

# ***Toolbox for Driving Improved Margin and Cash Flow***

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# Wil G. Knibloe III | Principal, Crowe LLP



Wil is the Founder and Principal Executive of Crowe's Strategic Sourcing | Logistics Optimization practice. He has over 19 years of operations and supply management experience, including 10 years in supply chain management positions with Ford Motor Company, Union Pacific, Pharmacia/Monsanto and DE-STA-CO (a Dover Company). Wil has served 50+ construction, manufacturing and distribution clients spanning many sub-industry segments, including non-residential & residential construction, industrial engineering services, infrastructure, automotive, chemicals, oil / gas, aerospace, pharmaceuticals, consumer goods, waste management and others.

## **Education:**

- B.A., Supply Chain Management, Michigan State University
- Certified Supply Chain Manager (CSCM)

## **Industries Served:**

- Construction
- Engineering & Design
- Automotive
- Aerospace
- Medical device
- Pharma
- Logistics
- Special metals
- Food & Beverage



Mr. Bunnell is a performance improvement Advisory Manager that leads transformational projects with clients. He has led project teams to improve OEE, maximize EBITDA, reduce labor and operating costs, instill Continuous Improvement cultures and implement company-wide Lean-Six Sigma initiatives across various industries including Architectural Glass, Industrial Construction, Energy Generation and Transmission Services, Heavy Industrial and Consumer Automotive, and Food Service.

He has served the Energy Generation, Maintenance Modification & Construction, and Transmission Construction industry by transforming revenue recognition, cost allocation, and margin visibility.

In addition to consulting, Steven spent over 9 years in the Automotive industry working as a Continuous Improvement Manager, Quality Manager, Business Unit Leader, Project Manager and Production Manager.

**Education:**

- Bachelor of Science, Industrial and Systems Engineering, Auburn University

**Industries Served:**

- Energy Generation Maintenance, Modification and Construction
- Energy Transmission Construction
- Architectural and Residential Glass
- Automotive Powertrain, Glass, Electrical, Wheels, Interior Trim, and transmission

# Strategic Sourcing & Logistics Optimization

*We help companies do three things to boost margins...*

1 2 3

Negotiate with suppliers    Optimize freight cost    Transform team performance

*In our approach, we...*

- ✔ Serve as a trusted supply chain advisor to top management
- ✔ Identify and qualify opportunities, then build plans to achieve results
- ✔ Execute the plan to deliver significant financial results while improving operations
- ✔ Are vendor agnostic and driven to provide and exceptional client ROI

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*Procurement & Logistics Optimization Service Offerings*

## Procurement Spend Analytics

*Spend Visibility | Opportunity Identification | Strategic Sourcing Plan Development*

We leverage technology to identify and qualify third party spend savings opportunities; and to track and sustain results.

## Category Strategic Sourcing

*Indirect | SG&A | Transportation - 10%+ saving | Direct Materials – 3%+ savings*

We deliver savings while improving alignment with suppliers by leading an objective strategic sourcing process.

## Logistics Optimization

*Set Freight Cost Strategies | Carrier Selection | Mode & Route Optimization*

We deliver bottom-line impact and operational improvement by optimizing across multiple logistics value levers.

## Supplier Development

*Supplier Site Evaluations | Integrated Supply Solution | Score-Carding & Governance*

We help companies improve operational performance and increase capabilities that drive business competitiveness through the execution of supplier development strategies and by driving overall supplier performance accountability.

## Procurement & Logistics Team Transformation

*Organizational Assessment | Leverage Best Practice | Admin Process Optimization*

We drive sustainable value from Procurement and Logistics beginning with a comprehensive gap analysis of operations to develop prioritized recommendations through implementation of best-practices.

# Crowe's Performance Improvement / Operational Excellence Team

## *When companies experience...*

- **EBITDA challenge**
- **Market growth**
- **Turnaround or Restructuring**
- **Growth by acquisition**
- **Working capital challenges**

## *In our approach, we...*



### **Listen to your story**

We understand the expectations of your operational performance and the impact that has on the Company's strategy..



### **Diagnose your problem**

We discuss your story and break it down it into categories, metrics, and priorities. This analysis arrives at a precise diagnosis of the problem.



### **Execute**

We execute and implement the operational improvements to deliver a return.

## *We deliver...*



### **Manufacturing and Supply Chain Operations**

We improve labor productivity, throughput, forecasting, planning and scheduling optimization, overall equipment and facility effectiveness, cost of to serve, Lean and Six Sigma



### **SG&A Optimization**

We assist in back office flow and optimization, gross margin and pricing, geographic and distribution footprint review, sales force effectiveness, and reporting and organizational accountability



### **Operational Turnaround & Restructuring**

We help with cost structure optimization, capacity and footprint rationalization, procurement/low cost sourcing strategy and execution, customer and product rationalization, commercial optimization



### **Working Capital Optimization**

We help optimize Inventory (raw material and finished goods), Accounts Payable, and Accounts Receivable optimization

## *Resulting in...*

- **Identification of operational levers to financial results**
- **Quantified operational improvement opportunities**
- **Scorecard and accountability tools to sustain performance improvement**

# *Overview*

... **pragmatic strategies you** can influence for driving **improved margin** and **cash**:

- Build an understanding of margin and cash improvement opportunities and how you can influence outcomes
- Learn about peer company approaches, results achieved, best-practice and lessons learned
- Build a clearer understanding of the CFO's role to vet and support execution of your company's opportunities

## Revenue / Cash

## Cost

### *Levers*

- Good Customers & Bad Customer
- Sales force effectiveness
- Revenue Recognition
- Estimation Best Practices
- Target Margins
- Product and or Services Rationalization
- Invoicing trigger points
- Invoicing Efficiency
- Invoice process: getting paid for impacts, deviations, redlines, EO, etc.
- (AR) Focused collections
- (AP) Payable terms

- SG&A efficiencies
- Mid-Tier Management: Leadership vs. Technical ability
- Direct Labor efficiencies
- Cost of poor quality
- Strategic Sourcing
- Equipment & Materials Management
- Metrics and Accountability

*What are the levers in your business?*

I don't make the numbers... just report them.

# ***Revenue / Cash Levers***

## Good Customer

- “They pay on time in full”
- “I get my Change Orders paid”
- “They don’t fight me on impacts”
- “We can use their system to bill and track payment approval and issuance”
- “We are aligned / agree on the job status, schedule and budget”

## Bad Customer

- “... must send the national guard to collect fees”
- “Won’t, or slow, to approve Change Orders”
- “We still have a balance to negotiate from the last project”
- “Their PM’s and AP clearly don’t know each other even exist”

Focus on what you can control. Can you control your Customer?

Design your processes for success (e.g., mitigate risk, manage jobs, shepherd clients)

## Market and sell services within your core business

- Can we delivery this job (e.g., is it what we do)
- What are the special considerations / risks associated with the job (e.g., specialized equipment, odd location, etc.)
- Do we have capacity (e.g., recruiting during a national labor shortage is tough)

## Once sold, manage the job (e.g., productivity, team performance and margin)

- CPI, SPI, job cost allocation, % complete, load board budget vs. actual, etc.
- At what frequency do we monitor?
- Identify, concur, and allocate ECO's, specialized equipment, scope creep, etc.

*Get involved...*

**... manage your clients through the cashflow cycle, so they receive no surprises**

... impact of doing this poorly?

# That's great, but where's my cash?

Include **revenue recognition** milestones / methodology in your estimation build up and review.

