



## Empowering Management, Containing Cost and Freeing Up Cash: The Supply Chain Effect

### Uncertain Markets, Eroding Margins

In the days of historically high oil prices, a few candid Executives we've met sheepishly admitted they made grin-inducing profits in spite of themselves. Revenues were so strong, they didn't have to worry about being meticulous with cost controls, margin management, or even asset utilization. Business was booming and the only thing they needed to do was keep the oil production flowing. Yes, they were using archaic information systems, inherited procurement practices, and had legions of contractors on the payroll — but who cared? They were making so much money. Then, pricing volatility took hold. As margins receded, management system ills and inefficient practices had no place to hide. Oil services and equipment suppliers were scrambling to help their own energy customers survive at much lower break-even points. Weaker oil pricing forced companies to reckon with their proliferating inefficiencies, outmoded business practices, and imprudent spending.

### Control What You Can

Given the cyclical nature of energy, especially oil over the last 10 years, several of our past experiences partnering with energy & energy-related services companies called for building up internal capabilities that pay off irrespective of the current commodity prices. (Price volatility continues to be something to plan for rather than dismiss or wish away.) These engagements focused on Sales & Operations Planning (S&OP), supply chain improvements (procurement, transportation & logistics, storage, warehousing, and inventory control), data analytics (data hierarchy, trend visualization, and operational reporting) and asset utilization (inventory conversion and asset reduction). Opportunistic firms doubled down on research and development to find better ways to take care of their customers — but tightened their cost structure and cash outflow in the present. Looking toward the future while keeping the lights on, Oil & Gas firms were striving for better control of several crucial aspects of the business to lower costs and preserve cash flow in leaner times. Whether engaged in energy services, wellhead manufacturing, energy distribution, or oil production, our team's past collaborations involved building up better business model flexibility and stronger supply chain cost control through demand-sensing analytics and more robust technology utilization.

### Efficiency and Cost Containment Must-Have's

Past Oil & Gas engagements involved embedding new efficiencies based on extensive business analysis followed up with a well-orchestrated implementation of the changes to be made. While each project was uniquely based on the firm's particular market and business trajectory, there were most certainly several common themes running through each project. Most of the referenced Oil & Gas firms were challenged with scaling their businesses to mitigate pricing volatility while keeping their hard-won, skittish customer base intact.



### OIL & GAS

#### Composite Case Synopsis:

- Building up cash and cost controls while embedding core business processes in a cyclical industry

#### Past Engagement Experiences:

- **\$2+B** wellhead equipment designer & manufacturer
- **\$470M** international Oil & Gas contracting services firm
- **\$400M** North American natural gas distributor
- **\$100M** U.S. oil production company

#### Financial Results Examples:

- **22%** increase in cash conversion (Inventory)
- **25%** reduction in contractor costs
- **18%** reduction in non-pipeline transportation costs

#### Operational Results Examples:

- **26%** increase in Sales & Operations Planning accuracy
- **29%** increase of inventory turns
- **22%** improvement in parts availability

#### Organizational Benefits:

- New Sales & Operations Planning (S&OP) capabilities, collaboration process, and tool set
- Improved Enterprise Resource Planning (ERP) data integrity, utilization, and operational reporting
- Upgraded transportation & logistics processes, control tools, and trend reporting
- Just-In-Time (JIT) inventory fulfillment processes and vendor relationship programs
- Cash-conscious employee culture with new incentives program based on cash performance
- Cross-company asset utilization and disposal efficiencies



Now, let's touch upon eight key themes running throughout our recent Oil & Gas experiences.

## 1 | Cultural Understanding: The Need To Change

All of the Executives we've worked with saw the opportunity to transform their companies into more efficient, cash-generating and cost-conscious organizations. However, this is easier said than done. With volatile pricing influencing business practices, most of the teams were looking for ways to capitalize on new markets while controlling costs. These teams looked for a deeper, data-backed understanding of the necessary changes vital to efficiency through technology applications, more disciplined cost controls, and more cash-consciousness to fund future growth plans. Status quo management and inherited processes were no longer good enough to grow the business during tougher pricing environments.

