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Quick Cash

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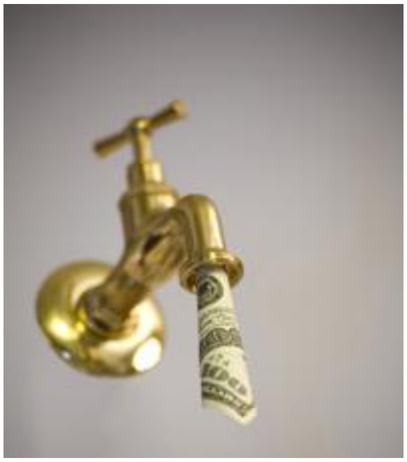

Cash flow, especially in challenging economic times, can often make a significant difference in an organization's ability to operate efficiently and maintain a strong market position.

But many people aren't aware of the many ways in which cash flow can be improved, such as more strategic management of materials, services, utilities, inventory, receivables and profit margins.

Here are a few ideas on how your organization might improve cash flow by focusing on these critical areas.

Materials, Services & Utilities
One of the quickest and surest ways to improve cash flow is to reduce waste of materials, services, or utilities because they require regular cash outlays. Improvements to these provide a quick jolt to cash flow. Below are a few examples:

- A packaged food supplier saved five million dollars a year on promotional spending in the Chicago area without any adverse impact on sales. They spent twelve weeks analyzing their promotional spending and identified about half of it that did no good at all and could be cut. What expenditures on sales promotion do you make that do not pay off? How do you find out?
- The number of cell phone contracts set up for employees has increased greatly in recent years, and a number of businesses do not yet have effective systems for canceling services no longer needed. Two of our clients have recently reduced their cell phone costs by improving their cancellation process. A large utility company saved $100,000 annually by canceling cell phone service for individuals who had switched to a Blackberry®. A large financial services organization found they did not have a system for reliably canceling the service contracts when employees turned in their cell phones. They saved nearly $200,000 annually by identifying contracts that had no usage for three months and canceling them if the user was no longer an employee or not using that device. To prevent the problem in the future, the company is exploring paying for employee cell phones through their monthly expense reimbursement process so that payments would reliably end upon separation from the firm. Are you paying for any cell phone contracts that are no longer needed?
- Packaged food producers typically aim for a higher net weight than is published on the packaging because they have variation in their processes and need to aim high to reduce the risk of under-filling. One of our Canadian clients, a commercial bakery, had made substantial improvements in process control, enabling it to more consistently achieve a targeted weight. Yet it had never moved the target weight closer to the published weight to take full advantage of the better process control. By analyzing their production data they were able to set a new target and reduce the amount of excess product they had been giving away. This quick win took only several weeks to implement and saved $100,000 annually. Are there any process improvements you have not yet taken full advantage of to reduce expenditures?
- Your suppliers can be very helpful in your effort to reduce your costs. The manager of my small town library was recently surprised to receive a $16,000 reduction in the cost of the library's waste disposal service, just by calling the supplier and asking for a better deal. More often the supplier is able to identify ways in which small changes in the service agreement can substantially reduce the costs while preserving the value. A large mining company asked suppliers what requirements drove up the costs without adding much value. They found that by changing some of its documentation requirements, its suppliers could reduce costs and prices by as much as 10% without affecting quality or service. Another client is saving $250,000 a year on the janitorial contract after the service explained they spent a lot of time emptying office waste baskets containing just a few scraps of paper. They decided to reduce trash pickup from the offices to twice a week instead of 5 days a week and created food-only trash receptacles in common areas that were disposed of daily. What ideas could your suppliers suggest to help you reduce your costs?

- A large grocery store chain routinely throws away a large amount of seafood because they cannot sell the food that has been on display for a certain amount of time. To keep sales up, the displays must look full and fresh, but the more food they have on display, the more they must discard. Management asked all the seafood departments to find a way to reduce food waste by 30% while maintaining full and fresh displays. They asked for this without any preconceptions about possible solutions; it was a business-driven, stretch goal, and the people rose to the challenge. One store's innovation was to take digital photos of fresh food in display canisters and then, rather than putting the food out, they inserted the digital photos, keeping the seafood where it would stay fresh. No one was able to tell the difference! This was rolled out to all the stores and saved them half a million dollars in material waste a year. Another group changed the angle of the ice so that the displays would look full and fresh with less seafood actually on display. Another rolled one of the display cases away during store hours when business was slower. All these out-of-the-box ideas substantially reduced the amount of seafood wasted, while maintaining that full and fresh look. If you were to challenge your organization to tackle a stretch goal like this with out-of-the-box ideas, what would they come up with?
- If you have not yet made a concerted effort to reduce energy consumption without affecting comfort or productivity, you will find that there are many savings to be had there.
    - Install timers and occupancy sensors to turn off lights, adjust thermostats, and turn off office equipment.
    - Office equipment such as monitors, printers, fans, projectors, etc. consumes a fair amount of energy even when turned off or not in use. Cut electrical usage by plugging monitors, printers, area lights, etc. into power strips that are turned off when the lights are turned off at night or into occupancy sensing power strips.
    - Use more energy efficient equipment: laptops consume 80-90% less energy than standard computers while in use, consume 70% less while booting, and use half as much in sleep mode. LED screens consume 80-90% less energy than CRT monitors. Ink jet printers use up to 90% less energy than laser printers. Purchase Energy Star equipment whenever possible to keep energy costs down.
    - To reduce power usage on CRT monitors, use the blank screen as a screen saver turn the monitor off by hand when not in use, reduce the brightness settings, and increase contrast.
    - And while many products come with energy-saving features, we find that these features are frequently not activated. Have someone go through and activate all the energy management features for your office computers. (On newer equipment this is done through the Control Panel, Display, Screen Saver options, but on older models the Power Management can be activated by entering setup mode. Watch for the instructions when your computer starts up to enter Setup, then navigate to Power Management and set it to "Enabled")
    - Use energy saving bulbs, use the natural light near windows, and reduce the overhead lights by having task lamps on desks (set to turn off when not is use).
    - Figure out how to optimize the opening of outside dampers on your air handling units and close the outside air intake dampers when the building is unoccupied.
    - Turn off manufacturing equipment and conveyors when there is no product flowing.
    - Make sure the automatic exhaust and ventilation dampers are working properly and that return air vents are unobstructed.