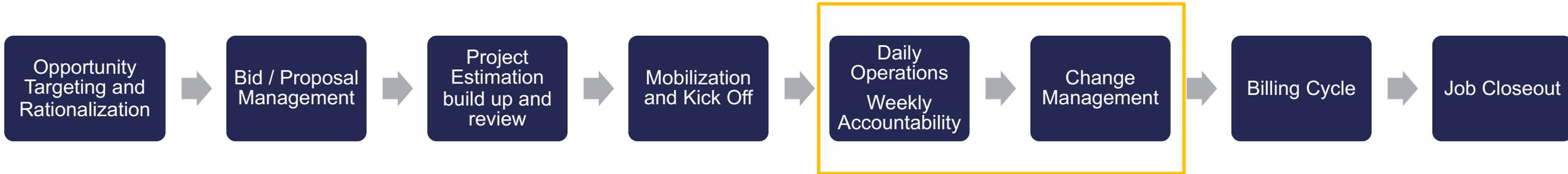
**Revenue triggers must be defined up front, and how you are tracking them.**

1. Weekly billing
2. Project completion percentages
3. Job closeout (e.g., waiting on package finalization)
4. Release level completion (i.e., a job within a job)
5. Project schedule milestones or thresholds

*What is your process?  
Are you consistent  
across the business?*

Do you know when these triggers hit? Better yet, do you know when the NEXT trigger WILL BE hit?

Are we asking the right questions? The benefit of getting more involved...



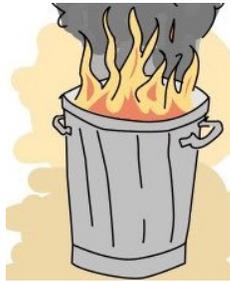
...completing work to submitting a bill is a hidden process. When managed poorly it will **DOUBLE** your “DSO”.

# A Clear Accountability Cadence

Near real-time job performance management is best...

## Poor Practices

- I know our job's performance by the:
- End of the following month (P&L)
- End of the first week of the following month (P&L close cycle)



## Strive for...

- End of the following week
  - End of the week
  - Following day
  - End of the day



- Front loaded management drives early course corrections when need
- With job / project visibility, you can ANTICIPATE the next milestone for billing and monitor bill work up throughput...

# Accountability Cadence (Continued)

Strive for daily performance assessment of your job / crews / projects

Crew #	FTE's	Mon 6/21/2021	Tue 6/22/2021	Wed 6/23/2021	Thu 6/24/2021	Fri 6/25/2021	Sat 6/26/2021	Sun 6/27/2021	Mon 6/28/2021
OF-804	5	\$ 100.49	\$ 100.35	\$ 99.76	\$ 125.96	\$ 118.63	\$ 115.40	NO HOURS	NO HOURS
OF-811	5	\$ 118.87	\$ 118.87	NO HOURS	\$ 118.87	NO HOURS	NO HOURS	NO HOURS	\$ 118.87
OF-814	5	\$ 84.68	NO HOURS	\$ 97.07	\$ 106.59	NO HOURS	NO HOURS	NO HOURS	\$ 101.88
OF-815	5	\$ 87.57	\$ 112.03	\$ 98.29	\$ 80.95	\$ 105.79	NO HOURS	NO HOURS	\$ 113.24
OF-801	5	\$ 114.16	\$ 139.63	\$ 86.82	\$ 109.63	\$ 104.14	NO HOURS	NO HOURS	\$ 103.74
OF-803	4	\$ 34.71	\$ 64.26	\$ 121.21	\$ 128.62	\$ 132.85	\$ 88.85	NO HOURS	\$ 110.38
OF-813	4	NO HOURS	\$ 98.19						
OF-816	4	\$ 55.72	\$ 111.52	\$ 89.63	\$ 66.40	\$ 30.24	NO HOURS	NO HOURS	\$ 60.25
OF-805	4	\$ -	NO HOURS	\$ 122.33	\$ 43.49	NO HOURS	NO HOURS	NO HOURS	\$ 112.48
OF-806	5	NO HOURS	NO HOURS	NO HOURS	\$ 69.84	\$ 120.29	\$ 112.38	\$ 112.38	\$ 97.30
OF-807	5	\$ -	NO HOURS	NO HOURS	\$ -	NO HOURS	NO HOURS	NO HOURS	NO HOURS
OF-809	5	NO HOURS	\$ 161.45	\$ 75.55	\$ 69.21	NO HOURS	NO HOURS	NO HOURS	\$ 131.05
OF-802	4	\$ -	\$ 108.73	\$ 86.35	\$ 61.66	\$ 61.90	NO HOURS	NO HOURS	\$ 76.72
OF-810	5	\$ 8.09	\$ 154.94	\$ 112.46	\$ 132.97	\$ 30.62	NO HOURS	NO HOURS	\$ 114.24
OF-808	5	\$ 12.74	\$ 117.28	\$ 183.54	\$ 84.34	\$ 72.88	NO HOURS	NO HOURS	\$ 134.80
OF-812	5	\$ 66.40	\$ 116.81	\$ 122.62	\$ 128.42	\$ 200.12	NO HOURS	NO HOURS	\$ 82.72
OF-817	5	\$ 66.40	\$ 116.81	\$ 122.62	\$ 86.94	\$ 125.42	NO HOURS	NO HOURS	\$ 116.65
OF-818	5	\$ 61.58	\$ 90.03	\$ 43.65	\$ 45.99	NO HOURS	NO HOURS	NO HOURS	\$ 67.65
OF-819	5	\$ 70.62	\$ 108.73	\$ 94.99	\$ 73.42	\$ 138.17	NO HOURS	NO HOURS	NO HOURS
OF-822	5	\$ 113.35	\$ 102.86	\$ 107.02	\$ 118.79	\$ 183.45	NO HOURS	NO HOURS	\$ 54.37
OF-820		NO HOURS	NO HOURS	\$ 98.46	NO HOURS	\$ 99.80	NO HOURS	NO HOURS	NO HOURS
OF-821	4	\$ 127.28	\$ 138.66	\$ 92.39	\$ 108.57	\$ 116.77	NO HOURS	NO HOURS	NO HOURS
		\$ 72.21	\$ 116.51	\$ 103.48	\$ 87.55	\$ 108.81	\$ 104.37	\$ 112.38	\$ 100.85

- =
- Early course corrections
  - Improved performance
  - Less *month end* surprises

# ***Cost Levers***

# Wait... what did that revenue cost?

Allocating costs in a targeted way and frequently...



# Cost Levers – Allocate, Track, Course Correct

What areas have you attacked in recent years ...successes you have had?

Labor Productivity Direct & Indirect	Material	Equipment Management	Leadership	SG&A	Work Quality
<ul style="list-style-type: none"> <li>• Billable vs. Non-billable hours %</li> <li>• Direct Labor vs Indirect labor ratio</li> <li>• Communicate targets to those making the money</li> </ul>	<ul style="list-style-type: none"> <li>• Consumption vs. plan</li> <li>• Billable vs. non-billable</li> <li>• Pre-job inspections</li> <li>• Consignment</li> <li>• Inventory Management</li> <li>• Strategic sourcing</li> </ul>	<ul style="list-style-type: none"> <li>• Job Allocation</li> <li>• Cost Allocation</li> <li>• Repair and Maintenance</li> <li>• Fuel</li> <li>• Effective vs. idle time</li> </ul>	<ul style="list-style-type: none"> <li>• Technical vs. people skill</li> <li>• Crew / job / site to leader ratio</li> <li>• Clear Roles and Responsibilities</li> <li>• Success Planning</li> <li>• Safety Culture</li> </ul>	<ul style="list-style-type: none"> <li>• Billability</li> <li>• Proximity to work done (location and hierarchy)</li> <li>• Efficiency (manual allocation, reporting, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>• ‘Go-backs’</li> <li>• Walk downs / ride outs</li> <li>• Location Surveys</li> <li>• Best practice training and culture</li> <li>• Experience vs. scope assessment</li> </ul>
<p><b>How do you measure productivity?</b></p> <ul style="list-style-type: none"> <li>• SPI</li> <li>• CPI</li> <li>• Revenue / Labor Hour</li> <li>• Load board plan vs. actual</li> </ul>	<p><b>Inventory Management</b></p> <ul style="list-style-type: none"> <li>• Glide Path</li> <li>• Lead times</li> <li>• Shrink</li> </ul>	<p><b>Fleet management</b></p> <ul style="list-style-type: none"> <li>• GPS</li> <li>• Rent / Lease / Own</li> <li>• Op vs. Cap Lease</li> <li>• Operating efficiency</li> </ul>	<p><b>Leadership</b></p> <ul style="list-style-type: none"> <li>• Even Tiger Woods had a swing coach</li> <li>• Spend more time mentoring than reacting</li> <li>• Choose capable leaders, not capable tradespeople</li> </ul>	<p><b>Support Structure</b></p> <ul style="list-style-type: none"> <li>• Spend Money where you make money</li> <li>• What roles can we bill for? Did you ask?</li> <li>• What manual processes are you asking of your resources?</li> </ul>	<p><b>Quality Delivery</b></p> <ul style="list-style-type: none"> <li>• Plan for Quality in tandem with Safety</li> <li>• Review CTQ Characteristics during the estimation build</li> <li>• What will it cost?</li> </ul>

