

SER® REPORT

VALUE PROPOSITION #3 REDUCE WORKING CAPITAL

VERSION 1 - DEC 2017

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Insights on businesses serving diverse industries in Australia

SER® REPORT

VALUE PROPOSITION #3 – REDUCE WORKING CAPITAL

Welcome to the Steel Efficiency Review® Report for Value Proposition #2 – REDUCE RISK. This report has been compiled from our unique and proprietary industry insight resource – The Steel Efficiency Review®.

1053 >>>

REVIEWS



7 YEARS ON OUR SOLUTIONS CONTINUE TO CREATE CUSTOMER VALUE

To date we've completed 1053 Steel Efficiency Review® visits nationally, with steel businesses both large and small.

This has amounted to over 2863 hours developing real solutions to save them time, money and reduce risks.

From these SER® appointments we have isolated findings relevant to specific industry sectors and niche businesses within that sector to identify business improvement insights – those that can help you run your business more profitably.

IN THIS SER® REPORT, WE FOCUS ON VALUE PROPOSITION #3 – REDUCE WORKING CAPITAL.

This report provides you with a summary of the common challenges faced by steel businesses serving diverse industries in Australia, relevant to WORKING CAPITAL. We also offer solutions to help you to build a more efficient and profitable business.

We hope this SER® Report provides an opportunity for you to look closer at your business and review your operation.

You're also welcome to participate in our complimentary Steel Efficiency Review® as a 'fresh set of eyes' helping you to identify ways to turn steel into gold.

If you have just participated we look forward to working with you to uncover the 'gold' in your business.

Regards

The SER® Team



KEY FINDINGS FROM CONDUCTING OUR STEEL EFFICIENCY REVIEW® ON 1053 AUSTRALIAN STEEL BUSINESSES - RELEVANT TO REDUCING WORKING CAPITAL

WORKING CAPITAL was considered to be a challenge for steel businesses serving diverse industries in Australia.



263 clients from the 1053 completed Steel Efficiency Review® consultations, a total of 25% found opportunities to REDUCE WORKING CAPITAL relating to the waste of excess inventory.

These clients worked with our SER® consultants to jointly solve challenges related to REDUCING WORKING CAPITAL in their business and operations. Key SER® findings revealed the issues at hand with proposed solutions to provide step change improvements resulting in operational cost savings, greater efficiencies in processing and overall profit improvement.

BUSINESS WORKING CAPITAL tends to pose major challenges with steel businesses involved in manufacturing, fabrication and building. Many businesses require inventory and free cash to meet demanding customer requirements. In the quest to meet these requirements and expectations, working capital is over extended. This often results in cash flow pressure and profit leakage. Investing in the right type and amount of inventory where possible; ensuring the range and scale works for your business will help reduce working capital. In addition ensuring cash is optimised and working for your business – valued by your customers with the right investments in people, processes, inventory and equipment.

The Steel Efficiency Review® process recommends operations and productions teams to make what the customer wants when they want it, as specified. WORKING CAPITAL when not managed effectively can cost steel businesses' money, time and opportunities to win new work. These costs can amount to a considerable sum over time.

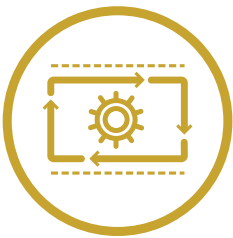
With 1053 Steel Efficiency Review® consultations completed, we have found if you could REDUCE WORKING CAPITAL the savings would be straight back on your bottom line improving the profit in your business.

COMMON CAUSES OF WORKING CAPITAL ISSUES:

- » **Making or Ordering More Stock Than Is Required**
Simply ordering and making more than the customer wants leads to working capital issues and unnecessary stock piling. A direct link to excess inventory and over-production is found where there is a distrust of suppliers and their ability to supply what is needed leading to ordering more and producing more stock. So businesses order and make more than needed. This ties up cash in stock not required – bleeding the business of profit and new opportunities for work.
- » **Inaccurate Information**
Working to inaccurate sales forecasts and guessing what customers will want in the future can invariably cause stress to many operational environments. The wrong products can be ordered and produced in excess burning cash and disappointing key customers at the same time. This can sometimes promote excess inventory practices – promoting purchasing and operations teams to build stock buffers. This creates working capital issues with funding not being directed to the right activities.
- » **Poor Warehouse Layout**
Excess Inventory can also be caused by poor warehouse layout and lack of balance in the work flow - causing inventory to build up before or after different processes. This helps hide inventory in each step of the production process. The outcome is not favourable for steel businesses resulting in poor use of cash and exceeding pressure on funds.

