worldwide life sciences company did not have a standardised, structured or complete view of the Gross-to-Net (GTN) component of their P&L.

This included lack of clarity around roles and responsibilities for global to in-market members on e.g. pricing strategy, pricing governance, scenario planning and GTN investment decision making.

The organisation also wanted to actively monitor their return on investment on GTN spend, better prioritise investment funding and build an internal price negotiation capability.

Outcomes achieved:

- **GTN global to in-market personas** articulating the role purpose, key decisions made and performance focus areas
- **Integrated data model** blending internal and external Commercial and Finance data sources for e.g. pricing and adjustments
- **Data driven decision making capability** by identifying key business questions within the Commercial Finance, Pricing and Market Access areas for members to pose as they manage GTN

Where to start – Key questions to ask



Is there a **single plan** (financial and volume forecast) which Commercial, Supply Chain and Finance are all aligned to?



Are Commercial, Supply Chain and Finance **data hierarchies aligned** (e.g. across Customer, Product and Locations) helping convert volume plans to value without any manual intervention?



Is there a connected planning and reporting tool that puts financial KPIs and insights in the hands of Commercial and Supply Chain to make better performance decisions?



Are **Finance engaged** in the **Commercial and Supply Chain planning** cycles today?



Is there an aligned **roadmap in place** to continue improving **performance management** between Finance, Commercial and Supply Chain?

Deloitte's Connecting Business Finance Lab – How you can engage with us

What is the lab?

The Connecting Business Finance Lab helps align Business Finance and non-Finance stakeholders on key challenges in becoming more 'connected', showcases the latest thinking in connected planning & reporting and explores how greater connectivity with specific non-Finance functions can drive more effective decision making and improved enterprise performance.

LAB PARTICIPANT TRIGGERS

- “Commercial, Supply Chain, and Finance are all **working to different plan versions** of projected performance over the year”
- “**Converting** operational plan **volumes to value** is a **time consuming** and clunky **exercise** for Finance today”
- “**Planning** and performance **decisions** made by **Commercial** and **Supply Chain** today bare **little reference to strategic financial objectives**”
- “**Touchpoints** between **Finance** and **Commercial** and/or **Supply Chain** are often **reactive conversations** and unstructured”

LAB STRUCTURE

- 1 Explore** *We explore the importance of connecting Business Finance with Commercial and/or Supply Chain*
- 2 Align** *Align on good practice integration between functions (across process, data, technology, talent), leveraging use cases (e.g. S&OP, S&OE) and identify your key challenges across our Enterprise Performance framework*
- 3 Discover** *We dive into the “art of the possible” for your priority areas, and assess your maturity in these areas*
- 4 Define** *Together, we identify clear and tangible improvement initiatives for your organisation's transformation roadmap*

TYPICAL LAB PARTICIPANTS

FINANCE

- CFO
- Commercial Finance
- Supply Chain Finance
- FP&A
- Finance transformation

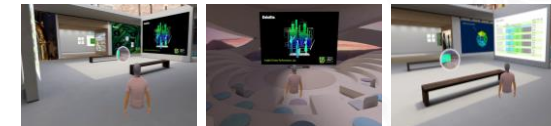
NON-FINANCE

- Commercial
- Supply Chain
- IT & master data management

Delivered via our state-of-the-art Greenhouse ...



... with a window into the future via our immersive metaverse space



Before you go – Closing comments

Leaders who succeed will be those who step up to better integrate Business Finance, Commercial and Supply Chain in becoming more coordinated and collaborative. Ultimately, such leaders will acknowledge that navigation of increasingly volatile markets cross-functionally, will be more efficient and carry less performance risk than continuing in a siloed and reactive manner.

Overall, organisations that achieve seamless connectivity across these three functions stand to accelerate the dial forward in their markets and build a high degree of competitive advantage.

So where does your organisation stand today?

Authors and contributors

Please reach out to start a conversation on how to better 'connect' your Business Finance organisation with Commercial and/or Supply Chain.



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OUR CONNECTING BUSINESS FINANCE SERIES INCLUDES:



Introduction: Connecting Business Finance series

Introduction to our series on why effective integration of Business Finance with non-finance is key to improve enterprise-wide performance



Connecting Business Finance and HR workforce management

Our view on how Business Finance and HR can connect together in delivering effective workforce planning and management in support of the organisation's talent strategy



Connecting Business Finance and Corporate Strategy

Our view discussing how Business Finance and Corporate Strategy can work together enabling delivery of the organisational strategy



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