# Communicate / Measure Cost Performance - Empower People

Customer	Timberline Job#	Gross Margin	Gross Profit	Total Revenue	Total Job Costs	Total Payroll	Per Diem Pay	Vehicle Costs	Fuel Costs	PTO Allocation	Credit Card	Other Job Costs	Per Diem Days	Hours
OG&E	19-00827-1	18.7%	\$1,676	\$8,978	\$7,302	\$4,306	\$1,155	\$1,358	\$339	\$0	\$0	\$143	11	
	20-00814-1	35.7%	\$8,776	\$24,608	\$15,831	\$10,965	\$1,995	\$2,049	\$512	\$0	\$0	\$310	19	
	20-00863-1	9.6%	\$839	\$8,695	\$7,856	\$6,710	\$0	\$794	\$198	\$0	\$0	\$154	0	
	99-10010-1		(\$13,604)	\$0	\$13,604	\$6,642	\$735	\$4,768	\$1,192	\$0	\$0	\$267	7	
	99-10079-1	69.5%	\$484	\$696	\$212	\$198	\$0	\$8	\$2	\$0	\$0	\$4	0	
	99-10080-1	40.9%	\$7,273	\$17,769	\$10,496	\$7,736	\$0	\$2,043	\$511	\$0	\$0	\$206	0	
	99-10081-1	-34.0%	(\$1,914)	\$5,623	\$7,537	\$4,778	\$0	\$2,090	\$522	\$0	\$0	\$148	0	
	99-10128-1	44.4%	\$25,313	\$57,046	\$31,732	\$18,418	\$5,040	\$6,122	\$1,530	\$0	\$0	\$622	48	
	99-10167-1	64.9%	\$2,126	\$3,278	\$1,152	\$869	\$0	\$209	\$52	\$0	\$0	\$23	0	
	99-10196-1	41.2%	\$20,518	\$49,785	\$29,266	\$20,398	\$4,095	\$3,359	\$840	\$0	\$0	\$574	39	

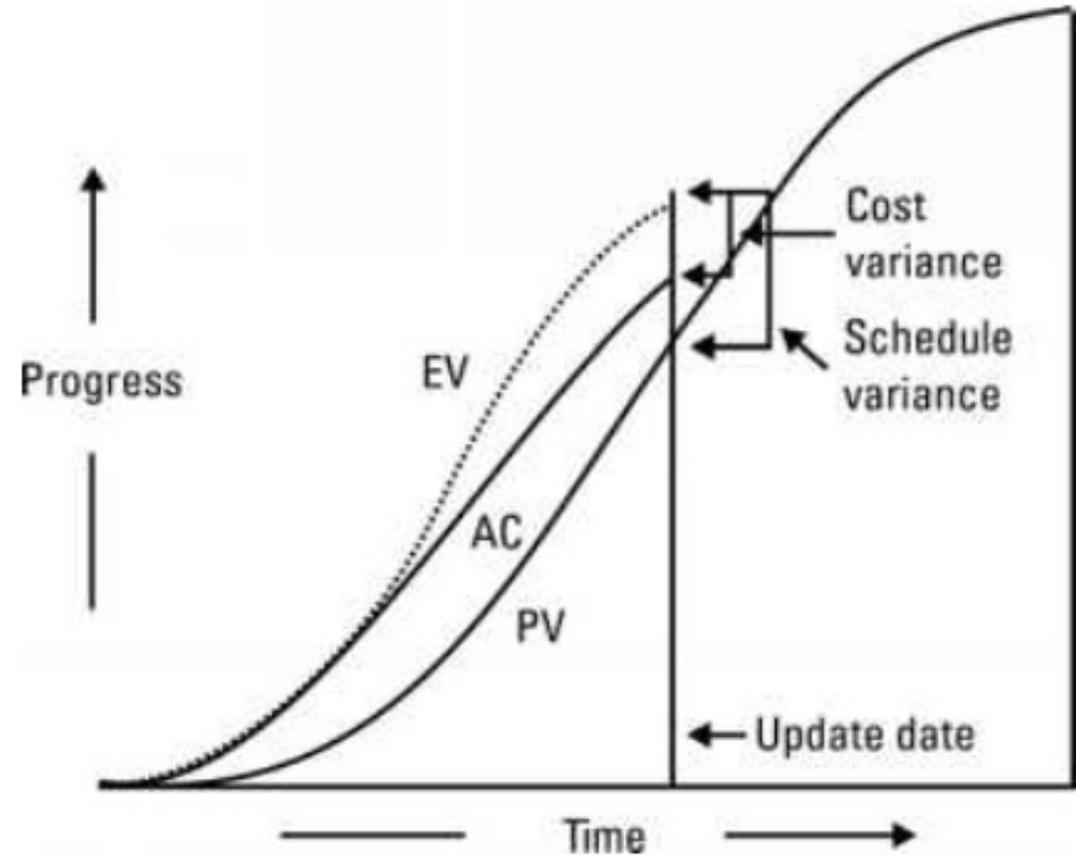
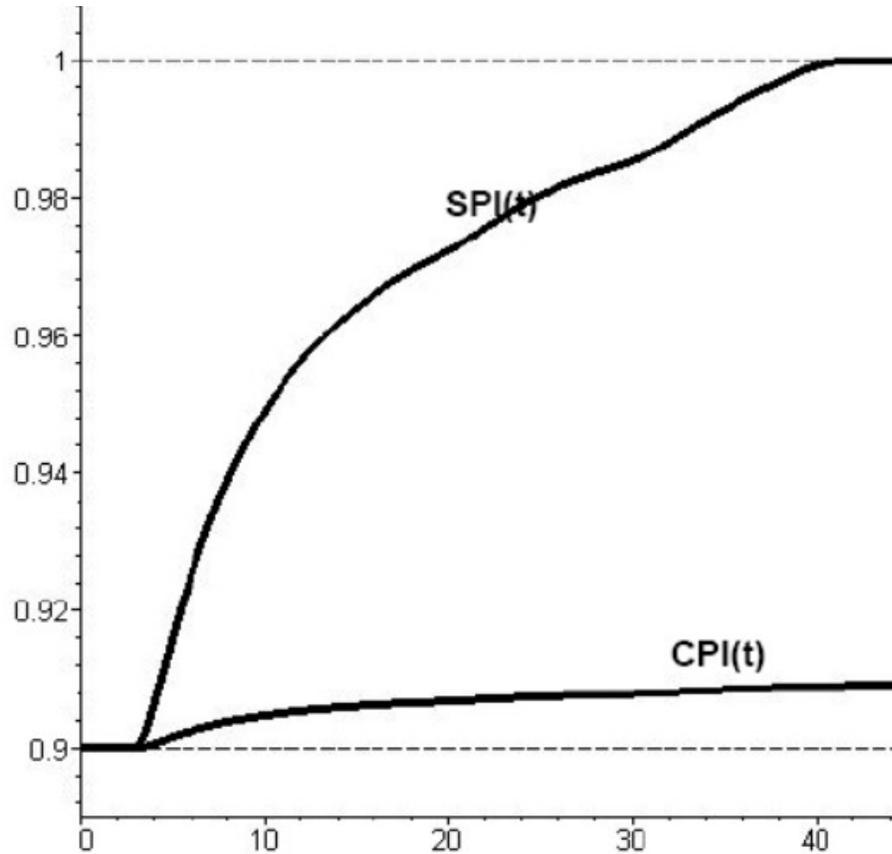
Job Number	Job Name	Week Ending	Notes
19-00827-11	OGE-TD&C OUTER DISTRICT	8/15/21	Mashell provided accrual upload file
20-00814-11	OGE-TRBLSHTR	8/15/21	Mashell provided accrual upload file
20-00863-11	OG&E UDG BAD ORDER REPAIRS	8/15/21	Mashell provided accrual upload file
99-10010-11	OG&E OPERATIONAL ACCRUAL ACCT	8/15/21	No comment provided
99-10079-11	OG&E UG Replacements	8/15/21	Mashell provided accrual upload file
99-10080-11	OG&E UG Conversions	8/15/21	Mashell provided accrual upload file
99-10081-11	OG&E UG Trench	8/15/21	Mashell provided accrual upload file
99-10128-11	7980264 Wilshire 23 GR	8/15/21	Mashell provided accrual upload file
99-10167-11	UG New Services	8/15/21	Mashell provided accrual upload file