3 KEY VALUE PROPOSITION SOLUTIONS FOR REDUCING WORKING CAPITAL

Utilising the Steel Efficiency Review® to better understand businesses serving diverse industries, our SER® consultants have recommended the following 3 key value proposition solutions to help reduce WORKING CAPITAL:



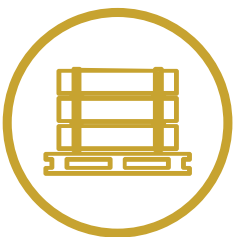
1. LAYOUT AND FLOW IMPROVEMENTS TO ELIMINATE BOTTLENECKS

Look at the warehouse layout and by balancing the production processes to ensure that work in progress does not build up between production lines. It is not important to run every machine as fast as it can be run, at the end of the day we only need to make things as quickly as the customer wants them, no faster. A Kanban system can be used to help ensure that we balance our processes and prevent the build up of inventory – reducing working capital.



2. ABILITY TO SOURCE HIGH QUALITY RAW MATERIALS (SEMI-FINISHED)

By making end products with semi-finished feedstock, working capital can be reduced significantly. This will allow steel businesses involved in manufacturing, fabrication and building to remove the main cause of excess inventory. Working with high quality semi-finished material will enable stock to be produced quickly – removing non-value added processes. This requires trust in customer requirement and correct forecasting.



3. OPTIMISATION OF FEED MATERIAL

Investing in smaller material deliveries and quicker lead times where possible enables processing to be managed efficiently. In addition to this, creating optimal coil sizes, pack sizes and packaging will greatly reduce the waste of inappropriate processing patterns.

USING THIS VALUE PROPOSITION TO FORM A COMPETITIVE ADVANTAGE?



The first step is to identify the common causes of WORKING CAPITAL issues and realise that your business is actually doing it. We have uncovered when discussing our key findings from our Steel Efficiency Review® consultations with our customers, a common understanding is required to ensure we admit to the waste and want to find possible solutions to eliminate or reduce it.

Once we all understand the issues and challenges associated we can work together as supplier and buyer to recommend improvements. Keeping it simple is something we aspire to with our key findings and possible recommendations to ensure buy-in and implementation. Using simpler and easy to implement processes ensure our customers will first want to invest the time to change and reap the rewards in the long term.

The recommended value proposition element to be employed - can be as simple as "Making end products with semi-finished feedstock,

working capital can be reduced significantly. Working with high quality semi-finished material will enable stock to be produced quickly – removing non-value added processes. This requires trust in customer requirement and correct forecasting." (VP Element #2)

In making this change, our customers not only eliminate or reduce WORKING CAPITAL but they start to put their own customers first and even highlight the causes of many other problems within processes that are hidden by this challenge.

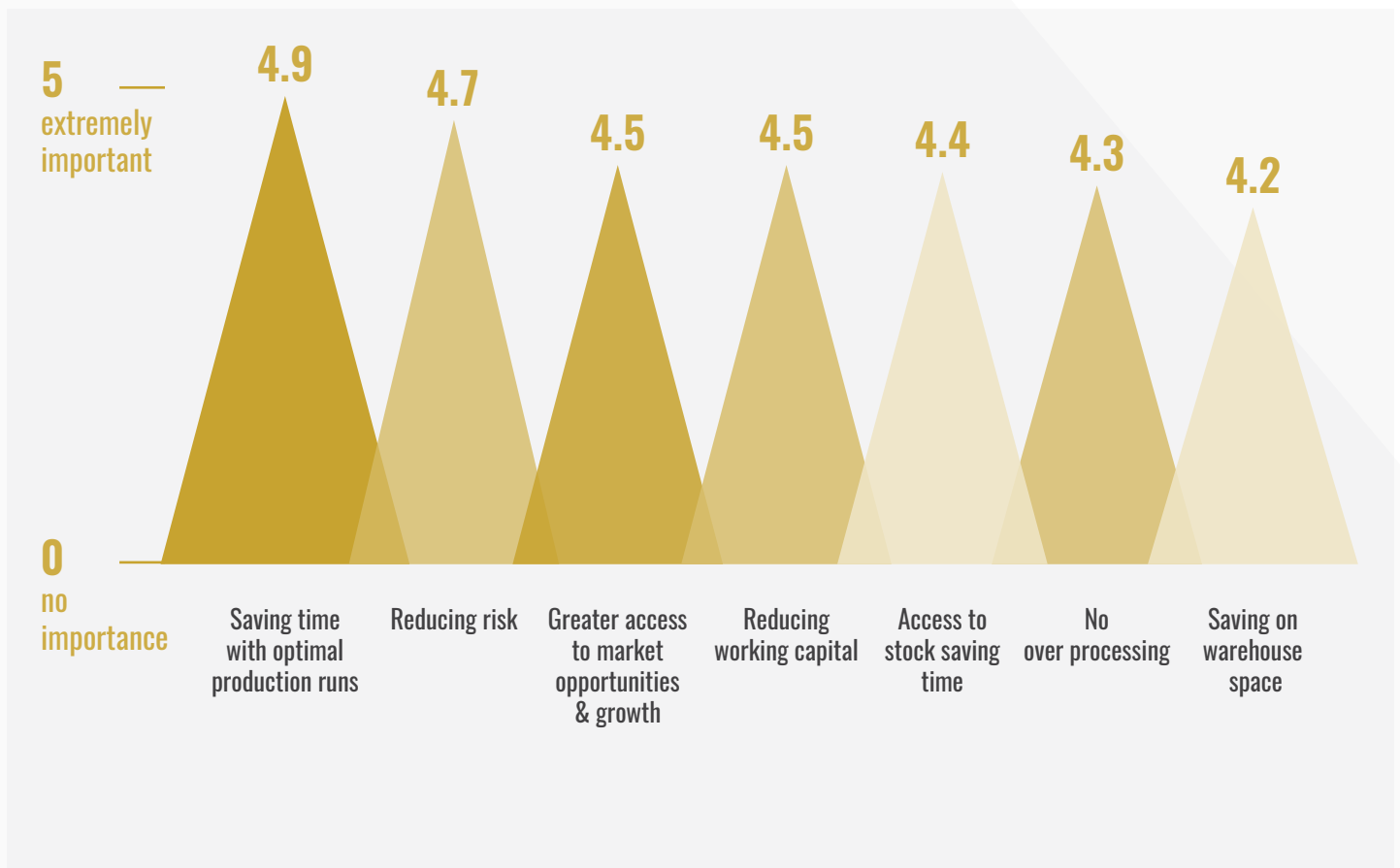
A competitive advantage starts to get formed and can be very strong when customers start to experience a different and better offer, superior to others in the market. This then allows the right products to be produced based on customer demand. Add in a bit of customisation and expertise to develop specialised products – premiums can then be charged at more profit made.

