Icknield

Project Salzburg Case Study

2011 to 2012

Global engineering services, manufacture and rental – Oil industry

This case study demonstrates how Icknield provided an experienced working capital manager to run a successful working capital reduction programme

The Icknield Team and our role

- The CRO asked Icknield to provide an experienced working capital manager to identify areas where cash flow could be improved rapidly. Mike Simpson of Icknield was appointed as Interim Group Working Capital Manager in August 2011 and, after 4 months, handed over to a permanent Group Working Capital Manager in December 2011
- Mike was then asked to return in March 2012 for 3 months to further develop the working capital function and to review a number of the group's US based operations as the company had not been able to achieve the reductions required without his assistance
- In December 2012 Mike was asked back to the company again by the CEO to carry out an independent review of progress on cash management and the working capital reduction programme

Key achievements – 1st assignment

Icknield

- Recommended and introduced new processes to reduce working capital tied up in the business
- Developed and rolled out a programme of presentations on the importance of working capital management to all business unit managers globally
- Established weekly KPI’s for all operations globally
- Introduced a new reporting system to increase visibility and focus on the issues which were affecting working capital
- Improved communication between operational functions and the finance function
- Established momentum across the group to achieve the required working capital reduction

Key achievements – 2nd assignment

Visited 6 US operations and achieved the following:

- Set targets for a further global reduction in working capital
- Introduced new working capital management procedures and improvements to the system of credit risk management
- Improved the system of, and understanding of, reporting WIP including contract WIP on a percentage of completion basis
- Accelerated cash collection by matching invoicing more closely to contract terms
- Established fortnightly meetings and monthly reporting to update the Directors
- Assessed the finance function resourcing and skill level and advised on changes required in personnel
- A significant reduction in US aged debts and WIP with further opportunities identified

3rd assignment – Progress review

In December 2012 the CEO requested that Mike carry out an independent review of progress. Mike checked that the procedures he had introduced were working properly

He reported that:

- the company was successfully maintaining the standards he had set and that internal working capital improvement targets had been achieved
- DSO and WIP days for the UK and the group as a whole had been sustained for 6 months and were at their lowest ever levels
- credit control procedures, including the phasing of invoices raised throughout the month, had significantly improved the cash flow

Business background

Icknield

- Global engineering services company to the offshore oil and gas sector
- Turnover of £180 million
- Multi site with operations in the US, Middle East, Asia and Africa
- Group head office function, UK operations management and subsidiaries based in the UK
- Private equity owned
- Financed by a syndicate of lenders
- Business had been underperforming and had missed targets

Key issues facing the business at the start of the project

Icknield

Working capital requirements had been increasing which had worsened liquidity.

This resulted in:

- Short term cash flow problems
- Consequent issues with banking facilities
- Supplier payments terms being stretched which was causing operational issues

In addition to this:

- Supplier accounts had not been reconciled
- The group had lost its finance director, financial controller and the working capital manager

Key issues facing the business at the start of the project - continued

Icknield

- Aged debtors and aged WIP had not being tightly managed with lots of unresolved issues
- WIP not being actively reviewed and managed with invoicing of billable work falling behind
- Business unit managers had not received management reports for months and had no visibility of the financial position
- Communication links between the finance function and operations function were poor
- Business unit managers had not been encouraged to focus on working capital management or been trained how to do this

Status at the end of the project

- Finance function properly resourced and with the requisite skills to maintain the new processes and procedures to manage cash and working capital
- WIP and debtor legacy issues had all been resolved enabling debts to be collected and surplus provisioning released
- Improved credit control procedures, invoicing procedures and KPI's established to monitor and control the new procedures
- Supplier payments were restored to their terms and early payment discounts could be taken as a result of the improved cash position
- Banking obligations were met

£7 million released from aged debt and WIP improvements and a further £3 million of reductions had been identified