Each of the firms wrestled with legacy practices once respectably successful in the past but now no longer competitive. We worked to remove their cognitive dissonance, in a manner of speaking, where the firm's culture remembered the not-so-distant days of pricing power but were being pummeled with lower-end pricing some employees had yet to trudge through and experience. Our first task involved orienting each organization toward a fresh mindset to begin refashioning organizational practices. We worked to harness the team's experience, wisdom, and energy — getting them involved in building up new capabilities within their firm — but they had to see the impetus for change and get away from any residual longing for the "Good Old Days". These teams needed to share their Executives' sense of urgency. They were asking for understanding of all the reasons for changes to be made and to get the chance to be enthused about where they could get involved. We worked together to create a communication plan tailored to their own organizational needs and information-sharing style. All engagements included getting the Executives heavily involved with illustrating their vision, setting aggressive-but-deliverable expectations, and providing specialized support to transform the business.

Communication methods included executive road shows, weekly update meetings, project newsletters, shared program management development, social media content campaigns, and team outings celebrating milestone successes. All project communication programs were customized for the team-at-large to answer:

*Why are we changing? Where are we going? How does this impact me? Who is involved? When are we getting started? What progress are we making? Did we achieve our expected results?*

## 2 | Sales & Operations Planning Processes

Opportunity knows no departmental distinctions, bestowed titles, or rigid organizational charts. Our team's more recent Oil & Gas experiences concentrated on Supply Chain most closely; and, there's no getting away from connecting Sales with the rest of Operations. For those of us versed in consultant speak, these engagement components were referred to as Sales & Operations Planning (S&OP) implementations. Because the rest of the Supply Chain is working at the behest of Sales, it's imperative to make sure Sales is feeding information to the rest of the organization in preparation for action. Several of our past experiences involved working with firms who grew up making whatever custom component their own customers were asking for — regardless of



### Catalyft Team's Past Experiences:

**20+**  
Oil & Gas  
Project Experiences

**4+**  
Types of Enterprise Resource  
Planning (ERP) Systems  
Optimized

**5**  
Oil & Gas  
Sub-sectors Covered

**\$500M**  
Oil & Gas Asset Base  
(Historical Avg.)

**5.2 to 1**  
Oil & Gas  
Return On Investment  
(Historical Avg.)



applications to the business-at-large or future market viability. In the high margin days, Sales could get away with being overly-accommodating to custom design changes, even place an order for hundreds of thousands of dollars of equipment without a formally signed order, and take the risk of being stuck with cancelled customized components darkening warehouses for ages. Those days were gone. (Perhaps, they were never really there in the first place.) Most Sales teams understandably focused on revenue goals but had limited knowledge of how their actions impacted margins and cash positions when rippling across the rest of the organization. Even the most astute organizations we've worked with had more opportunity in their cash conversion cycle and a chance to educate Sales around impacts to accounts receivables and Inventories on the balance sheet — two components potentially creating sluggish cash flow if functional teams were not aligned.

A subset of S&OP involved ensuring Engineering was in synchronicity with customer requests shared via Sales. Furthermore, an active, professionalized S&OP process ensured the products and services catalog was aligned with customer demand, showcased Engineering's best designs, and maintained a manageable product portfolio with higher inventory turns. This professionalized, inclusive process became a guard against holding cash-constraining inventory in warehouses or being stuck with one-off products without application to the rest of the customer base — and, eventually, being forced to write off the loss down the road.

### 3 | Leveraging Enterprise Resource Planning (ERP) Systems

Woven within the S&OP component of past transformations was the valuable thread of Supply Chain information found within a firm's Enterprise Resource Planning (ERP) system. Firms we've worked with already had Oracle and SAP with all the modules they could stand; however, getting the right information to the right people at the right time was a challenge. Recent Oil & Gas engagements were similar in the sense that the ERP system was not fully utilized and the reporting was woefully inadequate in its current iteration. Teams longed for getting the most out of their information systems. They wanted realigned, overarching data hierarchies paired with optimized processes and, most desperately, needed easy-to-understand, visually compelling reporting to ensure they were on track with their operational metrics — all while working within inventory management parameters.

