



by Ron Kirscht

In the global economy, the pressure's on for shorter lead times and faster delivery. Customers are clamoring for new and better value faster, and quality standards keep rising.

You know all this, but what are you doing differently at your organization to remain vital and relevant? For original equipment manufacturers (OEMs)—and all manufacturers, really—discipline and adherence to good processes are the answers.

Focus on what you do best. According to Michael Treacy and Fred Wiersema, authors of *The Discipline of Market Leaders* (Perseus Books Group, 1997), your best might be operational excellence (winning on cost), product leadership (winning with great products), or customer intimacy (winning through responsiveness). When you recognize, embrace, and develop your core competencies, you can work on providing compelling services that no one else can match. Focusing employees on the areas that provide the most value is the best use of your skilled labor force.

As for all the other functions, outsourcing noncore competencies can control costs, maintain proper inventory levels, reduce overall part costs, ensure a leaner operation, improve quality, and ultimately help a business succeed. Sounds simple enough, right?

#### Do your homework

Outsourcing isn't a task to be taken lightly, especially when it comes to quality. It's a tricky proposition to give up day-to-day control of a noncore competency without sacrificing the quality, responsiveness, and continuous improvement that today's marketplace demands.

#### Using Audits to Ensure Successful Outsourcing Partnerships

As supplier quality audit should be conducted for new suppliers and on a periodic basis for your existing supplier base. Diebold Inc., one of Donnelly's longtime customers, recently performed a supplier quality assurance audit of Donnelly's operation. They checked 16 key areas based on ISO 9001 standards. As part of the comprehensive evaluation, the quality system section included an analysis of the following elements. You may want to consider these as standard aspects for your supplier review:

- Quality certification
- Advanced quality planning process
- Quality manual
- Process flow diagram
- Key product characteristics

That's why doing your homework on potential outsourcing partners is critical. Every hour you spend selecting the right partner will result in a better matching of supply and demand, improved quality, and stronger strategic alignment and attainment.

Donnelly Custom Manufacturing Co., based in Alexandria, Minnesota, focuses on short-run injection molding (small quantities of complex, precision parts) for leading industrial OEM customers. The company adheres to a model of customer intimacy—performing an in-depth quantitative and qualitative assessment of every partnership under consideration.

Why are Donnelly's OEM customers comfortable outsourcing their short-run parts to Donnelly? Because they've done rigorous research. They've learned that with fewer customers, Donnelly spends its resources achieving what matters: meeting tight lead times, providing excellent quality and delivery, offering engineering support, and satisfying other considerations, all at a fair price.

You, too, can be comfortable in giving up control by being confident in the quality of your outsourcing partner. Following are some guidelines for how to do it.

### The typical selection process

Most companies start with a preliminary review of supplier candidates, filtered by company size, location, competencies, ISO 9001 registration, number of years in business, and manufacturing capabilities. Web sites are the most accessible starting point for this initial profile.

The next step is narrowing the list to about five viable prospects and sending out a preliminary supplier assessment—a checklist or other analytical tool designed to lay the foundation for a personal visit. The questions asked are typically based on ISO 9001 or revolve around the suppliers' quality manuals.

The final step is for a cross-functional team to make a site visit that carefully examines key claims the prospective suppliers have made. While there, look for objective evidence to support the claims. This personal visit is a great way to determine the compatibility of your two companies. You can get a sense of culture, philosophy, and, in general, how you will interact.

### What to watch out for

Here's where interpretation and careful analysis can help you make informed decisions for a successful outsourcing partnership. In addition to the generic data and observations you have gathered, there are five economic criteria for today's manufacturer:

- *Avoid the "in it to win it" supplier*. Some suppliers look at your audit as they would a driver's test: not concerned with how high they score, but just that they pass. Is the candidate interested in whether the job is a good fit for both of your organizations? If a prospective supplier doesn't offer as much strategic consideration as you're putting into the process, it's time to look elsewhere.
- *Beware the desperate manufacturer*. Some suppliers are looking for business at all costs—a self-destructive mentality. You can spot the desperate manufacturer by an anxiousness to quote on any part, at any price, for anyone. This desperation erodes the connection between price, quality, and value, and that's a death spiral you should avoid.
- *Make sure that they walk the walk*. Sometimes policies and procedures exist only in the quality manual. Ask for an on-site tour that shows a prospective supplier's quality manual in action, step-by-step, from the beginning of an order to the time that it's shipped. Witness the workflow and quality assurance practices. They're hard to fake live.
- *Take a hint from employee turnover*. A high level of turnover is a bad sign on many fronts. Continuous orientation

- Key process characteristics
- Process control plan
- In-process testing
- Defined standards of acceptability
- Operator instructions
- Visual aids
- First-time quality definition and measurement

of new employees—or worse yet, critical positions left unfilled—can compromise a supplier's ability to meet your needs.

- *Don't forget employee cross-training.* One constant in business is change. To have a change-ready culture, training and education plans for employees at every level are imperative. Make sure that your supplier is committed to identifying and meeting cross-training needs. Employee improvement puts everyone in a position to deal effectively with change.

### **It takes two**

To feel completely confident in your outsourcing partnerships, you must go even deeper into the analysis, examining your suppliers' differences and changing the ways in which you interact. The following approaches will make a relationship stronger and help you feel more comfortable in your outsourcing choices, allowing you to serve your customers better, too.