Helps your Project Managers... manage.

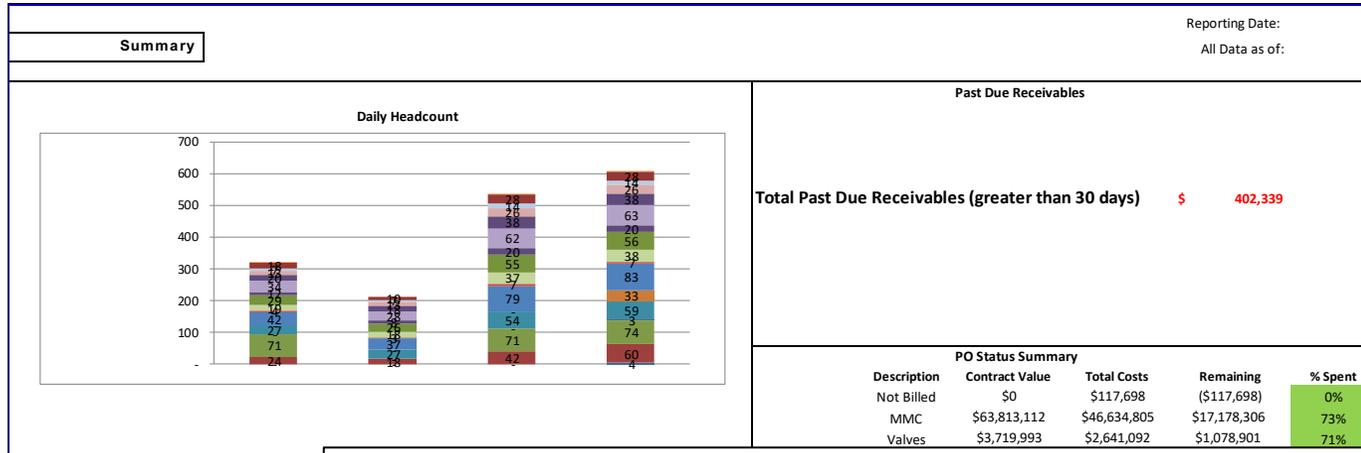
<h2>29.4%</h2> <p>Gross Margin</p>	<h2>\$212K</h2> <p>Total Revenue</p>	<h2>\$150K</h2> <p>Total Job Costs</p>	<b>W.E. Date</b> <input type="checkbox"/> Select all <input checked="" type="checkbox"/> 8/15/21 <input type="checkbox"/> 8/8/21	<b>Customer</b> All
			<b>Type of Work</b> <input checked="" type="checkbox"/> Select all <input checked="" type="checkbox"/> BID <input checked="" type="checkbox"/> OVERHEAD <input checked="" type="checkbox"/> T&E <input checked="" type="checkbox"/> UNALLOCATED <input checked="" type="checkbox"/> UNIT	<b>Job Type</b> <input checked="" type="checkbox"/> Select all <input checked="" type="checkbox"/> Regular <input checked="" type="checkbox"/> Storm

# SPI & CPI

PM's must do this and FI should be reviewing to anticipate cost or schedule impacts... vs. waiting for surprises.

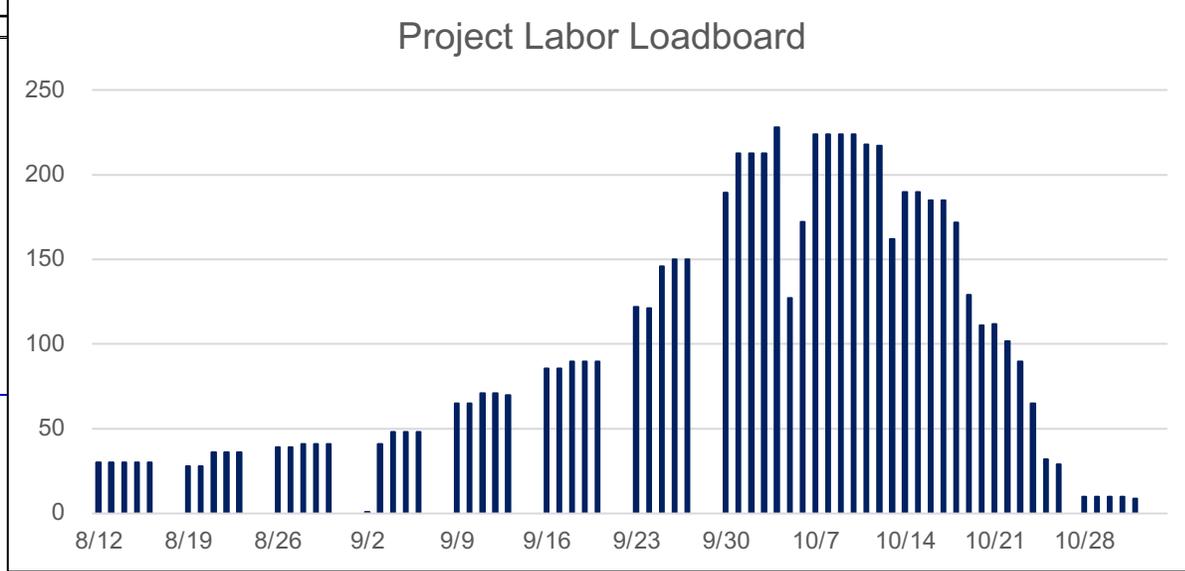


... you DON'T need software to do this (does help however).



**324**

Dayshift	
STAFF WELD	0
STAFF VALVE	24
STAFF MMC	71
STAFF HOME OFFICE	2
WELD BOILERMAKER 433	0
PIPEFITTERS 630	27
WELD PIPEFITTERS 639	0
LABORER 1652	42
TEAMSTERS 769	4
IRONWORKER 402	19
ELECTRICIAN 728	29
OPERATING ENGINEERS 487	12
CARPENTER 1809	34
BOILERMAKER 433	20
INSULATOR 60	13
SHEET METAL 32	7
PAINTERS 78	18
MILLWRIGHTS 1000	2



## Use reports to...

- Monitor your cash position, and its relevant functions
- Load boards
- Daily head count
- Past dues, PO status, impacts, etc.