Some engagements involved opening up cross-departmental communication beyond the North American units. The trite characterization of creating "silos" within the organization rang true in some Oil & Gas experiences. One example: when a North American Unit had excess inventory the European Unit could have used, this needed to be part of the process to make sure the company as a whole saw inventory, collectively, and worked together to sell their products at the best possible price — irrespective of the origination of the sale. After our collaborations, partner firms now had their data hierarchy aligned with cash and cost consciousness, possessed on-demand systems training to leverage their ERP system more effectively, had data flowing into newly-developed Supply Chain metrics, and benefitted from disciplined management reviews using their new flash reporting and dashboards.

### 4 | Procurement Professionalization

Building up vendor management disciplines, encouraging tighter collaboration with Sales through the S&OP process, and formalizing ways



#### 8 Key Themes:



Cultural Chemistry and Change Mgmt.



Sales & Operations Planning (S&OP)



Enterprise Resource Planning Systems



Procurement Professionalization



Supply Chain Analytics



Contractor Mgmt. & Metrics



Cash Conversion Cycle Controls



Project Mgmt. Office (PMO)



the team collaborated with their supply partners was yet another prominent theme in our past collaborations. We've worked with procurement scenarios where key raw materials inputs could take as long as 6 months to arrive stateside. With low margin for error, it's imperative to make sure Procurement was in synchronicity with Sales. When working to lower raw materials cost and inventory holding cost, the team needed to have the necessary data to help them make a compelling business case when collaborating with their suppliers and getting positive negotiated pricing. In our past, improvements were made by concentrating the supplier base in some spend categories while opening up new bids for new vendor partners in other scenarios.

More often than not, improvements came from empowering Procurement to consult more closely with Sales, Engineering, and Operations as they searched for cost savings. In many engagements, the teams needed a more formalized relationship with vendors —including prescribed review meetings, tighter collaboration sessions with vendors, a stronger data-backed negotiation process, improved Electronic Data Interchange (EDI) and digital communications, and getting key supply chain partners more involved *earlier* with solutions to inventory and customer service issues. Now equipped with highly-professionalized, well-trained Procurement teams, this strength opened up the possibility of more creative, cost-effective arrangements such as Vendor Managed Inventory (VMI) or shared research and development (R&D) costs.

## 5 | Supply Chain Management Analytics

Imperative to next-level Oil & Gas transformations, our collaborations ensured the right operational metrics were in place and cascaded across the functional groups. Depending on the evolution of the business, some firms had their metrics fundamentals already in place but needed more advanced analytics models for demand-sensing visibility or tighter min-max levels across product categories. Several tried and true metrics we've incorporated into Management's repertoire included:

- Min-Max Levels (*Cost and Efficiency*)
- Economic Order Quantities (EOQ) (*Cost and Efficiency*)
- Demand-Planning (*Customer Responsiveness*)
- Customer Order Cycle Time (*Customer Responsiveness*)
- Inventory Turnover (*Efficiency*)
- Cash Conversion Cycle (*Cash Flow*)

In some engagements, these metrics were brand-new to the team and needed to be assimilated into consistently updated, easy-to-understand operating reports with all the necessary trend analysis and data visualization capabilities — crucial to Supply Chain Management. In some cases, trends were not easily seen in their old management systems. Without a carefully-orchestrated plan, cascading data hierarchy and training for the team on what these numbers meant, the teams would have continued to struggle. Management's understanding of the numbers could not be stressed enough because this precipitated a deeper understanding around control levers under their influence and how daily operational decisions impacted company finances.

## 6 | Contractor Management

Another area of opportunity involved reining in contractor spend and working with the Procurement teams to ensure the firm was getting their money's worth in outsourced services. Generally speaking,



### Our Way of Collaborating :



#### Identify

2-4 meetings at no cost

- Discussion of issues
- Alignment around probable causes
- Framing of analysis scope



#### Qualify

3-6 weeks at cost

- Qualify opportunities with Operational Due Diligence (ODD)
- Quantify anticipated results
- Initial engagement design
- Key meetings: Launch, Opportunity Review, Solution Review, and Final Framing



#### Modify

4-8 months

- Final engagement design
- Execution of engagement design
- Realization & measurement of results
- Ownership & sustainability



most companies did not have timely visibility of where contractors were actively working within the firm. Teams were inconsistent in providing resources (expertise, employee collaboration time allocations, work plan guidance, etc.) a contracting team needed to be successful. Contractors lacked clear understanding of the work quality levels needed to meet expectations. We've gotten involved with building up contractor-based capacity planning and performance reporting to objectively show performance expectations have been met. Focusing on a relationship-based approach, the trick was to get the contracting company leadership heavily-involved in understanding business needs, focused on coming up with a more collaborative structure than the usual static vendor-customer relationship, get agreement on the best ways to prepare contracting teams for their jobs, and develop a reporting structure providing clear contracting performance visibility.

