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From QMS Standardization to Improving Supply Chain Output

Supplier Development and the Value Proposition

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In the global marketplace and across industry types from aerospace and automotive to health services and financial services, there is both an increasing challenge to quality and a critical need for quality management among suppliers.

Never before has there been such a strong demand from customers to improve performance, reduce cost and enhance value. While the implementation, registration and use of quality management systems (QMS) is helping suppliers establish consistent processes and pursue performance improvements, customers must realize that they are the key to helping suppliers satisfy these demands for better performance, lower prices and greater value.

Indeed, value is the most critical outcome customers need from the supply chain. The ability to define, create, produce and deliver value in the marketplace can only be achieved through an

integrated supplier network. Cost pressures and intense global competition have greatly increased customer sensitivity to the quality and reliability of delivery, which is changing the basis of competition from "company vs. company" to "supply chain vs. supply chain." Thus, the resulting focus must be on value.

Another critical factor that is affecting how businesses operate today is the transition from deep vertical integration to broad horizontal integration. This integration has changed the key management challenge from integrating functions within an organization to integrating numerous autonomous suppliers to ensure outstanding business performance in terms of cost, quality and delivery.

For the network or supply chain to work effectively, there is a need for greater participation by all organizations in the product design and development, production, delivery and post-sale activities.

For this reason, value in this changed environment is defined as performance divided by cost. This definition is all-inclusive and provides a wide range of interpretations. However, the only way to achieve sustained value

in any organization is to be able to identify the value proposition (in terms of the customer and marketplace) and then deploy it throughout the organization and its supply base. Value cannot be achieved through isolated improvement, it is contingent upon the capability of an organization to integrate components in the value chain.

A well-structured supplier development program is essential to bringing about a change in focus and ensuring that alignment to value is executed within the context of the supply chain. Programs should focus on identifying weaknesses and developing initiatives whose benefits can be measured in terms of the impact on the entire chain. Any development program that fails to do this is suboptimal and the benefit of the investment can be lost.

To help you better understand both the value proposition and the role that the supply chain can play in adding value to processes, product and the customer's bottom line, we will explore the role of performance management in developing the supply chain and the stages of supply chain development your organization must advance along.

The fact is that QMS implementation and registration throughout the supply chain is only a starting point for pursuit of value.

Performance Management: Beyond Baselines

For an organization to accurately assess the current performance of its

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supply chain, it is necessary to focus on specific metrics (e.g., overall manufacturing lead time, cost per unit, overall supply chain inventory levels and product quality) to obtain a baseline measure before supplier development is pursued.

Due to the fact that supply chains are oriented towards the actual value chain for delivering products and services to customers, performance management in supply chains must evolve from management of organizational functions to management of processes in the supply chain.

Performance management of the entire supply chain has become a requirement for success in manufacturing. This will involve a change in culture from the typical adversarial relationships between companies to a very high level of teamwork and collaboration between the organizations that make up the supply chain—a partnership model.

In its description of suppliers and partnerships, Subclause 5.2.2, Needs and Expectations of Interested Parties—Needs and Expectations, of *ISO 9004:2000, Quality management systems—Guidelines for performance im-*

provements, states that relationships should be established to improve processes and create value.

For organizations and their suppliers to achieve these benefits, they should consider doing the following:

- Optimize the number of suppliers and partners
- Develop supplier capability
- Provide opportunities for open, two-way communication
- Encourage early supplier involvement in the product development process
- Monitor and provide feedback on supplier performance
- Encourage suppliers to institute continuous improvement programs
- Provide opportunities for joint strategic development
- Evaluate supplier performance and reward and recognize improvement.

Some organizations will try to obtain these relational benefits by insisting that suppliers become registered to *ISO 9001:2000, Quality management systems—Requirements*, rather than by taking the actions above. Within the US automotive industry, this is already

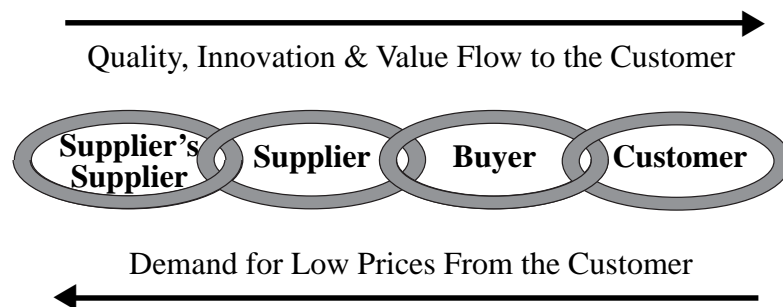
becoming a directive from the original equipment manufacturers (OEMs), who have set a February 1, 2003, deadline for the registration of suppliers to their Tier 1 suppliers (formerly referred to as “subcontractors”) to ISO 9001/2.

Although this is a step in the right direction in that it will provide the assurance that the QMS processes of suppliers meet minimum standards, it does not address the integration of the organizations within the “value” chain.

ISO 9001:2000 has a strong process focus, which means it is important to always understand the underlying intent—to provide value. This is achieved not only through alignment to the organization’s corporate vision, but alignment and integration with customers and suppliers external to the organization. The extended concept of horizontal alignment brings new thinking to the actual boundaries of business. In a very real sense, for the horizontal alignment to be achieved to satisfy the customer and improve efficiency throughout the supply chain, supplier development must be pursued by any organization with an ISO 9001:2000-conforming QMS.

Figure 1. The Supply “Chain” in Quality and Value Terms

The Supply Chain



Stages in Supplier Development

How can an organization pursue supplier development so as to get the greatest results from the effort at a time when most organizations are still taking a passive approach? The fact is that value-added supplier development takes effort, and not just by the supplier being “developed”.