Much more information about reducing energy usage can be easily found on the Internet. How much cash could you conserve by aggressively pursuing energy efficiency?

While finding and eliminating waste in expenditures for materials, utilities, and services is a great way to improve cash flow, it is not the only one. Improvements in inventory, receivables, sales, and sometimes in productivity can also help.

Inventory
Inventory ties up an enormous amount of cash, but to improve cash flow by improving your inventory turns, you have to go about it the right way. Many organizations focus their attention on the excess and obsolete inventory - precisely the category of inventory that will do little to conserve cash. Excess or obsolete inventory is only a symptom of the problems with your material flow process. If you can sell it or return it, you can get quick cash. Otherwise, to

conserve cash through inventory, examine and improve the process you have in place for planning, acquiring, and staging inventory.

Some of the following techniques have greatly improved cash flow while maintaining service levels:

Reduce work in process. WIP is material you have already paid for, but cannot convert to revenue yet because it is still being worked on. A comparison of the actual value adding minutes or seconds with the total amount of time in WIP can show you how much opportunity you have. If you have 20 minutes of WIP for every minute of value adding time, you have twenty times as much inventory in WIP as you would have if everything were just right. Much of the time inventory spends in WIP is spent waiting to be worked on. A very quick way of doing this is to reduce the batch size.

Batch size is often driven by set-up or change-over time. If you have excess capacity, you can spend some of it on more frequent change-overs to reduce batch size and inventory. Or you can put a Kaizen team on the task of reducing change-over time. One of our bottling clients reduced changeover time from nine hours to six even after their engineers concluded no further improvement was possible. They did this by gathering together a group of people close to the work for an afternoon to get their ideas. This was a bottleneck function so the improvement enabled more sales resulting in an additional $7M in gross margin annually. What is your ratio of actual total time in WIP to value-adding time? What are your batch sizes?

Smaller, more frequent deliveries, driven by actual consumption rather than planned consumption will make substantial reductions in the cash tied up in inventory. Basically, implement Lean ideas. A lean process enables an organization to use dramatically less inventory in addition to achieving better productivity and often better quality as well. How many hours of supply do you receive per supplier shipment? What portion of your material receipts are driven by actual consumption (on a pull system)?

Receivables
In a difficult economic climate, receivables tend to increase as customers conserve cash by delaying supplier payments as long as possible. However, you can start their payables clock sooner if you: a) make sure your invoices have no errors or ambiguity - the most frequent reason or excuse for delays in payment, and b) get your invoices out faster. What percent of your invoices are accepted by your customers as accurate and clear? How much time elapses between the minute you can invoice and when the moment your customer receives the invoice?

Sales Gross Margin
Another of our clients sold specialty dairy products but had low penetration in stores where they would logically expect to be very successful. Their products were listed at the head office, but individual store managers were not stocking their product. So they put together a script for inside sales to get the sales reps in the door, and laid out the steps for the sales rep to take when he or she got there, creating a script for sales to explain what they sell and what the product margins were. These efforts took less than 3 months and increased sales 15%, yielding over $2M in gross margin over the year. Who do you sell to? Who could you, should you be selling to?

Some organizations have been able to quickly improve cash flow by studying the price points and finding the optimum level. One large bakery found that it was under-pricing its product and could raise price a nickel a loaf without having any adverse affect on volume - quickly bringing in a substantial increase in cash straight to the bottom line. Another organization found that it was overpricing one of its product lines and by reducing the price of their product was able to increase both the sales volume and net profit. Are your products and services priced right to optimize short and long term profitability? How do you know? What process do you have in place to identify your optimal price?

Productivity
Unless you have people working overtime or are using contract workers to expand your capacity, productivity improvements in a business slowdown usually do not provide quick bottom line benefits. However, if the workload is growing or you want to reduce the number of contract employees or the amount of overtime, you will benefit from productivity improvements. In the next issue, we'll describe ways of finding and achieving productivity improvements.