We've found most astute contracting companies welcomed the chance to get a deeper understanding of their Oil & Gas customer's needs, wanted to get credit for a job well done, and appreciated the chance to be involved in the planning process earlier to ensure they provided the right level of talent while managing their own crewing levels efficiently. If contracting performance was lumped in with the in-house team, there's always the looming question of "Are we getting our money's worth with these folks?". There's several compelling reasons to employ contractors (labor flexibility, new business test cases, unplanned departures, subject matter expertise to name a few) but this can be an expensive labor source. Having a comprehensive contractor management system helped answer questions with data, supported in-house talent more effectively, and kept the contracting partners working in alignment with their precious Oil & Gas customers' needs.

## 7 | Cash Conversion Cycle Controls & Processes

A capital-intensive industry like Oil & Gas — laden with heavy equipment, large vehicle fleets, and customized, highly-engineered tools — must have a vigilant eye on cash. We've found the bigger opportunities to unlock cash for reinvestment in higher returns began by using more nuanced data to sense customer demand within tighter parameters (goes back to having the right inventory-related Supply Chain analytics up and running). As mentioned earlier, Sales and Operations Planning discipline was yet another crucial component to ensure customers were happy without future inventories building in warehouses and tying up cash. Prevention of future (slow-turning) inventory was also addressed by supporting a deeper relationship with vendors to develop and implement Vendor Managed Inventory (VMI) programs.

Some equipment firms already had excess inventory built up and looked to develop and implement a systematic way of reducing excess inventory moving down the expensive pathway from obsolescence to write-off status. Every company had a bevy of ways to reduce inventory — ranging from the less-painful option of selling earmarked equipment to other customers, or re-engineering equipment for alternative applications, or the teeth-clenching option of selling these newly-built components for scrap. Solutions were shaped by current market economics, existing inventory reduction mechanisms, higher return opportunities a company had in mind, and certainly geographical locations. We've worked with manufacturing and services teams to create a way to reduce excess inventory by more efficient inter-company sales communication, employee incentives tied to margin and cash objectives, global product portfolio rationalization, 3rd party market auctions, and even new market applications. Of course, the best option is selling products and services within a reasonable timeframe at the expected



### Core Service Offerings:



#### Enterprise Excellence

- Integrated Operational Performance
- Sales & Marketing
- Human Capital
- Margin Growth & Cash
- Information Technology Transformation



#### Operational Turnaround

- Cash Conservation & Liquidity Generation
- Contingency Planning
- Cost Reduction
- Interim & Crisis Management
- Operational Reorganization
- Stabilization of Core Operations



#### Organizational Analysis

- Mergers & Acquisitions
- Organizational Readiness Appraisal
- Trapped Value Analysis & Approach
- Commitment to Community — Pro Bono Advisory Services for Small Businesses & Education



margin; however, companies needed multiple mechanisms to reduce excess inventory during tougher times.

Our team has even gotten into global fleet rationalization (service trucks, sales vehicles, capital equipment, and company planes) to ensure our partners were in a strong cash position to weather inevitable pricing storms and capitalize on new markets. Executive teams found our analysis helpful in making lease vs. buy decisions, converting depreciating assets to cash, and ensuring divisions had the resources they needed to take care of their customers.

