Issue

A large Government Customer issues a significant number of un-priced orders for specialized products on this supplier. Because of the supplier's long administrative time frames, these products are often shipped to this customer before the price has been agreed to for the products. This has lead to a constant level of $13 Million USD in nominal receivables for these orders which is reducing cash flow and directly costing up to $400,000 in tied up capital. The Goal of this project was to reduce the total receivables trapped due to un-priced orders by 85%

Breakthrough Strategy

Measure — Measures were introduced into the order Issue, entry, schedule, proposal and negotiation phases of the existing process, with the existing MIS system being used to flag out-of control phases against time specifications.

Analyze — Targets were set for the processing time for orders in each phase of the order process. "C" Charts were used to monitor performance at each stage with out of control exceptions noted and investigated.

Improve — Negotiation with the Customer resulted in the ability of the supplier to bill for 75% of the supplier's proposed value of the order at the time of shipment. A Tracking report for un-priced orders was introduced, with a policy change to First In First Out (FIFO) order processing

Control — Permanent Changes were introduced in to the MIS System for handling and monitoring unpriced orders. Further work, as a result of this project, is anticipated on the overall Order Entry process. Additionally, the Customer and Supplier are working to reduce the use of the Unpriced Order process.

Results — Reduced the amount of receivables trapped by unpriced orders by 96%, in excess of the 85% target, resulting in $12.5 MUSD being freed up in the 4 months of the project's duration.

Savings — $300,000 to $400,000 per year in financing charges.