All effect your cash and must be visualized and transparent to the business.



Procurement synergies are well understood, yet few organizations are positioned to capture value. Companies that do enjoy the benefits of a critical and **differentiating competitive advantage...**



**Reduced** supply chain management **risk** and **disruption**

*Once the exception – now the norm; companies experience 2 – 3 supply chain disrupting events annually*



Streamlined and more **scalable** procurement **administration**

*Poorly designed processes and lacking automation are the greatest barriers to scalability*



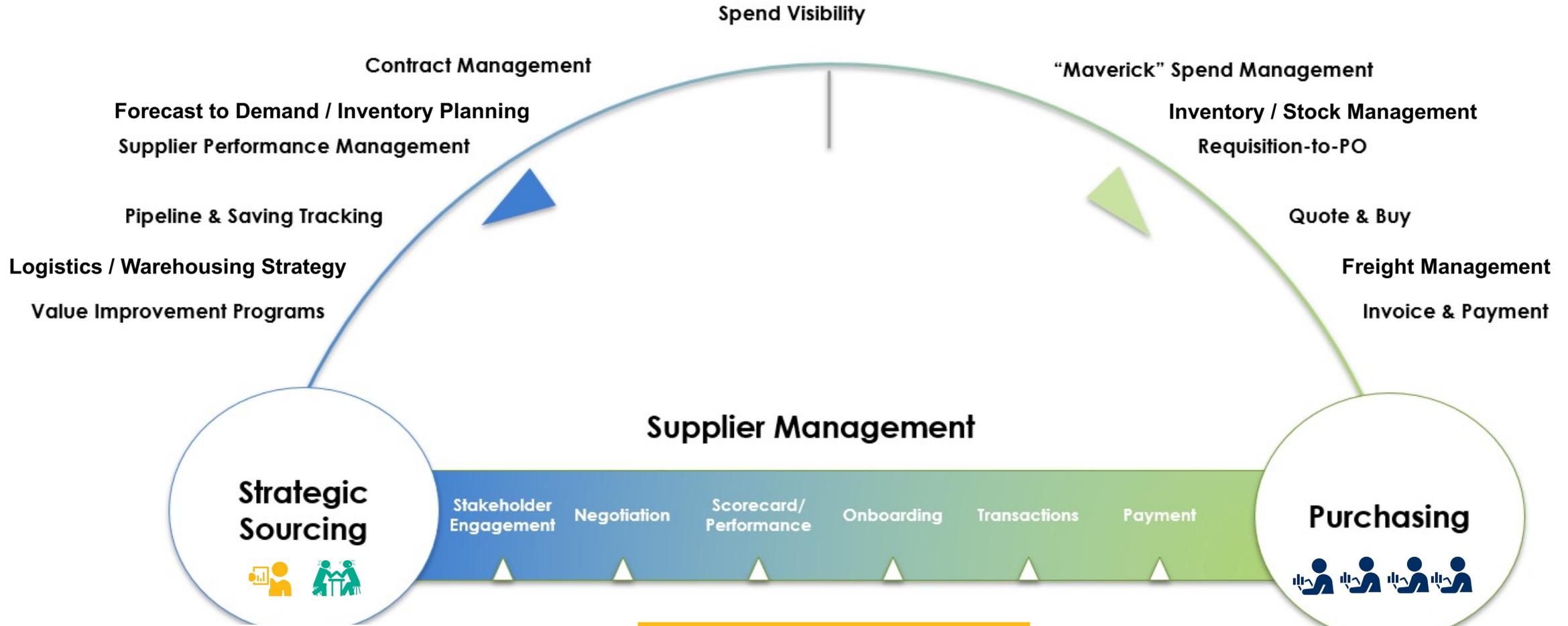
**Improves** supply partner **relationship** management

*~80% of companies with high-performing supply chains achieve revenue growth greater than the average within their industries\**



More **competitive** cost

*2% - 5% lift in net income*



A structured and objective process for supplier selection, negotiations and management. The goal is to achieve optimal alignment between organization needs and wants and the most capable supplier in the market.

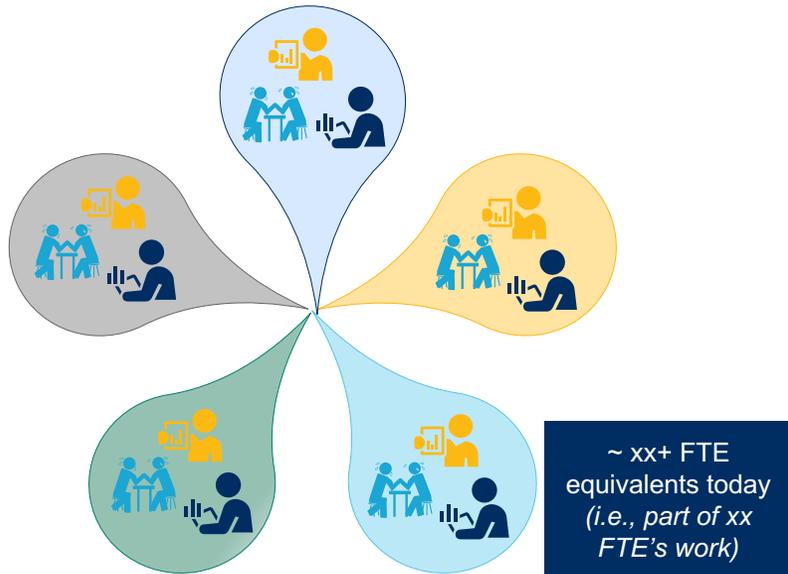
**Goal** – maximize organization value

- Not the same thing; and,
- Disappointing result when mixed.

Tactical day-to-day transaction level management of requirements, new purchase orders, open order management, receipt... to payment.

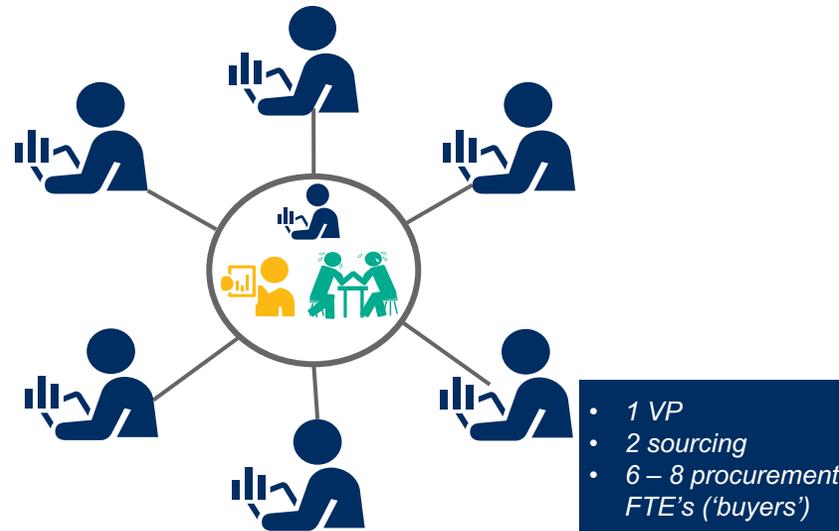
**Goal** – responsive, accurate and efficient transactions

Critical to find the **right balance** of efficiencies without squandering stakeholder independence.



