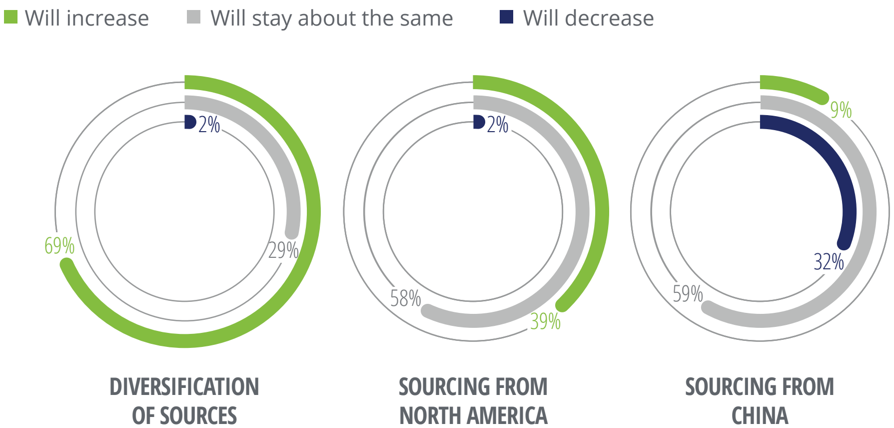
How can CFOs prepare for supply chain diversification?

Finance leaders consider supply chain sourcing with an eye to the future

Jason Barnes, Robert McGrath, Mike Seng, Brian Bartos, and Aaron Withers

FIGURE

CFOs share their views on how their supply chains will change within the next three years



Source: *Deloitte CFO Signals (Q3 2021)*

WIDESPREAD SUPPLY CHAIN disruptions throughout 2021 have delayed and reduced sales, increased manufacturing costs, created unexpected excess production capacity, and resulted in customer disappointments[1]—all of which have driven volatility in financial results and reduced the reliability of forecasts and projections. Chief financial officers (CFOs) responding to our Q3 2021 North American *CFO Signals*™ survey indicated that they would pursue multiple strategies to combat future supply disruptions, including multisourcing and changes in regional sourcing.[2]

Finance should consider partnering with supply chain operations and procurement groups to analyze the financial impact of various mitigation strategies for their organization. Such strategies may include identifying product materials or components presenting the biggest risk to production and performing cost/benefit analysis for various strategies (such as supplier diversification, increasing safety stock levels, regional sourcing, and joint venture relationships with suppliers) that can be activated to mitigate those risks.

For the strategies highlighted above, finance may need to be mindful of the following:

- **Diversification of sources**
  - **More frequent standard cost revisions** due to pricing differences across vendors
  - **Increased purchase price variances (PPV)** created by multiple vendor prices, with systems typically able to hold only one active standard cost per material or component
  - **Reduced volume discounts** as volume is distributed across multiple vendors (which may also impact materials standards and PPV)
  - **Cash-flow impacts** as payment terms for new vendors may differ from historical norms, driving changes to net payment days and refinements needed for cash-flow modeling
  - **Increased working capital** as more supply chain variables drive inconsistency in supply timing and the need to hold more inventory

- **Regional sourcing**
  - **Changing freight expense profiles** as shipping methods and distance may vary across suppliers and differ from historical trends (for example, sourcing products from North America that were previously obtained from China may change sea and land transportation charges)
  - **More complex cost modeling** with changing source locations, creating the need to reevaluate "total landed costs," including increased cost of quality, inspections, duties, and handling

As strategies to mitigate supply risks continue to be a focal point for many organizations, it may be beneficial for finance to work across functions to interpret and plan for potential impacts.

Endnotes

1. Deloitte, *CFO Signals™: What North America's top finance executives are thinking—and doing (Q3 2021)*, accessed February 22, 2022.
2. The *Q3 2021 Deloitte CFO Signals™* survey reflects the feedback from 96 CFOs from the United States, Canada, and Mexico during August 2–14, 2021. Eighty-five percent of respondents were from companies with annual revenue exceeding US$1 billion, including 27% from companies with more than US$10 billion in annual revenue.

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