

Facing the Challenge of Recession: Drive the Cash Flow With Business Process Improvement

Cashflow is the life blood of an organisation at any time during an economic cycle. However, planning to survive an economic downturn calls for thinking about the processes underlying the company's cashflow. This article examines how the application of relatively simple systematic techniques to address inherent defects, delays and wastages can quickly stabilise and improve the cashflow. The techniques can best position the organisation to leverage emerging opportunities as the recession inevitably eventually ends.

Adding Early Sustainable Value

Recession is not the time to have resources engaged in long winded programmes that require comprehensive training and take time before any measurable benefits are seen. There is a clear need for quick sharp initiatives that achieve early pay-backs (ie the ratio "cumulative benefits per month/cost of initiative" is very short). These "High Priority" quick wins may well also form the basis of more far reaching "Breakthrough" initiatives that will have greater impact.

In a recession companies cannot sell their way out, because customers are tightening their purse strings. Companies cannot innovate their way out, because customers want proven solutions, not untried ones.

Organisations can, however, systematically improve their mission critical processes – eliminating defects, delays and waste that translate into a positive impact on cashflow. This can be done quickly, and importantly the company's processes are totally within its own control. Employees' attention can be focused on solving operational problems using their valuable knowledge of the business rather than the sometimes shortsighted strategy of laying off people.

Defects, Delays and Wastage

Every aspect of a business follows a process, it might be a relatively refined one or an error prone, ad-hoc one. At the end of a process is a "hand-off" to a customer, whether it be an internal or external one. "Customers" have expectations about the fitness for purpose of the product or service they are receiving. Will it do what they want; for the length of period they want; starting from when they want it. Purchasing customers are willing to pay a

certain price for this perceived fitness for purpose. A **Defect** occurs in a transaction where the customer's expectations, either explicitly or implicitly agreed with the supplier, is not met by the supplier.

Value adding activities in a process are those where the "product" in the process is being transformed towards its end state. A **Delay** occurs when no transformation is taking place or the transformation is taking place sub-optimally. Some delays are appropriate – for example quality inspections and waiting time associated with economic batch sizes – but the secret is to minimise these delays.

Wastage occurs when resources are not appropriately used or destroyed. Traditional lean manufacturing recognises Defects and Delays identifying seven types of wastage:

- Overproduction
- Waiting
- Unnecessary movement
- Over/Incorrect - processing
- Excess inventory
- Defects
- Unused employee creativity

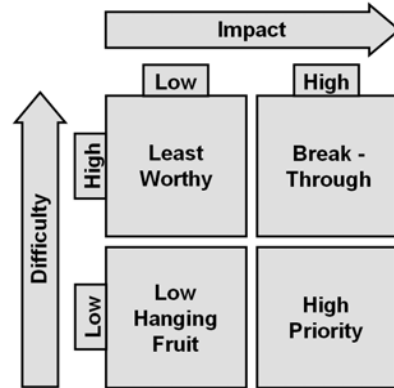
Similar categories have been defined for services sectors.

The impact of defects, delays and wastages on the cashflow may be transparent. Defects in products delivered to external customers may lead to late payments and cancelled orders affecting cash inflows and rework causing cash outflows. Less transparent may be the costs associated with waiting time on investment projects where early cash outflows on professional advice are not counterbalanced by the planned timing of cash inflows of revenues. Standing projects still may need to be tracked, at a cost, and time may in fact be used to unnecessarily refine the advice.

Systematic Steps

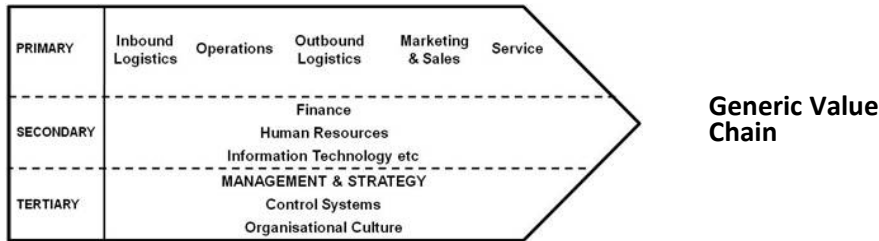
Many companies grow from unstable start-ups into organisations generating a reasonable level of cashflow through trial and error and common sense. But then most companies simply stop improving, carrying on with defects rates of say 3% (3 defects per 100 "transactions") in each of its functions that become cumulative across the business. Organisations need to think in terms of the revenue needed to be generated to fund the cost of addressing these defects.