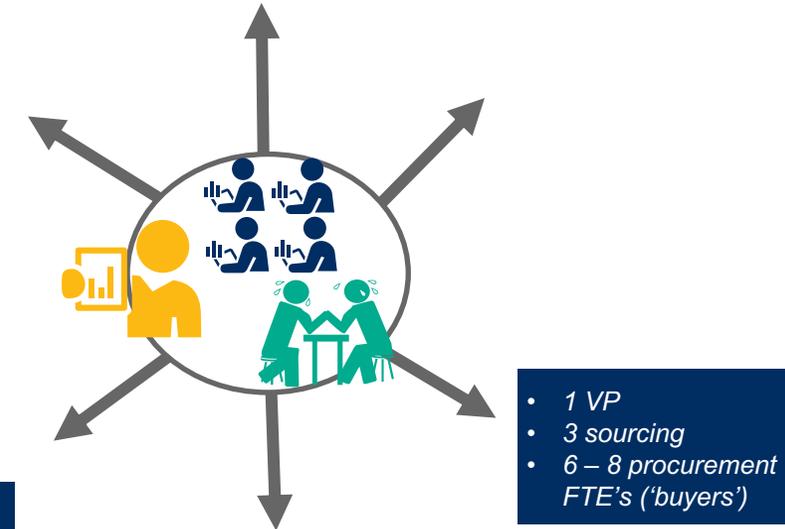
- Transactional procurement disparity managed across the business; and,
- No apparent strategic sourcing
- Presumably, good service level, customized and responsive; however, unscalable, poor structure for supplier / risk management and low levels of synergy capture

... likely Current State



- Centralized strategic sourcing and with a combination of centralized and center led transactional procurement personnel
- Policies, processes and governance are center-led and managed
- More scalable management structure with better controls and synergy capture balanced with fewer barriers and speed to day-to-day decisions / transactions (i.e., *negotiate global – execute local*)

Center Led



- A single centralized department for all strategic sourcing & procurement decisions and transactions
- Policies, processes and governance are center-led and managed
- Most scalable with highest levels of control and synergy capture; however, can become disconnected from the business and overly bureaucratic if not thoughtfully managed

Centralized

The difficulty of overcoming organizational pride is underestimated and can bring a program launch to a stop quickly. If you do not have support of your Executive leadership team – don't bother. Other implementation roadblocks include:

- Lack of organizational adoption;
- Fear over contract disruptions;
- Easier to not change and “we are different/special” complex;
- Discount the monetary impact sourcing can make;
- Have tried and failed in the past;
- Over or underestimate the time and resources needed.

What matters most is that...

...what is created  
**aligns with your  
strategy**

...we make  
**stakeholders live  
easier and add  
tangible value**

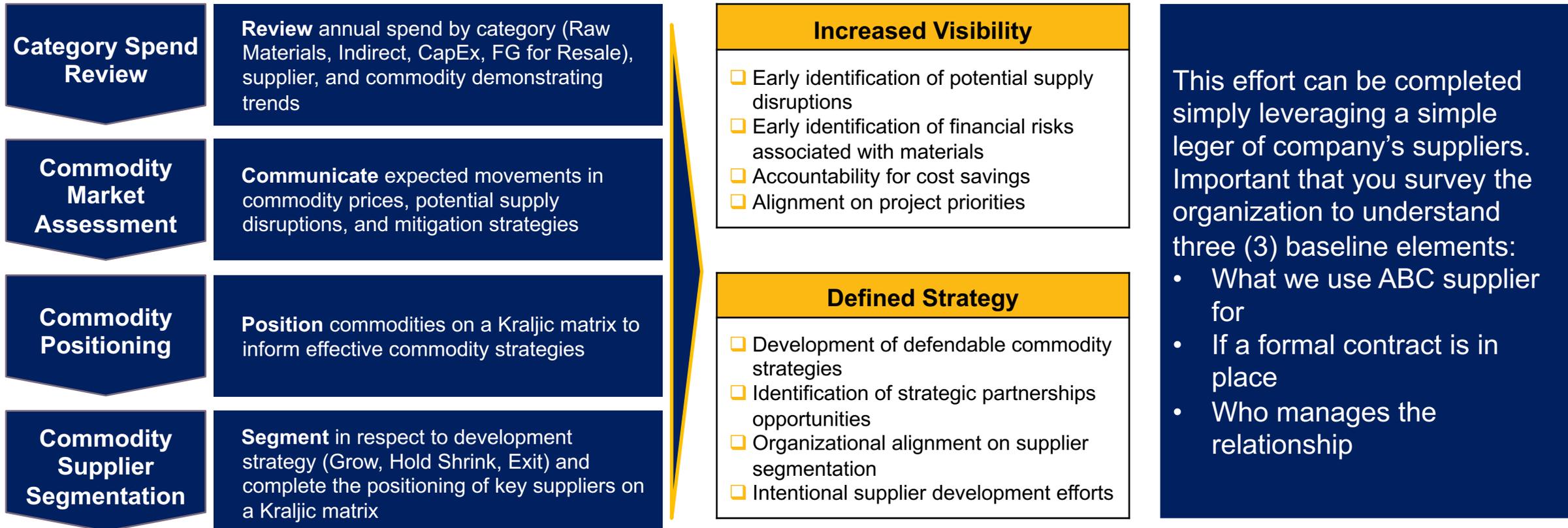
...we achieve  
**alignment** across  
your **leadership  
team**

... have a **clear  
execution plan  
and tech  
strategy**



# You Need To Build A Plan

Leveraging a common strategic sourcing planning framework will help ensure you are working on the right things and align the organization.



Once teams are dialed in on 'addressable spend' three (3) areas of opportunity take shape...

## ***Spend category initiatives***

- Phase 1: Specific targets that appear to represent quick, meaningful wins (e.g., general supply categories and telecom)
- Phase 2: More strategic categories (e.g., direct items)

## ***Vendor direct initiatives***

- Phase 1: Stabilizing and looking for quick wins in existing relationships
- Phase 2: More aggressively growing and eliminating existing relationships
- Phase 3: Supplier development / management

## ***Demand management and process improvement initiatives***

- Focused on areas that can be improved in internal processes (e.g., “maverick” spend and “leakage”)

The door opener to great deals / make early deposits to allow for future withdrawals...



- Pre-emptive work for future sourcing activities
- Market intelligence: gather insight from the supplier on potential disruptions (pricing, delays, impacts, and industry changes)
- Establish ongoing relationships with supplier for future program & supply chain initiatives
- Provide project-level support for issue resolution where appropriate
- Reduce disruptions, proactively gain insights into supply impacts
- Improve collective buying power and add value to projects
- Improves efficiency in logistics and warehousing
- Ensure material quality

# Keeping the 'Savings'

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Negotiating improved commercial terms (e.g., better pricing) in many cases is easier than keeping the benefits created:

- 'cost-plus' contracts with customers
- poor standard costs systems
- lacking sales governance processes and hurdle margins frameworks
- poor quoting and estimating processes with lacking accountabilities

... results in negotiate benefits passing through a companies P&L to the client.

# Key Takeaways

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- Focus on what you can control and build robust processes and shepherd your customer through them
- Define your cashflow cycle during the estimation / proposal phase - align with operations AND your customer to streamline functions prior to billing
- Construct data flows to understand Earned Value (revenue recognition) as close to real-time as possible
- Shine the light on costs through proper allocation and reporting and LEAD to keep on the cost schedule
- Be a leader in the accountability process
- Empower those who generate your revenue with data insight, planning, and your experience
- Professionalize strategic sourcing and procurement practices

# Thank you

**Wil G. Knibloe III**

Crowe, LLP | Principal  
National Practice Leader  
Phone: +1 231.333.6207  
Wil.Knibloe@crowe.com

