

# Synaptic

## Process Cost Reduction A Case Study



Synaptic Consultants have traveled the world extensively Leadership skills include total P&L, Global Engineering, and Commercial responsibilities for Fortune™ 25 companies located in the Americas, APAC and the EU...

...utilizing Synaptic Consulting's vast toolbox of business turnaround techniques, companies have transitioned from a \$7 million EBITDA loss to breakeven in one calendar year, and have successfully completed an acquisition that returned the business' first operating profit in 18 years.

Synaptic Consultants produce enterprise-wide cost savings and operating working capital reductions guaranteeing clients more profit and cash flow...turn businesses from red ink to black and achieve all financial targets year over year.

...are leaders in business acquisition, divestiture and transfer including due diligence and relocation.

## The Client

We were meeting with a new client for our 1st "Monday morning huddle" -- a business owner of a mid-size company with Sales in the \$30 to \$35 million range. Fundamentally, I believe at a minimum that it's entirely the Firm's responsibility to serve our client and manage the company's financial risks in addition to financial planning/forecasting and reporting.

The client is a contract manufacturing company with medium to high future growth potential. The client's finance & administration side of the house includes an accounting manager and staff accountants, office manager, purchasing leader and procurement specialists, customer service department, and a few administration assistants.

Our first meeting with the client was to establish and define risk related issues and to develop a detailed work plan. Before we commenced the "question and answer" forum, the business owner expressed a desire to deploy Synaptic to immediately take responsibility for General Administration -- as the client's preference was to concentrate all efforts on Technology, Manufacturing, and Quality as well as managing growth in conjunction with Sales & Marketing.

## The Challenge

Prior to establishing the finance agenda for the organization, we wanted to review:

1. cash flow analysis & forecasting techniques utilized and take a quick look at the cash flow model
2. A/R aging report, collection techniques and follow-up
3. inventory procedures and put in place procedures that identify slow moving inventory, reserve set-up and write-off procedures based on the cash flow forecast
4. customer and/or product line margin analysis in order to support the organization's current and future customer pricing strategy – and create that analysis if necessary

How did a \$33 million electronics manufacturer reduce 40% of annualized overstock & obsolescence...

...and at the same time strengthen inventory procedures and inventory integrity throughout the manufacturing floor?

## Findings

The initial feedback from this first work session contained no surprises. Findings indicated that:

- Cash flow analysis & forecasting techniques represented more or less a bank account reconciliation which was filed after completion
- Forecasting and/or modeling techniques were not performed.
- A/R aging report did not exist; collection and follow were not exercised.
- Inventory control could be better characterized as inventory "out of control."

In conclusion, significant amounts of cash were left on the table. This is usually the case with most mid-size firms that place significantly more emphasis on the technical side -- leaving the finance/administration side of the house in a resource challenged state.

## Delivered Results

In order to support one of the most important business measurements, we developed a Cloud-based “Monthly Cash Flow Projection Program.” This rolling forecast planned future cash requirements, identified potential shortfalls, and ascertained future cash needs -- supporting both suppliers and employees. It also showcased customer payment activity -- which is a great segue into the next hot button: “Accounts Receivable”

We conducted a total A/R strategic analysis utilizing a Kaizen event to determine the proper segregation of in-house versus outsourced activity mix. We are proponents of firms (such as Euler Hermes) that provide (1) credit insurance-protecting business from unpaid invoices, (2) debt collection services, (3) credit insurance and factoring 3rd party transactions. We decided which activities remained in house for complete control purposes while outsourcing non-critical activities, thereby allowing the efficient flexibility of resources and minimizing collection fees. The Aged A/R report was prepared and distributed monthly to the business owner and Sales team.

There are many aspects of inventory control, but in this case we needed to go back to the basics. We performed a detailed inventory analysis since the company did not have any sort of “working inventory control procedures” in place. We ascertained through a complete “wall-to-wall” physical inventory, subsequently costed and compared to the booked inventory balance, that the adjustment exceeded 25%. Furthermore, the disproportion of slow moving versus fast was significant. We implemented the following:

- Based component buys on the sales forecast independent of volume buys that generated the best piece price. This was easier due to the contract nature of the business, but held the customer accountable for their respective sales forecast and slow moving inventory generated from it (+/- 5% negotiable).
- Implemented annual physical inventory procedures and periodic cycle-count adjustments to assure the integrity of the inventory control. All remaining excess component inventory was sold to outside parties utilizing Synaptic’s vast liquidator network.

Selected the top ten customers based on Sales volume and performed a detailed customer profitability analysis/part number utilizing *ABC Total Costing Methodology*. This resulted in total visibility of each sales unit to be used for future pricing strategy and/or adjustments. .

## About the Author:

### Garth Proechel

is a Senior Financial Executive with 30+ years' experience and serves as partner at Synaptic Consulting . He previously served as VP Finance & Administration at Siemens AG with global responsibility for business units located in Canada, Germany, Mexico and the USA. He is a leader in business acquisition, divestiture and transfer including due diligence and relocation. Garth has consistently achieved results within budget, turned businesses from red ink to black and exceeded all financial/operational targets year over year.

Contact: [Garth@synaptic-sdlc.com](mailto:Garth@synaptic-sdlc.com)

This publication contains general information only and is based on the experience and research of Synaptic Consulting practitioners. It is not a substitute for professional advice or services, nor should it be used as a basis for any action that may affect your business. Synaptic Consulting and related entities shall not be responsible for any loss by any person who relies on this publication.

#### **About Synaptic Consulting**

Synaptic Consulting offers Consulting, Training, and Business Process Outsourcing services throughout The Americas and the E.U. through its Finance and Technology practices. For more service portfolio information, see [www.synapticconsulting.info](http://www.synapticconsulting.info)

Copyright © 2014 Synaptic Consulting LLC. All rights reserved.