

Ramsville Transactions Case Study

To: Chris Smith, CEO of Ramsville Transactions
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Date: 11/02/2024
Subject: Recommended Changes to Improve Performance at Ramsville Transactions

SUMMARY:

Under the direction of CEO Chris Smith, Ramsville Transactions started a Lean Initiative with the goal of enhancing important operational areas by extending the application of lean concepts beyond manufacturing. Because longer lead times affect supplier relationships and may cause production schedule disruptions, the Accounts Payable (AP) department was the focus of attention.

Overview of the Current Process: The AP process starts in the mailroom, where incoming mail is received, sorted, and examined for AP relevance. A substantial portion of the mail is deemed unnecessary. Purchase order (PO) inclusion and PFR (Pay from Receipt) system verification are applied to invoices, which frequently results in duplicate checks and delays. After valid invoices are processed, some are reserved for future payment in accordance with schedule agreements, which results in longer wait times.

CHALLENGES IDENTIFIED:

Redundant Checks:

- **Duplication of PFR Verification:** There are overlapping responsibilities between the mailroom and the Accounts Payable (AP) department regarding the verification of Payment and Financial Requests (PFRs). This duplication not only wastes resources but also creates confusion in the process.
- **Ineffective PO Checks:** Despite thorough checks for invoices without Purchase Orders (POs), there have been no instances found. Continuing to conduct this verification adds unnecessary steps to the process without any value.

Extended Lead Times:

- **Multi-Stage Processing:** The current workflow involves multiple stages of processing, leading to inefficiencies and prolonged lead times. Each stage adds time, impacting the overall speed of transactions and affecting cash flow.

High Waiting Periods:

- **Delayed Processing:** Significant waiting periods between separate phases of the processing pipeline contribute to overdue payments. These delays can strain supplier relationships and affect the organization's reputation and operational effectiveness.

RECOMMENDATIONS:

Recommendation to Ramsville is to get rid of a few of the current processes and make changes to the number of employees to improve the throughput time are as follows:

1. Eliminate the PO Check Process.
2. Consolidate PFR Checks: Implement a single PFR verification in the mailroom.
3. Integrate Enter Payment and Batch Payment Processes.
4. Increase Staffing Levels to maintain Process Utilization below 100%.
5. Reduce Inventory Levels and Waiting Periods.
6. Implement Continuous Improvement Practices through regular reviews.
7. Invest in Employee Training on new processes.

DISCUSSION:

To enhance efficiency and reduce throughput times at Ramsville, the following recommendations are proposed:

1. **Eliminate the PO Check Process:** Discontinue the PO check process since it has been identified as redundant, adding no value to the workflow. This change will streamline operations and reduce unnecessary delays.
2. **Consolidate PFR Checks:** Implement a single Payment and Financial Request (PFR) verification process within the mailroom by providing extra Process Time. This will eliminate the duplicated efforts currently present in the PFR Check 2 process, improving clarity and efficiency.
3. **Integrate Payment and Batch Payment Processes:** Combine the Payment Processing and Batch Payment processes into a unified workflow. This integration will simplify the overall process and enhance processing efficiency.
4. **Increase Staffing Levels:** Hire additional staff to ensure that the workload is manageable and to maintain Process Utilization below 100%. This will help prevent bottlenecks and reduce lead times, thereby improving overall throughput.
5. **Reduce Inventory Levels and Waiting Periods:** Streamline processes to decrease backlog and minimize waiting times, enhancing cash flow and supplier relationships.
6. **Implement Continuous Improvement Practices:** Establish regular reviews of the new processes to identify further areas for improvement. This could include employee feedback sessions, data analysis, and performance metrics to ensure sustained efficiency.
7. **Invest in Training:** Provide training for employees on the new processes to ensure smooth transitions and maximize the benefits of the changes implemented

IMPROVEMENTS:

By implementing the recommended changes, we can significantly reduce the Mean Throughput Time (MTT) for invoice processing as follows:

The Current State Map:

	Total Waiting Time	Total Process Time	Total Time
Pay Now Invoices	187200 sec (6.5 days)	1500 sec	188700 sec (6.55 days)

Pay Later Invoices	619200 sec (21.5 days)	1620 sec	620820 sec (21.55 days)
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The Future State Map:

	Total Waiting Time	Total Process Time	Total Time
Pay Now Invoices	28800 sec (1 day)	1380 sec	30180 sec (1.05 days)
Pay Later Invoices	460800 sec (16 days)	1500 sec	462300 sec (16.05 days)

Pay Now Invoices:

- Current MTT: 6.55 days
- Future MTT: 1.05 days
- Reduction: 5.5 days

Pay Later Invoices:

- Current MTT: 21.55 days
- Future MTT: 16.05 days
- Reduction: 5.5 days

The following table outlines the changes in waiting times and the number of Work in Progress (WIP) emails for each process between CSM and FSM for Pay Later Process.

Process for Pay Later	Current Waiting Time in sec	Future Waiting Time in sec	Current Mails in WIP	Future Mails WIP
Receive & Sort Mail	28800	10800	1000	1000
PO Check	57600	NA	890	NA
PFR Check 1	28800	7200	890	110
PFR Check 2	66600	NA	290	NA
Pay Date Check	0	10800	285	40
Pay Later	432000	432000	20	3
Payment Processing	0	0	285	40
Batch Payment	5400	NA	285	NA

ANTICIPATED CONSEQUENCES:

Resource Allocation: With the removal of the PO Check Process, there may be excess staff in the mailing department. To address this, an additional employee will be added to support the Enter Payment and Batch Processing. The excess personnel from the mailroom can be trained and transitioned to the Accounts Payable department or reassigned internally to balance employee distribution and ensure that each department is adequately staffed with trained employees.

Communication Gaps: The elimination of PFR Check 2 from the Accounts Payable team and the full accountability assigned to the mailing department may create initial gaps in communication between the two departments. Leadership should establish clear communication channels to promptly discuss any issues or discrepancies, facilitating proactive measures to prevent future misses.

Work-in-Progress (WIP) Inventory Levels: The WIP inventory levels for mail processing are designed to provide a buffer for fluctuations in volume. However, maintaining maximum WIP can lead to increased employee idle time. Therefore, careful consideration of WIP levels is essential to effectively manage volume surges while optimizing employee productivity.

Balancing Waiting Time and Throughput: Waiting times for inventory processing must be strategically determined to ensure that employees remain engaged without compromising Manufacturing Throughput Time. This requires a careful trade-off between minimizing idle time and maintaining efficient processing rates, ensuring that both employee productivity and throughput goals are met.

CONCLUSION:

Implementing the proposed process improvements at Ramsville will lead to significant reductions in MTT for invoice processing, enhancing both operational efficiency and supplier relationships. By eliminating redundant checks, consolidating verification steps, and integrating key payment processes, the AP department will streamline workflow, reduce delays, and optimize resource allocation. These changes will help maintain high performance and reliability without additional investments, reinforcing Ramsville's commitment to lean principles and continuous improvement. This strategic shift will support smoother operations, strengthen monetary management, and foster long-term success for the company.