

# Accelerating Cash Flow

BY LISA ANDERSON

*In today's business environment, the previously admired slow and steady progress, continuous improvement, low-cost producer philosophy will likely result in death.*

After all, how can a commodity business with average customer service compete with products produced in low labor cost countries with minimal cost burdens such as health-care costs, regulatory requirements and environmental costs? It can't! Instead, we must change the playing field—throw out the old business models and practices; instead, we must define a competitive advantage that customers value.

In my experience in working across multiple industries and globally innovating the supply chain can be a way not only to stand out in the crowd with a competitive advantage the customer values but also to accelerate cash flow. In the past year, the #1 concern I heard from clients is cash flow, cash flow, cash flow. According to the "Future of Manufacturing 2009" survey conducted by *Industry Week* and Crowe Horwath, managing credit market/working capital pressures is a clear concern to manufacturing leaders. Therefore, innovate the supply-chain—it will deliver a win-win.

The great news is that there are numerous ways to innovate through the supply chain; however, the challenge is to identify and prioritize those which will provide the largest impact to your business goals. In my experience, the 80/20 of the benefit is gained through three core supply chain innovations that also accelerate cash flow: (1) innovative inventory management; (2) advanced transportation strategies; and (3) collaborative supply chain innovation.

**1. Innovative inventory management.** After working with industries ranging from consumer products to aerospace, to absorbent health-care products, I've found that it is consistently achievable to reduce inventory levels by 40 to 50% while maintaining and improving customer service levels. Thus, it emerges as the #1 strategy to accelerating cash flow.

There are many strategies to achieve this goal. For example, in one client project, we realigned the people, implemented best practice processes (ranging from demand planning to advanced planning and scheduling processes), and leveraged the system to optimize inventory planning. In another example, we found that implementing a postponement program (delaying the final assembly, packaging or labeling process until just prior to shipment) delivered the flexibility required to meet the customer's lead time while significantly reducing inventory levels.

# through Supply-Chain Innovation

Customer partnerships can also be a key factor in innovative inventory management programs. For example, after working with a company to implement a vendor managed inventory program with their #1 customer, we not only radically reduced inventory levels but also earned the title of supplier of the year in three separate years (which also led to a stronger partnership with additional business opportunities). In another example, the company partnered with a key customer and a 3PL to optimize the supply chain network, which accelerated cash flow through reduced inventory levels and reduced operating expenses.

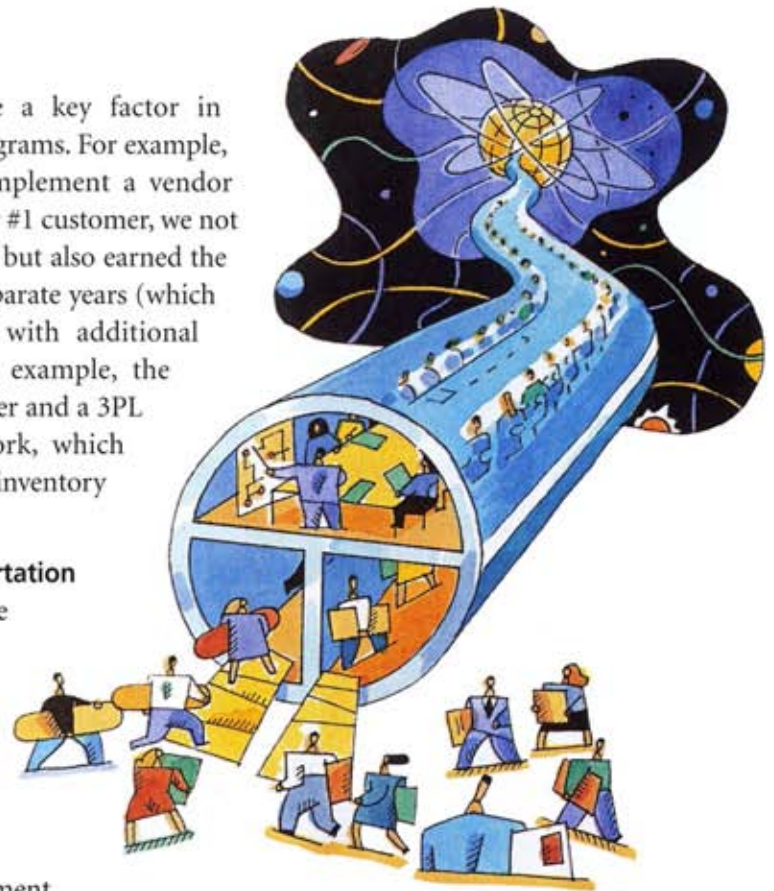
## 2. Implementing innovative transportation

**strategies.** These not only accelerate cash flow but also reduce lead times while improving service levels. For example, cross docking not only minimizes handling but also expedites delivery, which reduces inventory-carrying cost requirements.