Change the way you read the quality section of the supplier assessment. There are two areas that deserve more attention than typically given by OEMs: customer satisfaction and continuous improvement.

### **Customer satisfaction**

Is the supplier measuring customer satisfaction? What do those results show? If the supplier is not measuring the satisfaction of other customers, it's not likely that the company will do much to ensure your satisfaction either. At this stage in the assessment for a new supplier, you should consider asking for and checking referrals.

Does the supplier assess its own suppliers? Holding suppliers to high standards helps improve the service provided to you. It's always a good sign when a prospective supplier does its homework. After all, you're doing yours.

### **Continuous improvement**

With regard to continuous improvement, you should consider the supplier's programs in all areas. Make sure that the supplier candidate has identified someone responsible for measuring and managing improvement efforts.

The continuous improvement criteria should apply to critical success factors inside the organization (e.g., scrap, cost of quality, defects per million, and value added per employee) and outside (external cost of quality, customer satisfaction, on-time delivery, and so on). You should see a clear history of standards being met and the bar subsequently being raised.

Your suppliers' continuous improvement programs have a direct effect on your own continuous improvement. Those efforts are critical to your future.

Consider a periodic supplier/outsourcing partner conference to let your suppliers know what your goals are so that they can anticipate, accept, and adapt to change. Many OEMs and manufacturers start this practice and stop after a few years. To be effective, commit to a conference as a regular event.

For suppliers, seeing their products or services in context, rather than in isolation, helps them become a more integral part of your business and understand their role as it relates to the rest of your supplier base.

For example, Donnelly just returned from a supplier conference for longtime customer Scotsman Ice Systems, a leading innovator of ice technology. Scotsman has hosted an annual conference for 12 years, and every time Donnelly employees attend, they walk away rejuvenated with excitement about the relationship.

If an annual conference isn't possible, perhaps a one-on-one annual or quarterly sit-down visit with each key supplier would be effective. Whatever you do, make sure the information you share is timely, relevant, and clearly communicated.

All suppliers are not created equal. Would you fill out a reply card at a local restaurant by applying the same criteria you would use to rate a car-buying experience? The large umbrella-style analysis originated with the defects-per-million quality assessments of the automotive industry. This is how many OEMs rate their suppliers and outsourcing

partners—with a one-size-fits-all approach.

Donnelly uses suppliers for many things. Some provide commodity products such as plastic resin; others provide intricate custom-built molds. Management evaluates these two types of suppliers very differently. For commodity items, was the shipment on time and accurate, and did it arrive with the appropriate paperwork? For molds, there may be more than 100 specified elements to test and check. It would be unfair and unwise to rate those two suppliers using the same processes and criteria.

As a supplier of short-run molding services, Donnelly is held to very high quality expectations. The parameters for rating the organization differ greatly from those for molders making hundreds of thousands of the same part, from one mold and material, day after day. The company's runs often involve quantities of only 25 to 1,000 parts, requiring multiple mold changes involving different materials daily on each machine. You can see how using defects per million as the only measure of quality may be inadequate in this case.

The point is to evaluate suppliers on what really matters, given the types of products or services that they provide. Mismatched measurement tools do not motivate your suppliers to do better and ultimately won't improve the product or service that you provide. The world needs both blacksmiths and jewelers, but the measurement of their performance and output should be different.

### **Ongoing analysis**

Donnelly seeks to work with OEMs that perform this kind of extensive analysis of prospective suppliers. Why? Because when both parties are rigorous in their research, it fosters mutual understanding, respect, and trust, and can rapidly produce a more successful and lasting partnership.

However, quality assurance in outsourcing is a continuous quest, not just an upfront analysis. For example, Diebold Inc.—a provider of self-service delivery and security systems to financial institutions, government agencies, and the retail industry—has worked with Donnelly since 1984, and the company continues to reassess all its key partnerships. (See sidebar on page 42.) In the fall of 2006, Diebold performed an extensive quality audit of the Donnelly facility, examining many of the issues outlined in this article.

Given a customer-intimacy model, Donnelly is committed to transparency in all partnerships. The level of scrutiny Diebold demonstrates makes sense because, over the years, Donnelly has become increasingly dovetailed and synchronized with these partnerships, leading to a considerable global manufacturing footprint.

For Diebold, carefully assessing and reassessing all outsourcing partners continues to produce great results. If you're similarly diligent—and seek suppliers that are, too— you're poised to make the most of outsourcing and gain a competitive edge.

All 230 of Donnelly's employees are dedicated to setting the standards in the custom injection-molding marketplace for "How Short Run Is Done." The company's focus is on providing OEM customers with value-added engineering and highly customized manufacturing and customer support services. A strong customer service orientation ensures outstanding customer satisfaction.

### **About the author**

*Ron Kirscht is president of Donnelly Custom Manufacturing Co. and has been instrumental in leading Donnelly's relentless pursuit to set the standards in short-run molding, including the development of an outstanding manufacturing launch process, shortening lead times, collapsing mold changeovers, adopting lean concepts, and meeting the demands of just-in-time inventory management. As a leader at Donnelly since 1991, he understands the nature and necessity of profitability and financial stability. Kirscht combines business strategy with the manufacturing innovation that's critical to midmarket manufacturers.*