

CASE STUDY

Aiding Financially Distressed CNC
Machining Organizations



CLIENT PROFILE

Engaged by privately held family-owned business with CNC machining, component assembly, and fabrication operations in three plants located in the Midwest

CHALLENGE

Initial project involved an assessment of capital investment in raw material inventory (primarily castings), inventory turns, and operational efficiencies to improve cash flow in order to stem the need for further capital contributions from owners.

Phase 1:

Client had made several capital contributions to cover working capital needs over prior 18 months with fairly consistent revenue and net income over previous five years. Client's audited financial statements showed history of profitability offset by increased investment in inventory with increased value held in each category: raw materials, WIP, and finished goods which was driving the need for working capital. Initiatives to improve inventory turns and reduce working capital needs yielded negative results.

Phase 2:

Organization had failed to achieve planned improvement with existing management team. ERP Data Integrity within purchasing, inventory, and general ledger databases & processes were providing misleading information.



APPROACH

Phase 1:

- Analyze Inventory Turns of RM, WIP, FG
- Review transactional databases - Customer Sales by part, inventory relief and receipts, general ledger postings
- Review BOM for each manufactured part
- Forensic Audit of Accounting & IT system/processes

Phase 2:

- Financial Turnaround - restore organization to profitability and improve cash flow
- Address operational efficiencies primarily concerning CNC machining centers
- Address Quality issues causing excessive scrap rates and work cell downtime

& Auto and Heavy Truck Drivetrain Parts Supplier

SOLUTION

Phase 1 Forensic Audit identified financial irregularities concerning artificial inflation of inventory valuation resulting in CFO termination and restating prior audited financial statements identifying net operating loss driving capital needs.

- Installed Chief Restructuring Officer and Interim CFO
- Addressed relationship between quality and production
- on CNC machining centers and CMM QA
- Design and build QC test fixtures for use at work cell
- Improve casting supply chain

RESULTS

The crisis situation was addressed within 6-month project.

- No additional capital contributions to fund losses
- 40% increase in output by eliminating bottleneck caused by CMM processing for first piece inspection
- Improved casting supply chain cost and quality
- Organization went from annual seven figure losses to seven figure profit run-rate

BENEFITS OF 360 VERITAS TEAM

- **Drive Change on the manufacturing floor and supply chain**
 - OEE Throughput /output Warehouse & Operational Organization and Management
 - Scheduling/Forecasting/Planning Business Transfer Facilitation Quality and Operational improvement
 - Inventory Control and Rightsizing including Physical Inventory Supply Chain continuous improvement and Risk Management Warehouse Management
- **Drive Change in Information Technology**
 - ERP/MRP system analysis and correction
 - Business Intelligence/Data Analytics
- **Purchasing (Contract Evaluations and Negotiations)**
- **IT, Sales & Marketing, Engineering resources**
- **Rapid Response for distressed organizations/Crisis Resolution**