

## Conserving Cash with Lean Thinking

**C**ASH IS THE GREASE that makes our business engines run smoothly, and now more than ever, we need to maximize its availability and use it prudently. Since applying lean thinking to processes often conserves cash, let's look at how lean efforts can help right now.

### MAKE ONLY WHAT YOU CAN SELL

*Scrutinize every production order to ensure it is for items that are needed based on true customer demand.* Ensure you are not producing items based on production orders created by the MRP system using potentially outdated forecasts.

*Reduce batch sizes to match the demand rate.* Often batch sizes are set to reduce the number of set ups based on assumptions that equipment needs to be kept running all the time, or based on maximum internal capacity. Unfortunately demand is usually lower than capacity, so decrease your batch sizes and increase your set ups so that you are not making excess units based on some outdated batch size calculation.

*Talk to your customers to establish demand.* Ensure that their needs and demands are not changing. They are in the same economy, so you do not want to take outdated forecasts and use them to consume your resources. Ensure there is good visibility to your customers' real demand rate wherever possible.

### BUY ONLY WHAT YOU NEED

*Rethink your strategy of finding low-cost materials or service suppliers.* Look to local suppliers who can offer smaller units more frequently. Even if you pay more for smaller volumes delivered more frequently, it can significantly improve cashflow.

### WHY DOES STANDARD COST DRIVE OVERPRODUCTION?

Standards are determined by establishing the capacity of each machine or operation in units of time. Then a cost is assigned to that unit of time. The cost is usually divided into two categories: labor and overhead.

A rate is created for each machine, which is the total expected spending for labor and for overhead divided by units of time for each machine or operation. So if the machine or operation produces all the time, all the costs are absorbed, and there is no variance. If more is produced there is a positive variance. If less is produced there is a negative variance. No one wants to see negative variances because they think negative means bad or wrong. So to avoid bad numbers, workers and supervisors try to keep the machines running and make as much as possible regardless of demand. It's just human nature.

*Implement external kanban.* This is the practice of reordering based on the actual consumption of materials rather than forecasted usage. Forecast usage ordering in nearly every case will increase your purchase of raw materials. Create "pull" (lean thinking) with your suppliers.

### ROOT OUT WORK-IN-PROCESS EXCESS

The first place inventory drops with lean thinking is when you link your production areas to create flow. If you have done this, then you have already realized this tremendous benefit. But if you are like many, you still have opportunity here. One quick way to ensure you do not have unintended WIP is to take three steps:

- *Never start production of an item unless you have all the materials inhouse to complete the item.* Far too frequently, production stops because of lack of the right materials at the right place at the right time.
- *Ensure your equipment is ready to go when you are.* Start some Total Productive Maintenance activities. The second area of unintended WIP is when an item is started and then the equipment breaks down, is not ready to produce, or has no people assigned to the job. Again, when this happens, production stops. And, the cash stops flowing too.
- *Reduce batch size until you get your equipment near capacity.* Any batch

larger than one that does not make equipment or personnel over capacity is both an increase in material consumption and an increase in lead time.

So, try it out now if your demand is low... a "free lesson" in lean.

### COLLECT THE MONEY

A tried-and-true method to help the cash crunch is to collect the money owed to you for products and services already provided. The number one reason that customers do not pay is because there is a defect in the invoice that is sent to the customer. Over and over, we find that when an improvement event (kaizen) is focused on the invoice to cash process, we identify significant waste and gaps in the process that keeps the cash in the customer's hand, and not in yours. Launch a kaizen event on this topic.

### MEASURE THE RIGHT STUFF

Now more than ever, ensure that you have the right measurements. Switch your focus to what you ship and not what you produce. Look at your actual spending categories: wages, benefits, utilities, scrap, supplies, etc., rather than your performance to standard cost measures. Remember, these measures are set to consume all your capacity, and not to control your cash. Paying people to produce excess product costs more than paying people to produce nothing.

Use any idle time to clean, train, implement improvements to process, improve workplace organization, and make progress on important initiatives that are behind schedule. You and your organization cannot afford to overproduce. 🌱



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