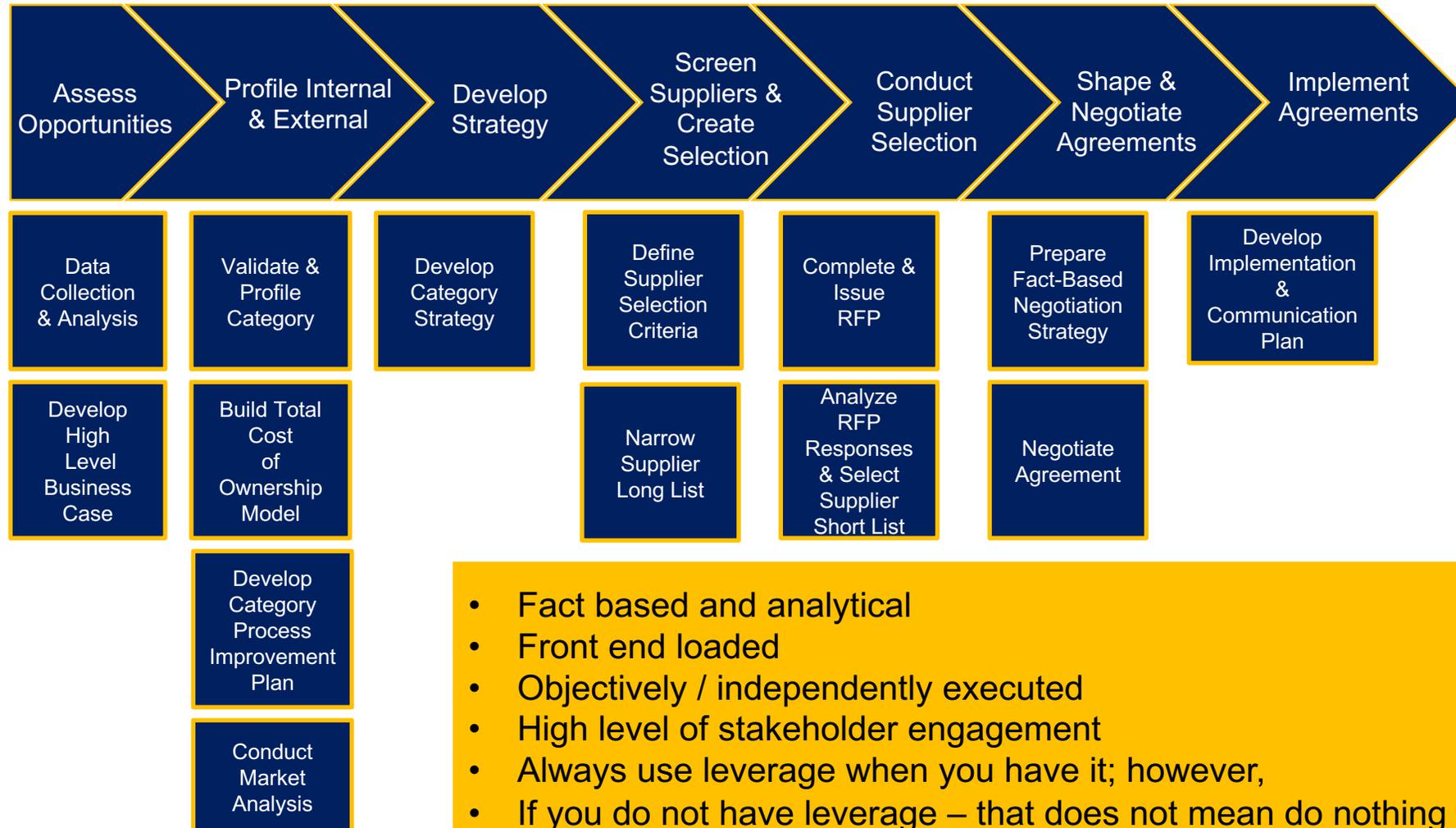
**Steven Bunnell**

Crowe, LLP | Manager  
Advisory  
Phone: +1 615.360.5558  
Stephen.Bunnell@crowe.com

# ***Appendix***

# Basic Seven (7) Step Sourcing Process

No process = no impact + frustrated stakeholders.



# A Sourcing Gemstone Approach - Niul Burton, '98

Sourcing approaches considering both 'exploiting buying power' and 'creating advantage strategies' levers should be analyzed.

## Strategies to Exploit Buying Power

### **Volume Concentration**

- Reduce/consolidate number of suppliers
- Pool volume across business units
- Redistribute volume among suppliers
- Combine volume from different sourcing groups
- Develop alliances among purchasers
- Rationalize/standardize parts

### **Best Price Evaluation**

- Benchmark internal prices
- Renegotiate/rollback prices
- Un-bundle prices and model should-costs
- Threaten-back leverage
- Use competitive bidding
- Use commodity hedging/trading
- Index/cap prices
- Compare TCO among potential suppliers
- Base pricing on profitability
- Develop long-term contracts

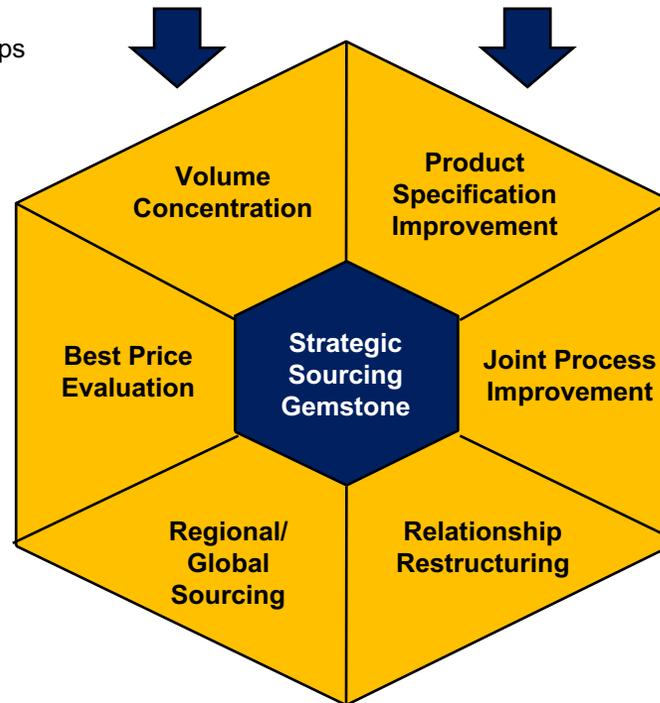
### **Regional/Global Sourcing**

- Expand geographic supply base
- Examine new suppliers
- Capitalize on currency fluctuations
- Take advantage of trade incentives
- Optimize counter trade
- Leverage second-tier suppliers

## **Sourcing Approaches**

**Exploit  
Buying Power**

**Create An  
Advantage**



## Strategies to Create an Advantage

### **Product Specification Improvement**

- Rationalize/standardize parts
  - Substitute materials/parts
- Apply product value analysis
- Apply product value engineering
- Use functional/black-box buying
  - Examine life cycle costs
- Develop long-term contracts

### **Joint Process Improvement**

- Reengineer joint processes
  - Optimize physical material flow
    - Integrate logistics
- Support supplier operations improvement
- Use simultaneous engineering/joint R&D
  - Develop long-term contracts
  - Share productivity gains

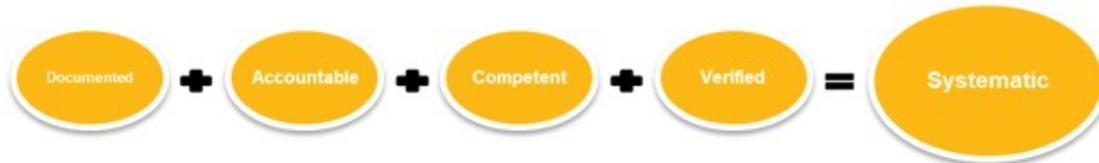
### **Relationship Restructuring**

- Analyze core competencies
- Examine strategic make vs. buy decisions
  - Adjust degree of vertical integration
    - Create market entry alliances
      - Establish joint ventures
- Employ strategic alliances/partnering
  - Establish/develop key suppliers

