CLIENT CASE STUDY

Improve Cash Flow with Process Improvement

OVERVIEW

This case study provides an overview of the benefits that a leading international industrial service provider experienced as a result of The ISO 9001 Group’s process improvement services.

Prior to working with The ISO 9001 Group, the organization had a few company-wide policies and guidelines established. The organization was also very invested in its people, property, equipment and systems to support their day-to-day operations and customer projects. However, management was aware of critical systematic issues that caused severe cash flow implications. The organization also lacked formal standard operating procedures (SOPs) for the major processes that impact cash inflow and forecasting, including order entry, project management, payment, requisition and accounts receivables.

As a result of experiencing negative cash flow impacts, the company decided that immediate improvements needed to be made. The organization selected The ISO 9001 Group to properly identify the causal factors that placed them in a negative cash flow situation, and provide recommendations for immediate action to systematically address these issues.
CHALLENGES

Prior to contacting The ISO 9001 Group, our client was experiencing several issues, which were negatively impacting their ability to accurately forecast cash inflows and collect payment. The issues included:

- Billing the correct amount to customers for work performed.
- Long waiting time to receive project data to bill customers.
- Submitting invoices in a timely manner.
- Invoices not approved by customers in a timely manner.
- Extended approval time of Vendor invoices.
- Amount of time needed to approve invoices internally.

These challenges ultimately caused severe cash flow implications.

OUR CUSTOMIZED SOLUTION

PROJECT SCOPE

The scope of the process improvement project was to assess and provide recommendations for improvement to address the process issues that caused the negative cash flow impacts. The project focused on 4 sites in the Southern and Midwestern United States, which included the organization’s headquarters, 2 regional offices and a local job site. Our consultant presented an overview of the project plan, project expectations and recommendations for how employees should prepare. This helped gain employee buy-in and ensured they understood what to expect during the project.

ASSESSMENT & AS-IS MAPPING

After traveling to the individual sites, our consultant conducted interviews with the respective process owners and subject matter experts (SME’s). Records regarding the processes were collected to identify causal factors. During the interviews, our consultant designed flow charts of the “As-Is” steps of each process. The process steps were identified, including the cycle time for each step, the parties involved, required documentation, inputs, outputs and the interrelation between each step. Once the “As-Is” flow charts were finalized, the consultant analyzed each process and identified opportunities for improvement to address the negative cash flow impacts.

REDESIGN & RECOMMENDATIONS

Our consultant proceeded to develop the “Future” state maps of each process. This focused on redesigning each process to address structural issues, which were contributing to the client’s cash flow problems. Once the “Future” state flow charts were approved, our consultant developed documented standard operating procedures to standardize and implement the recommended process improvement actions.
IDENTIFIED CAUSAL FACTORS

Upon analyzing each process, our consultant identified several major factors that were directly causing negative cash flow impacts, which included:

1. **Estimating.** Poor change order management processes and contract requirements caused Estimating issues. Work was performed without compensation. Employees lacked estimating training and SOPs.

2. **Project Start Up & Planning.** Project costs incurred were not properly captured and invoiced. Employees also lacked the understanding of how to properly set up projects in their project management software.

3. **Contract Management.** Our client frequently complied with unfavorable contract terms and conditions, and their customers exploited the fact that the organization lacked established payment terms.

4. **Incorrect Coding.** Due to incorrect coding, purchase orders and invoices were being placed on hold. These coding issues impacted our client’s ability to correctly bill time and material.

5. **Project Management.** The position responsible for the payment of supplier invoices and submittal of customer invoices was over-allocated. Others lacked proper training for financial & administrative duties.

6. **Project Start Up & Planning.** Project costs incurred in early project stages were not properly captured and invoiced. Employees lacked the understanding of how to set up projects using their project management software.

RECOMMENDED IMPROVEMENTS

The following recommendations were provided by our business consultant that should have a high impact on our client’s cash flow situation:

- Implement more effective project controls.
- Allow the Procurement department to have more input during the estimate.
- Establish a formal & documented Estimating training program.
- Establish a process to capture start-up, planning time and costs to ensure early billable costs are accrued and billed properly.
- Implement stronger stance on collection of Accounts Receivables.
- Implement incentives for customers who pay invoices early or on-time.
- Improve negotiations on cash flow critical language.
- Immediately discontinue bypassing the Procurement Department.
- Do not allow employees to purchase with their own funds.
- Enforce the purchase order process.
- Establish a formal and documented training program for Project Managers on the financial and administrative aspects of their position.
- Discontinue starting work with an unapproved change order.
- Establish consequences when employees incur time & cost for unapproved change orders.
- Establish a single central and controlled Change Order Management focal point.

CONCLUSION

This case study proves that there are valuable business and cash flow benefits for organizations that implement process improvement strategies. Inefficiencies can cause negative cash flow issues for organizations in any industry of any size if their processes are poorly designed. Prior to working with The ISO 9001 Group, our client’s processes were inefficient and caused major negative cash flow impacts. Our business consultant was able to successfully assist them identifying the direct causal factors, and recommend effective corrective actions to drive efficient operations and improve cash flow.