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A CASE STUDY

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- **A Consulting Chief Financial Officer was engaged to guide and help two different manufacturing clients**
- **one with sales of $15 million, the second with sales of $35 million**
- **Both were experiencing rapid growth**
- **one from $15 to $25 million, the second from $35 to $75 million.**

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- The Dynamics

1. Each company was a small to medium-sized business with sales of $15 to 35 million.
2. Each was in a rapid growth mode wanting to capitalize on new market opportunities.
3. One had about 125 employees and the other 230 with a sales force selling to brokers and distributors nationwide.

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- The Dynamics

1. Each had 200 customers or ship to addresses and about 1,500 inventory items including Raw Materials, Work-in-process and finished goods.

2. Both struggled with inventory shortages as well as old and obsolete inventory.
3. Both had an early version of an ERP system that was not effectively used to its full ability.

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- **The Debt Situation**
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- **One had challenging debt relationships that included many covenants and reporting requirements while the other had just taken on a large debt package, including personal guarantees and other provisions they were concerned about.**

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Steps of the Engagement

1. Discovery Phase
2. Implementation Phase
3. Analytics Phase
4. Maintenance Phase

- The Discovery phase focuses on the information produced by the Accounting Department and its ability to provide accurate and complete information.

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- **Discovery Phase Also Includes Learning About**

1. **Understanding compliance reporting requirements –**
- **Internal Requirements**
- **External Agreements**
- **Governmental requirements**
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1. **Evaluate reporting capabilities –**
- **People and skills, Management processes and procedures, Support systems, Internal controls, Accuracy and timeliness**
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1. **Evaluate company organizational structure and interdepartmental relationships.**

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- **Typical findings during the ‘Discovery Phase’**

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- In each of the two companies, typical weaknesses included:
- No written Project Plan
- Accounting and Financial processes were not documented or followed.
- ERP software system was underutilized.
- Product costing tools were either not used, or substantially underutilized.
- Production scheduling was not used or ineffectively maintained.
- Purchasing often needed to expedite raw materials on an emergency basis.
- Inventory usage was not being tracked for either buying or planning.
- Inventory locations were not utilized resulting in misplaced materials.
- Gross Profit by Part or Customer was not available.

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- **Recommendations From ‘Discovery Phase’**

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- For each of the two companies, we offered similar recommendations:
- Create a company Project Plan for integrating and implementing Management processes and ERP software.
- Create a process manual for Finance and all Operations with full use of NEW Management processes using the ERP Software
- Begin daily/weekly production planning and scheduling – managing an effective schedule change process – with information gained from full Implementation of ERP software.

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- Create and implement a full product costing system including overhead
- Audit or create the correct Bill of Materials for all in-process and finished goods
- Audit or create Item masters for all raw materials with cost and create bin locations for all raw materials and Work in Process items.
- Maintain Inventory accuracy piece part and create bin locations for all raw materials and Work in Process items.
- Track usage and lead times for all raw materials and production supplies
- Utilize gross profit analysis of products and customers and cull or add as appropriate.

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- **Common Outcomes**

- **After implementing new Management processes and ERP software, both businesses experienced the following:**

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- More reliable data and information. A greater sense of teamwork and trust.
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- A decrease in inventory carried and virtually cut production shortages,
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- Production Planning developed a manufacturing schedule two weeks out and prioritized high gross profit items.
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- Marketing was able to evaluate new and existing customers to select methods to increase customer value and develop future pricing and marketing plans.

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- Key Production Indicators were developed and tracked daily, weekly, and monthly.
- The Management Team sets goals and related strategies to focus on and achieve desired results.
- Gross profits and sales increased significantly. Cash flow increased significantly.
- Financial reports are distributed timely, financial performance improved, and Third-party relationships strengthened.
- ERP Management processes and software are used, dependable, and relied upon – one set of numbers.

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- And, Of Course,
- Fulfill The Responsibilities of the Accounting/Finance Department

1. Produce timely and accurate information for Management and any other required recipients.
2. Provide Analytics that support the operations and Management of the Entity.
3. Identify information and assist in setting the Entity’s Objectives.
4. Assist and develop strategies to achieve the Entity’s Objectives.