Perhaps, the most crucial control of cash in these Oil & Gas engagements — or in any industry for that matter — was building a cash-conscious mentality within the organization. Cash conversion cycle (CCC) needed to be understood by the team-at-large — not just Finance and Accounting folks. Each department needed to understand how their daily decisions impacted the collective cash position of the company. Teams truly serious about cash efficiency have worked with us not only to create cash awareness and financial acumen training programs but also to develop employee compensation plans around team performance directly tied to cash positions. As we're all well-aware, many a company with respectable revenues have gone out of business due to cash constraints. We've helped to translate the Executives' sense of cash urgency into a systemic process with tangible steps dedicated to cash conservation — ensuring the folks doing the work also understood the gravity of their cash watch responsibilities. Most transformation teams reveled in the chance to help their firm generate new opportunities with newly-freed-up cash now ready for redeployment.

## 8 | Project Management Office (PMO)

Bringing all the new controls, processes, and procedures together under one roof became a challenge as well. Most engagements involved incorporating new ways of controlling business evolution without stifling good ideas through a bespoke Project Management Office. Most Oil & Gas firms were blessed with excellent project managers in-house given the nature of their long-term, engineering-centric type of work. However, our experience has been this talent tended to be more focused on customer-centric project management rather than internal controls aimed at continued evolution of business practices. In most cases, it's a matter of reassigning some of this internal talent to mind the home team's continuous improvement efforts a bit while keeping customer focus the top priority.

Each firm's PMO was customized to the needs of their respective business. Accordingly, there's a continuum of support we applied for building up this capability as well. Some firms already had project review processes, dedicated PMO staff in place, and a central repository for all the project artifacts needed to ensure new opportunities flourished without redundant effort or wasted resources. In this case, our engagements involved incorporating the developed tools, new processes, and training content into the existing PMO infrastructure. In other cases, the projects were held together by talented, dedicated employees rather than an agreed, practical standardized project review process and project management infrastructure. In the latter cases, we used our collective project management experience to build the PMO needed to keep improvements moving well beyond our engagement time together.

In past PMO Oil & Gas capability build-ups, we've co-created the



### Overall Engagement Statistics:

Clients' Historical Return On Investment (avg.)

**4.8 to 1**

Team's Collective Career Projects (total)

**1,496**

Specialists: Years In Consulting (avg.)

**21**

Team's Career Training Sessions Delivered (total)

**4,935**

Subject Matter Expertise (SME) Network (total)

**900+**

Team's Historical C-Suite Executives Roles (total)

**39**

Supply Chain Cost Savings (avg.)

**19%**

Working Capital Unlocked For Reinvestment (avg.)

**21%**

Tech-Enabled Productivity Increases (avg.)

**27%**



project review process with all the necessary hurdles to ensure resources were allocated to the best ideas. Then, with Management, we've stood up the necessary project management committees to work with firm Executives and the rest of the organization to manage resources, measure progress, and kill projects not moving in the right direction fast enough.

Furthermore, we've been involved with implementing new technologies to build a central repository for all the project artifacts (templates, process flows, organizational charts, risk logs, procedures, training manuals, etc.) needed to manage the teams. We've worked with Management to:

- Build new PMO-related databases
- Develop internal networks to help manage and distribute disparate control elements and procedures across divisions
- Incorporate third-party Software as a Service (SaaS) applications into the firm's PMO for scalability
- Stand up new, dedicated PMO teams and embed PMO roles & responsibilities
- Create easy-to-use templates for process consistency, risk mitigation, and decision-making support
- Develop internal updates and communication campaigns across select social media applications
- Provide computer-based training (CBT) programs to share expertise across the organization.

### Collective Results: Just A Few Examples

Past team experiences accelerated a litany of operational and financial results in Oil & Gas. Our project managers, consultants, and subject matter experts have been involved with a 22% improvement in converting inventory to cash, 15% reduction in procurement expenditures in key spend categories, 20% reduction in remote site operating costs, 15% reduction in inventory holding costs, 18% reduction in non-pipeline distribution costs, 27% improvement in employee environmental and safety awareness, and 26% improvement in Sales & Operations Planning accuracy.

**Our on-going focus:** transformations generating tangible operational impacts clearly tied to financial statements. Yet, the real, recurring pay-off resides in expedited capability build-up within the teams we work with during every engagement. Our collaborations equip Management with accelerated change momentum and the much-appreciated ability to perpetuate multi-year benefits — irrespective of where the current oil price dot happens to be on the trend chart that day.

For all your invested time and thoughtful consideration, we thank you.



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