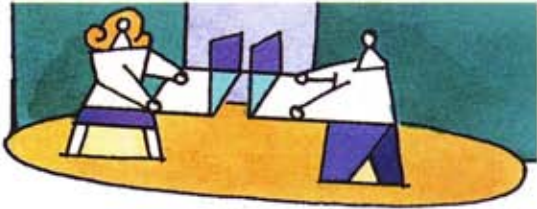
As with innovative inventory management strategies, collaborating with customers, suppliers, and carriers is cornerstone. For example, one company took advantage of the opportunities to combine backhauls, multiple-stop truckloads, and combined rail/truckload modes of transportation with innovative transportation planning and partnership programs to accelerate cash flow.

In another example, a company leveraged technology (both transportation management systems and EDI) to optimize the transportation plan while improving supply chain visibility and shortening lead times. In still another case study, the company reevaluated its global logistics strategies to minimize unnecessary hand-offs and variability while improving its logistics agility.

**3. Collaborative supply chain innovation.** By simply encouraging cross-functional and collaborative supply chain relationships, amazing innovations can result. For example, in a new product development project, involving suppliers upfront in the process led to innovations in materials that resulted in superior product performance at a significantly reduced cost. In another example, involving the customer early in the design process ensured that not only were the customer's key requirements designed into the product but also the groundwork was laid for the standardization of key components and manufacturing processes, improving the







consistency of quality and operating efficiencies and reducing material costs.

Supply-chain innovation opportunities are plentiful. So, how do you build innovation into your culture so that your company can take advantage of them? Innovation is not some complex, non-understandable phenomenon. In addition to pure creativity, it's about being able to see connections and synthesizing new things, repackaging (literally and figuratively), connecting the dots in a new way, and seeing trends and hidden cash acceleration opportunities. So, how do you go about building innovation into your supply chain to achieve what my consulting mentor, Alan Weiss, calls a "sharp, left turn" (or radical change) to stand out in the crowd and become one of the companies to avoid death and succeed? There are several keys to success:

**1. Begin with the customer.** Everyone says they focus on the customer's needs, but do they? Are they doing what they think the customer wants or are they finding out what the customer truly values (and is willing to pay for)? For example, in one example, the company did an excellent job of innovating a feature-rich product; however, the customer didn't value the extra, nice-to-have features; instead, the customer valued consistent, shortened delivery lead times. Instead of wasting time and resources, ask!

**2. Relationships are #1.** It sounds strange for a discussion about innovation; however, the basis of success is your relationships—with your employees, customers, suppliers, carriers, and business partners (brokers, bankers).

It is critical to start with your employees. After all, have you ever heard of unhappy employees providing outstanding service? The best people will be integral to achieving supply chain innovation. I recently heard a story about a company with a competitive advantage in a certain, highly specialized scientific arena that had layoffs affecting many of their most experienced scientists because it would boost the bottom line during the recession. Of course, the short-term effect will be positive but the long-term result is likely death—after all, their #1 asset is the people providing the competitive advantage.

Beyond employees, each of the top three strategies to innovate the supply chain involves leveraging customer, supplier, and carrier relationships. How can developing and nurturing these relationships not be a priority?

**3. Flexibility.** Do not become married to one idea, one supply-chain vision, one customer's perceptions, and so forth. Instead, create solutions that build in flexibility—think of the nontraditional "and" of two seeming opposites. For example, instead of thinking that reducing inventory will result in poor customer service (since you might not have as many products available to ship), think about how to reduce inventory and increase customer service simultaneously.

Companies that are slow to adapt likely will be left behind the competition. Companies that are set up to adapt quickly and successfully will succeed. Designing flexibility into every supply chain step is essential. Think scalability from the start. *MW*

*Lisa Anderson, president of LMA Consulting Group, Inc., is a senior supply chain and operations executive and management consultant. For more information, visit: <http://www.lma-consultinggroup.com/newsletter.php> or [landerson@lma-consultinggroup.com](mailto:landerson@lma-consultinggroup.com)*