**Logistics and Finance**

While logistics managers excel in orchestrating the flow of goods from Point A to Point B, they typically tread on less certain ground when it comes to financial matters. Logistics managers with operations backgrounds and responsibilities typically leave finance to the accountants. But this gap in financial acumen can be a hindrance in the ever-evolving world of supply chain management. Logistics managers with at least a basic understanding of the financial aspects of the supply chain will be better positioned to improve their business operations.

Consider the three logistics tracks of the supply chain:

* **Material**: The physical flow of the product from origin to end user destination.
* **Information**: The communication between supplier, customer, and LSPs (Logistics Service Providers), including quotes, purchase orders, delivery updates, etc.
* **Financial**: Payment for the goods, whether through a letter of credit, cash in advance, open account or another payment option.

These different tracks often result in silos. When I taught International Supply Chain courses, I was confident in the material and information flows and less so in the financial area. Fortunately, I was able to gain some knowledge and pass it along to my students through the text *Global Logistics & Supply Chain Management* published by John Wiley and Sons.

It has been said that accountants look back while managers must look forward. Below I will identify basic financial terms and measurements relevant to logistics. The information is likely common knowledge for accountants and finance professionals.

**Financial Terms Logistics Managers Need to Know**

**Balance Sheet**

Snapshot of assets and liabilities at a particular point in time.

**Income Statement**

Profit and loss for a defined period of time.

**Cash Flow**

Where the money comes from and where it goes.

**Order Cycle**

Short order cycle leads to reduced inventory; long order cycle leads to increased inventory.

**Cost of Lost Sales**

High inventory results in lower lost sales; lower inventory results in higher lost sales.

**Transportation Costs**

Similar tradeoffs as lost sales. Mode shifts from slower to faster (ground to air) can reduce inventory. Shifts from faster to slower (air to ocean) will increase inventory.

**Commodity Dollar Value**

High value commodities lead to high inventory, transportation and packaging costs.

**Density**

High density commodities lead to reduced transportation and inventory (warehousing) costs.

**Loss/Damage**

commodities with high susceptibility to loss/damage result in higher costs of transportation and warehousing.

**Location Decision**

Plant or distribution center proximity from materials sources or markets can mean relative advantage or disadvantage vs. competitors. These are C- level decisions.

**How Financial Concepts Impact the Supply Chain**

Obvious implications for logistics are that time is money, so shortening or accelerating the supply chain and eliminating delays results in greater profit. High working capital (inventory) reduces profit. Efficient resource utilization (labor, real estate, equipment) increases profit. Cash to cash cycle is key.

Debt financing can be described as gearing or leverage. Low gearing means little or no debt. High gearing means the firm has a substantial proportion of debt to assets. This presents increased risk for investors. It also may preclude opportunities to expand or improve operations and debt service (interest) will constrain cash flow.

International logistics involves greater risk which may include uncertain demand, unstable infrastructure and services, political instability, or currency fluctuations. Cost accounting for logistics companies is not as straightforward as for manufacturers. Services are intangible, quality can be difficult to measure, they cannot be stored (perishable), and may involve more than one provider.

**In conclusion**

A well-rounded logistics program considers all three tracks of the supply chain: material, information and financial. Through collaboration between logistics teams, finance professionals and other stakeholders, companies position themselves for success.