

Aircraft manufacturer lands working capital improvements with focus on payment terms.

Client:

A leading aerospace company, producing the world's most versatile utility aircraft. They have manufacturing, assembly, modification, and repair facilities located in North America, and customers around the world.

Challenge:

With a near 12 times increases in their annual production, our client quickly outgrew many of the original payment terms and credit limits it established with its part suppliers. Not only were they troubled by the administrative complexities of small payment windows for parts invoices, but their credit limits were no longer sufficient to support the increased demand for parts to support shorter production cycles.

Process:

With greater flexibility in their payment terms, specifically when, and how payments were made, we believed that our client and their parts suppliers could benefit greatly.

Solution 1 - Hybrid payment window expansion

First, we investigated all our client's suppliers and divided them into two groups: proprietary suppliers that manufactured parts tied to the aircraft's type certificate, and those who were subject to market competition – and thus the opportunity to switch should the client's new payment terms conditions go unmet.

For proprietary suppliers, we opened direct negotiations, either focused solely on payment terms or as part of an overall contract renegotiation. As for all other suppliers, we helped our client issue a statement announcing necessary policy changes to payment windows effective immediately. Suppliers that couldn't accommodate these changes returned with compromises and discounts. Our client happily accepted them, provided the end result truly benefited its own operations and working capital needs.

Solution 2 - Increased supplier credit limits

Bigger operations result in bigger supplier purchases, and in turn, require a more substantial line of credit in order for both parties to benefit from widened revenue streams. Apart from the manufacturing increases we helped them achieve, our client also facilitated the sale of replacement parts between suppliers and aircraft end users. As such, we needed to appropriately align our client's credit levels with suppliers so they reflected the increase in manufacturing output, as well as end-user demand for spares. Insubstantial credit limits, after all, cause payment bottlenecks that could adversely impact supplier operations too.

Performance Results:

- \$750,000 working capital improvement (one-time)

Conclusion:

By adjusting supplier payment terms we helped our client gain a one time working capital improvement. By improving credit limits, and payment windows they also benefitted from reduced back office processing, streamlined production, and reductions in expedited freight costs that better aligned with their scaled-up operations.