The application of a structured approach using simple systematic techniques can identify these defects, as well as value destroying delays and wastage:



Step 1 – Clarify the Organisation’s Strategy and Objectives: The organisation needs to review its strategy, planning in a framework of how it will survive the recession and best position itself for post recession. Clarity and communication as to the organisation’s strategy provides common purpose and identifies Key Performance Indicators which can be tracked in the sustaining of improvements. We advocate the use of a one page Strategy Map provides a useful tool for rapidly synthesizing down the key elements of an organisation’s strategic intent.

Step 2 – Map the Organisation’s Value Chain: A company is a series of processes rather than the hierarchical functions shown on organisational structure charts. Analysing the company by product and value stream removes silos and highlights flow allowing areas of defects, delays and wastages to be identified.



Interestingly, we advise mapping the Value Chain only at a high level at this stage. Detailed mapping of all the processes as they currently are takes time and closes down the opportunities for lateral thinking in the following Steps.

Step 3 – Establish Problem Areas: Ideally, some quantitative historic data will exist as each of the key processes is quickly examined by a small team to determine the extent and nature of defects, delays and wastages. Line Graphs and Pareto Analysis provide useful tools for the analysis of information. Qualitative data can be used in the temporary absence of quantitative data to develop a impact-difficulty matrix of initiatives. Critical questions should be asked as to who is the customer of the process, what do they require of the transaction, and what is the frequency and cost of not meeting that transaction.

Before progressing to Step 4 a clear statement of the current and desired outcome of the problem should be made with definitions of measures to be used eg:

“In the last three months of 2008 invoicing accounted for 31% of all shipments not received and resulted in 83 resent packages. The target is a 50% reduction in shipments not received by the end of March 2009.

Step 4 – Causal Analysis: Only once a problem has been outlined as above should a small team of individuals, chosen due to their specific knowledge, be assigned to determining causes of the problem. Appropriate tools for establishing causes are Cause-Effect (Fishbone Diagrams), “5 Why” Questioning and Value Stream Analysis. One approach we have found to be

effective is a facilitated brainstorming workshop commencing with a short overview/training session on the tools and techniques being applied.

Step 5 – Develop Solutions: The next step for the team assembled for Step 4 is to brainstorm countermeasures to reduce or eliminate each of the root causes identified in the previous step. These are then prioritised to establish a set of coordinated integrated actions. The carrying out of these actions is considered as a mini-project with an individual, typically from within the analysis team, appointed as project manager. A short Implementation Plan considers the resources, budget and timescales together with an assessment of the softer cultural issues and risk analysis.

Step 6 – Implement and Sustain Solutions: As noted implementation is considered as a project and typical simple project management techniques are adopted to track progress against plan. One of the key aspects of implementation must be the introduction of a robust key performance indicator which is then systematically applied to ensure the solution is being sustained.

Step 7 – Refocus: We always find it useful to undertake a short “post-project review” after implementation to reflect on any lessons learnt so they can be applied to the next initiative. The exercise may have identified where a real breakthrough can be made and plans should be considered as to if and when this should be undertaken. The focus should return to Steps 3 and 4, seeking to see how the knowledge gained by the team in the exercise of analysis and implementation can be further applied.

Summary

In summary our advice would be to:

- Sharply focus the implementation of business improvement initiatives on the mission critical portions (often less than 4%) of the business that cause over 50% of the delay, defects, waste, rework, and cost. This will minimise the cost while maximising the benefit;
- Use just-in-time “boot camp” training with teams focused on mission critical improvements. Develop people who can find the constraints in the business. In the current economic climate business process improvement should be about results, not training;
- Establish a track record of success using the fundamental tools of improvement eg strategy mapping, pareto analysis, fishbone diagrams, value stream analysis and implementation project management;
- Aim to begin to gain significant sustainable results within a 3 month timeframe.

For more information as to how Das Management Services SRL can assist in addressing your business improvement initiatives please contact us at office@dasmanagement.com. This article is one of a series at www.dasmanagement.com relating to current business issues.