Case Studies

Administrative Case Study

Days Sales Outstanding

Problem Description:
Days Sales Outstanding (DSO)

- **As of 4/30/00, DSO was at 52.2 days and the trend was showing that this would continue to increase. DSO needed to be reduced by at least four days in order to improve cash flow. A reduction of DSO from 52.2 days to 48 days increases cash flow more than $7 million.**

- **52 sales offices have different processes in place today.**

Solution Strategy

- There were **five key areas** that could be looked at: the *sale, credit, billing, collections and cash application*.

- The **highest potential areas** would be concentrated on for the project. The data shows these to be the *Credit, Collections and Billing processes*.

- **Focus on the highest impact offices** with the biggest potential cash flow impact FIRST. Then roll out to the other offices.

Tools Used

- **Process Map**

- **Cause and Effect Matrix**

- **FMEA**

- **Multi-Variables Analysis**

- **Control Plan**

Tools Used

Process Map

Used to determine which processes are the key processes, and what the key inputs and outputs were for each process step. The key processes were defined as Credit, Billing and Collections.

C&E Matrix

Worked with Office X, Y, and Z, to determine how important each process input and corresponding output is to the customer. In this case, the key outputs were determined to be an accurate bill and timely customer payment.

Tools Used

FMEA

- **The highest ranked key inputs, from the C&E, were brought into the FMEA.**

- **The entire FMEA process was followed through in each office (X, Y, and Z), independent from the other offices.**

- **Comparisons of results were then done to determine the areas with the highest and lowest potential.**

- **The areas with the highest potential for failure, whether internal or external, were the first areas to be covered in the new Credit, Billing and Collection policies.**

Tools Used

Statistical Process Control

Control charts are run each month for each District Office individually and by Region.

The control charts are also used to determine if an office has changed their process and action is required.

Multi-Variables Studies

This information was used to determine which areas had a direct effect on DSO.

The influence of each X variable on Days Sales Outstanding was established by data analysis.

Tools Used

Control Plan

Two control plans were developed for this project in order to hold the gains.

The first one was developed for the Financial Managers in the District Offices to follow for their individual offices.

To make it easy to manage DSO.

The second control plan was developed for Sales Office Finance Leader. The Financial Consultant Team Is responsible for this control plan.

This ensures the control plans are executed at the office level.

Results and Conclusions

- Based on the results of the Process Mapping, Cause and Effect Matrix and the Failure Modes and Effects Analysis, new Credit, Billing and Collection Policies were implemented.

- The policies were implemented early in five offices, with each office showing significant improvement. The average DSO in the initial five offices, dropped from an average of *90 days in April to 55 days in August.*

- Overall DSO, for all District Offices, went from 52.2 days at the start of the project to 48 days at the end of September. *The average increase in cash flow from April to September was $9.57 million.*

- Project Duration was 6 Months for all offices (first project).