

# Over **US\$1 billion** in working capital improvement opportunities identified by **KPMG** in the **US** for a **defense industry** leader



**T**ight margins. Rising costs. Increased competition for government contracts. These are just a few of the challenges faced by today's companies in the defense industry. To address these challenges and more, a leading defense manufacturer and service provider began a major assessment of their working capital position.

Historically, the company had supported a Return on Sales (ROS) performance management culture. However, they also understood the advantages of creating a balance between ROS and Return on Invested Capital (ROIC) to reduce costs and improve performance. In addition, the company had compared their performance with that of their competitors and recognized that a significant opportunity

was available to reduce their Operational Working Capital (OWC).

The engagement team, led by KPMG in the US, was asked to help assess OWC performance, quantify and rank key opportunities, and assist in capturing the benefits.

KPMG brought together a team of subject matter professionals with deep industry knowledge and a specialized understanding of working capital issues in similar industrial manufacturing environments. The team began with a pilot assessment project at one of the company's smaller divisions that resulted in the identification of over US\$70 million in improvement opportunities. The team also worked closely with division executive management and obtained

#### Client benefits:

- Implementation support on cross-functional initiative across diverse business units
- Rapid execution of projects to maintain momentum
- Improved balance sheet flexibility
- Reduced costs and increased margins in addition to sustained cash improvements

their agreement on the improvement opportunities. Backed by this initial success, the team then completed a series of rapid six-to-eight week assessments at each of the company's multi-billion dollar divisions.

### **Rapid assessments with measurable results**

By completing the assessments quickly, the KPMG team was able to maintain momentum in the project and identify more savings opportunities at every stage. The team used a cross-functional approach to identify working capital drivers in accounting, contracting, operations, planning, scheduling, supply chain, engineering, and program management. After completing the assessments, the team then worked with division management to develop and execute work plans to capture the working capital benefits. The working capital improvement opportunity assessment process was a time-based approach to identifying working capital drivers in each of the functional/cross-functional areas mentioned above. This approach analyzed process flow and activities to identify process drivers impacting time and cash investment throughout new product development, configuration control, engineering change management, quality assurance, product acceptance and the processes within manufacturing, supply chain and inventory management. In addition, the assessment included a review of business systems implementation readiness for SAP® to address business performance improvements related to control and enhancement of cash and working capital.



### **Greater financial strength and flexibility**

Overall, the KPMG team identified over US\$1 billion in working capital improvement opportunities in Inventory, Accounts Payable and Accounts Receivable. Operational improvements have reduced costs, increased divisional competitiveness and strengthened margin performance. With increased levels of free cash, the company now enjoys increased balance sheet flexibility and the ability to exercise a greater range of strategic options such as paying down debt, buying back stock or making new acquisitions.

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“ Many of today’s  
**companies**  
can increase their return  
on invested capital by an  
**assessment**  
based on measuring the  
velocity of their  
**investments**  
within their  
business.”

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