



Short-Sighted Strategies and Unintended Consequences

By Damon Baker

Attention CEO's at large publicly-traded companies, tell me if this is what you intended when you mandated that in order to improve cash flow, you would delay payment to your vendors/suppliers at the end of the month and/or end of the quarter...

Real-Life Scenario: During the last week of the quarter, at the Plant-Level Daily Management board, the production buyers show up to report that several line stoppages are occurring, causing us to be unable to ship our products on-time to meet our plant revenue targets for the month and quarter. When pressed for their understanding of root cause, they indicate that several suppliers have told them they are "cutting off" shipment to us due to late-payment of invoices for past purchase orders, effectively holding our parts hostage.

Fast forward to later in the day, the Procurement Manager calls the supplier to beg for parts to be released and learns that the past-due invoice the supplier is referring to is for the paltry amount of \$1,542.15. The supplier holds firm on their decision not to release parts to us until they are paid. (Did I mention that these parts are holding up several hundred thousand dollars in customer shipments?) With no perceived other option, the manager offers to pay the past-due invoice with their own credit card to get the parts needed. In addition, they agree to pay for expedited freight from the supplier. After the call, they instruct the cell leader to tell the operators to prepare to work overtime to get the past-due units shipped out by the end of the week. Let's recap what unintended consequences this internal policy has caused:

1. Late shipments to upset customers because of our policy and potential future loss of customers.
2. Incurring additional expedited freight expenses.
3. Overtime premiums to make past due shipments.
4. Stressed employees taking actions that don't comply with our standard procedures.
5. Most likely, your supplier charges you a higher price, due to your cash flow policies.
6. Soured and unstable relations with key suppliers who are an extension of your factory. Imagine how your employees would react if you held their paychecks at quarter-end.
7. Self-inflicted increase in payables work after month-end / quarter-end, causing stressed employees.
8. Inventory stock-outs after month-end/quarter-end because you pulled in orders to make the number.
9. Excess labor on-hand after month-end/quarter-end due to order pull-ins.
10. More expedited freight costs to replenish the depleted inventory stocks.

Here are 5 simple questions you can work through in advance with your team to think carefully about the pros & cons of implementing a strategy (we teach this as part of our Problem Solving Process):

1. What does this countermeasure specifically do (positive, negative, maintains, etc.)?
2. Is this a positive or negative change? How will it be perceived?
3. If we do this countermeasure, what resources will it use? Where will those resources come from?
4. What other processes or departments will be impacted by this change?
5. What behaviors will this countermeasure encourage / discourage?

Publicly-traded CEO: In short, I get it. The pressure to deliver results and hit the quarter runs high in a publicly-traded company. However, there has to be a better solution than this, as it is living on borrowed time. My suggestion is that you go explore firsthand what impact these policies are having on your organization and whether they are serving you the way you intended. There are many more productive and sustainable solutions that could be put into place to achieve the objective of improving cash flow. Do not let external pressures dictate short-sighted strategies, as they will come back to haunt you in the long run.

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BACKGROUND

Damon is the President & CEO of Lean Focus. For over 20 years, he has been implementing lean in consulting, operations, continuous improvement, and GM & VP-level leadership roles for such companies as Danaher, HNI, Eaton, Argo Consulting, Experian, and Winegard.

Trained by disciples of the Toyota Production System, he worked in a Shingo Prize winning facility and is a Shingo Prize Examiner. Over his career he has demonstrated hands-on leadership and facilitation of 500+ kaizen events for 42 major corporations in 16 different countries. Damon led the North American Danaher Business System Office. While at Danaher, one of his mentored operating companies was nominated Most Improved Plant, and one of his factories won Best Plant Worldwide 2 years in a row. Damon holds an MBA from St. Ambrose University and a Bachelors of Arts in Management and Marketing from Iowa Wesleyan University.

INDUSTRY EXPERIENCE

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LEAN EXPERIENCE

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