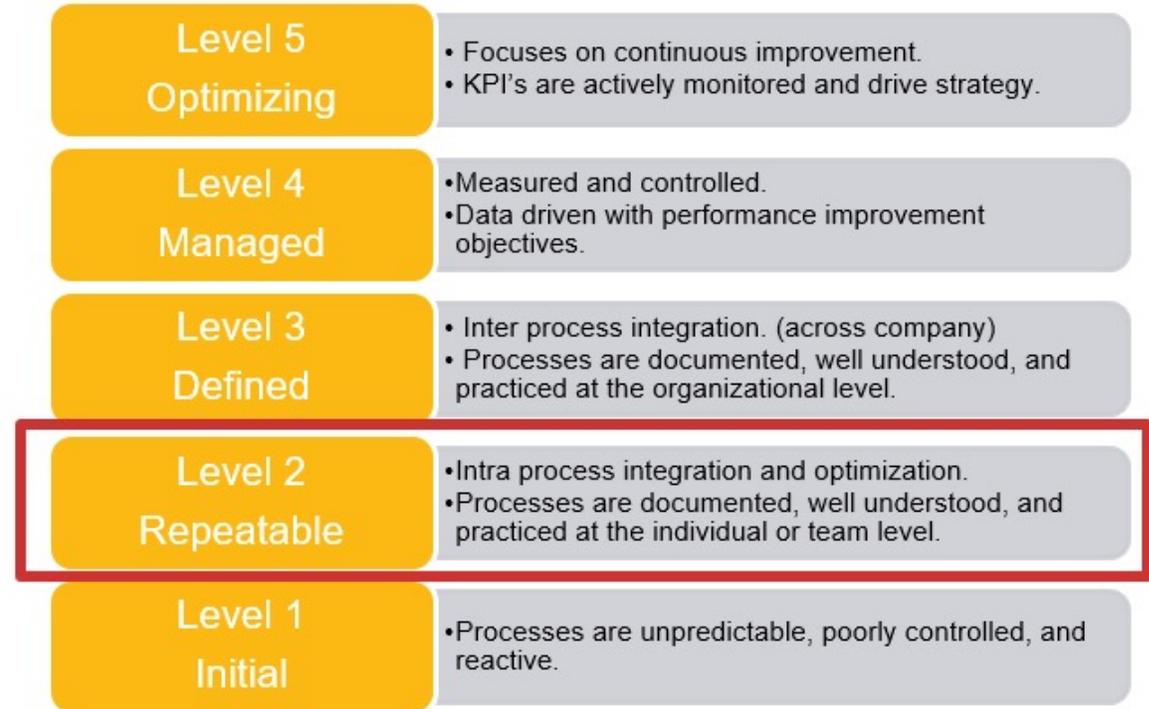
## Systematic Management

We are systematic and in control when operational and technical requirements are:

- ✓ documented, well understood;
- ✓ Practiced with clear accountabilities in place;
- ✓ competencies are defined and demonstrated; and,
- ✓ conformance is verified and documented.



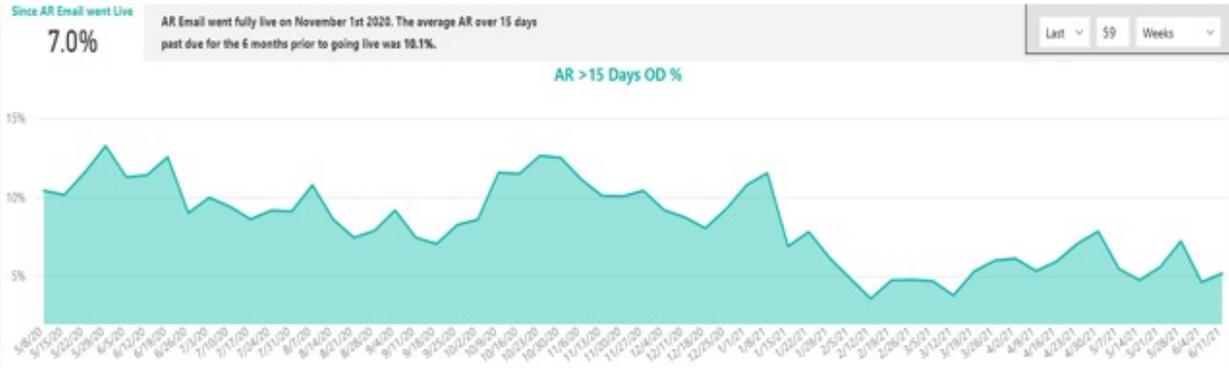
## Process Maturity



You cannot sustain growth at this level

## Accounts Receivable Initiative - ~1.5MM

- AR Days Overdue % has decreased to 7.0% from 10.1% prior to initiative implementation

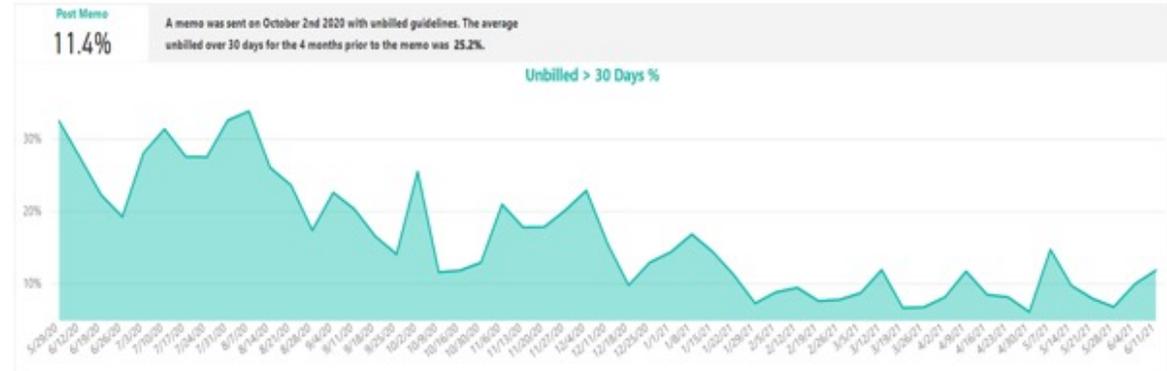


## Invoice Turnaround – Ongoing

- With continued focus on moving to draft-less invoices and modifying the billing cycle, the original goal of reducing the days to bill by 8 days is achievable

## Unbilled Initiative - ~2.4MM

- Unbilled > 30 Days % has decreased to 11.4% from 25.2% prior to the 10/2/20 unbilled guideline communication



### Initiative Cash Flow Impact

Accounts Receivable Initiative	~\$1.5MM
Unbilled Initiative	~\$2.4MM
Invoice Turnaround Initiative	~\$2.1MM
<b>Total Initiative Cash Flow Impact</b>	<b>~\$6.0MM</b>

## Principles of 'Lean'

1. **Value.** Value is always defined by the customer's needs for a specific product.
2. **Value stream.** Once the value (end goal) has been determined, the next step is mapping the "value stream," or all the steps and processes involved in taking a specific product from raw materials and delivering the final product to the customer.
3. **Flow.** After the waste has been removed from the value stream, the next step is to be sure the remaining steps flow smoothly with no interruptions, delays, or bottlenecks.
4. **Pull.** With improved flow, time to market (or time to customer) can be dramatically improved.
5. **Perfection.** Accomplishing Steps 1-4 is a great start, but the fifth step is perhaps the most important: making lean thinking and process improvement part of your corporate culture.

## Eight (8) Types of Waste

1. **Transportation.** the distance that information must travel to get approvals , signatures, this can include emails.
2. **Inventory.** Unbillable labor.
3. **Motion.** The required routings that items take to get to the final customer, required forms that enter data repeatedly.
4. **Waiting.** Approvals, inboxes etc.
5. **Overproduction.** Reports that are created that no one consumes.
6. **Over Processing.** Reports and other communications (emails) that are sent to multiple receivers with information that's not needed.
7. **Defects.** Office defects are redoing reports, making changes over and over to documents.
8. **Non-Utilized Talent.** Limiting the authority of middle managers by requiring frequent approvals from owners, or upper managers, before projects can continue.