THE SER® CUSTOMER'S PERSPECTIVE SHINES THROUGH

It's clear when our customers are involved in the Steel Efficiency Review® they undertake a challenging role of looking at their business in a very different way. They start to identify and examine key challenges to further understand the possible causes and drivers. They dig deeper and ask questions to determine possible solutions for improvement.

With the help of their SER® consultant the findings are then tested further and possible recommendations are considered. And when we look at the importance of relationships with our customers as we work closely together to create win-win opportunities, it's quite clear that supporting each along the way creates a long lasting partnership.

When we asked our SER® customers how they would rate the importance of the following value proposition elements (key customer benefits) – we found REDUCING RISK rated as important with an average rating of 4.7 out of 5.0 (5.0 being rated as “very important”).



THE SER® CUSTOMER EXPERIENCE DRIVES A STRONGER RELATIONSHIP

So when it comes down to it, what actually drives our SER® customers to want to make a change in their business. And what is the role of the SER® consultant at this point in the journey?

When we asked our customers what drove them to undertake the Steel Efficiency Review® they answered both these questions. They commented on “needing some support to work on their business - rather than in it”. They also mentioned they were after a “different point of view or perspective on their business”.

This was the role of the SER® consultant to first build comfort into the process and ultimately look for win-win opportunities for both customer and supplier. 7 years on our customers will remember these initial wins and continually look for more improvements in challenges such as REDUCING WORKING CAPITAL to implement some change to produce great results.

CONCLUSION

The key findings from conducting 1053 Steel Efficiency Review® consultations on Australian steel businesses relevant to Value Proposition #3 – **REDUCE WORKING CAPITAL**, show the need for:

HIGH QUALITY STEEL PRODUCTS MADE WHEN NEEDED, DRIVEN BY CUSTOMER TOLERANCES AND SPECIFICATIONS.

When speaking to 1053 steel businesses involved in diverse industries nationwide, we concluded that it comes down 3 key VP solutions to **REDUCE WORKING CAPITAL**:

- **LAYOUT AND FLOW IMPROVEMENTS TO ELIMINATE BOTTLENECKS**
- **ABILITY TO SOURCE HIGH QUALITY RAW MATERIALS (SEMI-FINISHED)**
- **OPTIMISATION OF FEED MATERIAL**

In implementing these value proposition solutions, our customers not only eliminate or reduce **WORKING CAPITAL** but they create opportunities to focus more closely on their customers and even highlight the causes of many other problems within processes that are hidden by this waste.

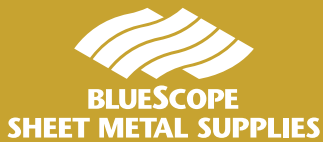
A competitive advantage starts to get built and can be very strong when customers start to experience a different and better offer, superior to others in the market. This then allows the right products to be produced based on customer demand. Add in a bit of customisation and expertise to develop specialised products – premiums can then be charged and more profit made.

We have found, our customers pursue the SER® as a vehicle to look at their business in a different way to make some small changes to reap big rewards. When we asked our customers what drove them to undertake the Steel Efficiency Review® they used words such as “fresh set of eyes” and “cost efficiencies” and “value” to determine their thinking behind their decision.

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REVIEW®



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