



Case Study

3 Day Kaizen Yields Discount
Revenue of \$1.2M (USD) per year

▶ Global Oil and Gas Company

Summary

➤ Challenge

Pay invoices before due date and receive discount. Process deficiencies resulted in missed discounts of \$1.5M.

➤ Root Cause

Lack of scanning equipment at eApproval identified as bottleneck process.

➤ Output

Increase scanning capacity.

➤ Results

Annual missed discounts of £1.5M reduced to £325K; annual savings of £1.2M.



Case Study

Lean six sigma



3 Day Kaizen Yields Discount Revenue of \$1.2M (USD) per year

Overview

It can be quite extraordinary how a relatively simple-to-solve administrative process can enhance and improve an organisation's efficiency, and in this case, a huge multi-national company was losing hundreds of thousands of dollars on account of a less-than-efficient invoice processing system. Taking just a short period of time, and working entirely remotely, lean6-sigma solved the problem and improved the company's financial well-being

Define

- Accounts Payable Team Leader identified 'early payment' discount opportunity.
- Invoices paid before the due date attracted an average 10% discount.
- Opportunity to increase the number of paid before the due date.

Our client, a global oil and gas company, ran its finance function from a Shared Service Centre in Manilla – and from this Service Centre, the company completed all aspects of finance processing.

A Team Leader within the Accounts Payable (AP) department identified that the company was missing an opportunity to receive discounts offered by vendors. Within some contracts, vendors had agreed that if their invoices were paid before the due date, they would receive a discount (whose rate or percentage varied in accordance with each individual vendor).

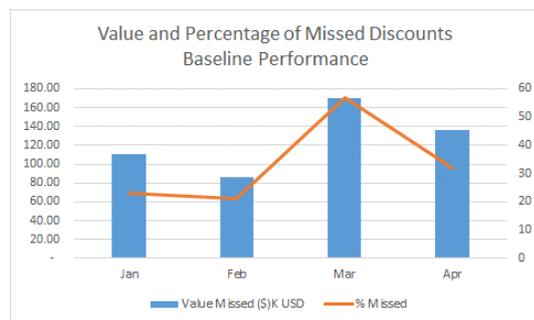
It was thought that the average percentage offered by other multi-national companies (therefore establishing the global benchmark) was around 95%; therefore, our client wanted to increase the number of invoices that were paid early, so that discounts could be claimed



Measure

- Create a data capture process to establish the baseline performance.
- Baseline performance established that 67% of invoices received were eligible for discount, at an average value of \$125K per month.
- Deployed Process Flow diagram revealed bottleneck process.

The client knew that they were missing an opportunity, but they didn't know its true value. Consequently, the 'measure' phase began by gaining a detailed understanding of baseline performance.

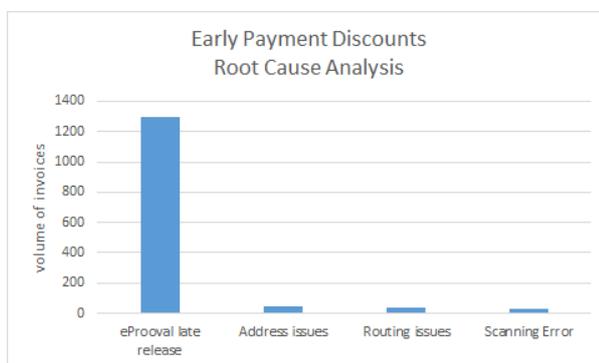


Our client was only able to pay 67% of the total invoices eligible for early payment discount - and over a four-month period, they had missed \$500K in discounts.

The next key stage was to understand the process and to highlight reasons why discounts were not being realised. The project leader completed a 'deployed process flow diagram', which identified bottleneck process and helped the team identify where variations and defects occurred. In total, they identified 21 possible root causes. Based on this assessment, the project team drafted a data collection plan, then identified where the data could be found and who was going to capture it.

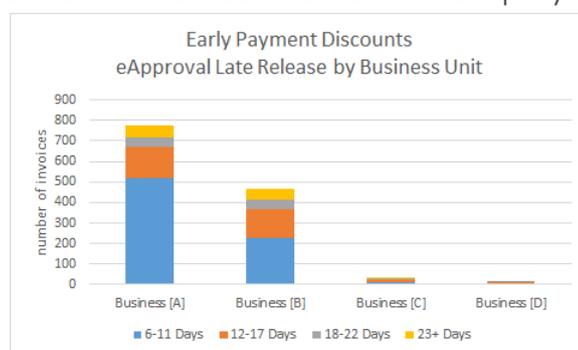
Analyse

- 91% of invoices were 'stuck' at eApproval.
- The businesses who's invoices weren't being paid was identified.
- 66% of these invoices were 11 days past their due date.



The data showed how many invoices were not released and the associated root cause; 91% of the reason why our client could not pay the invoice early (and receive their discount) was due to the late realisation of the invoice by eApproval - an

app which speeds up the process of approving/rejecting purchase orders. The team wanted to know the age profile of the invoices awaiting approval and how this was spread across the four business units within the company. The data showed that the majority (60%) of invoices were from business unit A and that 66% of these invoices were late up to 11 days old. Effectively, this meant that a typical invoice awaited eApproval for 11 days.

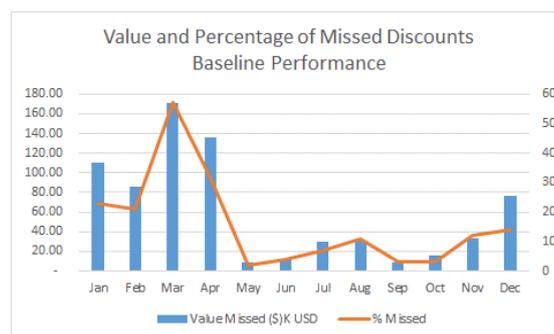


Improve

- As a quick win the team established a weekly call and managed invoices eligible for discount by exception.
- The longer term plan was to establish this process as standard.

The conclusion of the analysis was clear: the majority of invoices were delayed at the eApproval stage – so what could be done to address this and the other root causes?

By holding a weekly telephone call and managing (by exception) with each business unit, the team established a 'quick win' to deal with the issue. They knew that the current manual process was not ideal, and was not a long-term fix, but they were able to quickly manage the opportunity and generate increased revenue. The longer-term fix was to increase scanning capacity, as this was the true root cause of eApproval late release.



Control

- New process established and standardised. Controlled with new standard operating procedure (SOP)
- 3 Day Kaizen event reduced missed opportunity to \$25K per month.
- Annual Savings of \$1.1M / year.

By implementing new processes and by reducing the service level agreement within the Standard Operating Procedure (SOP) to one day for registering and two days for payment to be authorised for release, the team was able to drastically improve the level of discounts they received. During the baseline period, our client missed out on an average of \$1.25K (USD) on discounts per month. By (1) following the Define, Measure, Analyse, Implement and Control (DMAIC) process, (2), identifying root cause(s) and (3) implementing quick process changes, they were able to reduce this missed opportunity to an average of \$25K (USD) per month.

Finally, the project took the team just three days; it was completed by email and by telephone conferences / virtual workshops.