The concept of supplier development should therefore be viewed as moving from an approach that is passive to one that is pro-active. Engaging in supplier development can be broken down into the following four stages that can be accomplished sequentially:

- *Stage 1: Passive Approach*—Starts without a clearly defined strategy. Orga-

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nizations at this stage often have a large group of suppliers but make limited, if any, attempts to provide them with a common method of working. In some instances, a supplier is selected based on its ability to offer the lowest price and provide goods and services that cannot be produced by the buyer (a supplier's customer but not necessarily the end-user). Figure 1 at left demonstrates the "linkage" of the organizations in the supply chain and the relationship of what is expected by the customer up the supply chain and what is demanded by the customer down the supply chain. The greatest effort by the organization at this stage is likely to be to demand third-party QMS registration of suppliers, with the expectation that this will help achieve the desired outcomes of Figure 1. While it is a step in the right direction, it is not going to produce the performance improvements needed.

- **Stage 2: Reactive Approach**—Involves engaging in activities that are unstructured and in some cases focused on short-term actions. The activities may range from quick fixes to long-term solutions that attempt to identify and correct root causes. In other cases, some suppliers may be brought into the design and development activities on an ad-hoc basis. Suppliers are still often selected based on their ability to offer the lowest price.

- **Stage 3: Joint Initiatives**—Provides an outline of a strategy for the supply chain. Instead of viewing an organization and its suppliers as isolated entities, the organization assesses the role of all entities in the supply chain. The metrics are aligned with the strategy, used to identify opportunities and establish the initiatives needed to improve responsiveness in the supply chain. Such actions include assisting suppliers to establish performance metrics, improve problem-solving capabilities and use the techniques of value-stream mapping to reduce waste and improve efficiency and effectiveness across the supply chain. The organization's buying criteria must focus on maximizing mutual benefits that enable the organization to meet customer requirements while ensuring quality and driving performance and product improvements.

- **Stage 4: Total Integration**—Applies an advanced and proactive approach for process improvements and competitiveness of the entire supply chain. Suppliers are critical participants in and contributors to the product development process and are given access to the available technology and knowledge to enhance their performance. The buying criteria will be to maximize the working of the entire network of customers and direct and indirect suppliers.

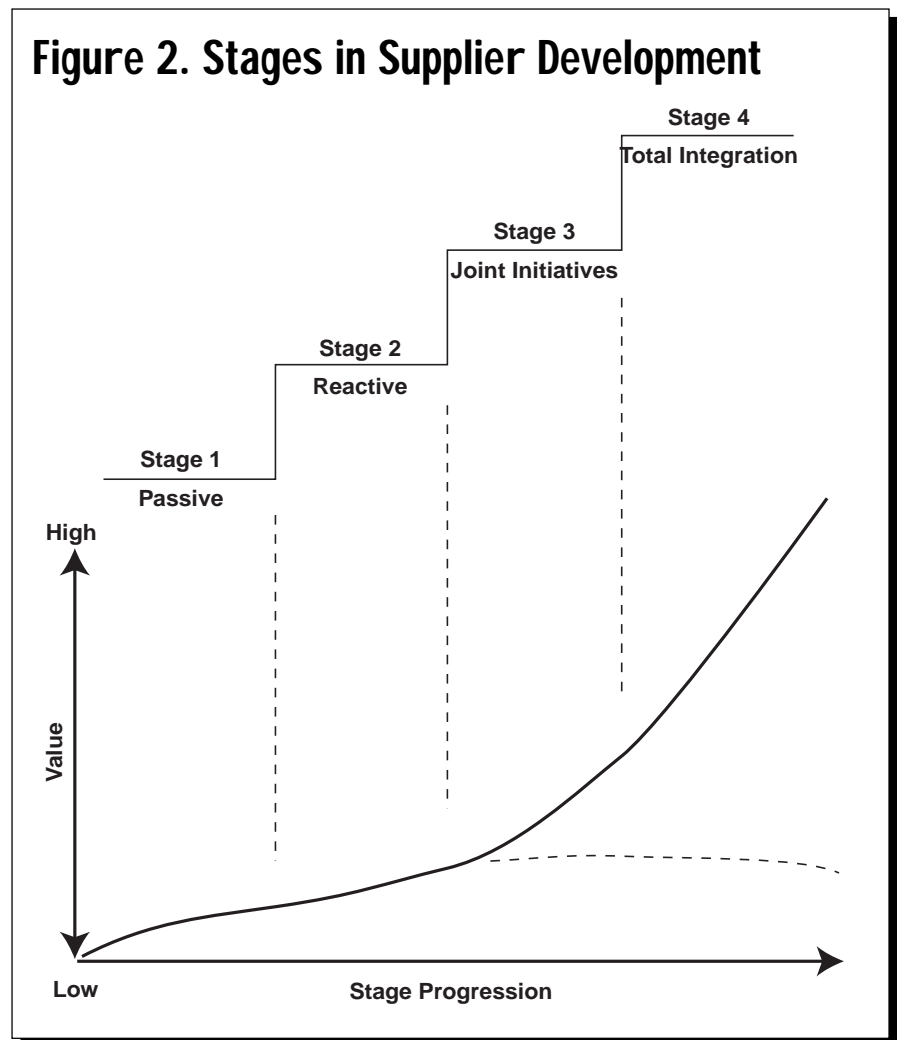
Both ISO 9001/2 and QS-9000 have brought some attention to the supply base by providing a means whereby QMS elements within most organizations have been standardized. The result has been that most organizations have demonstrated some performance improvement. However, as competition focuses more on improving the output of the supply chain, there is a need to go further.

Figure 2 depicts the various stages

in supplier development, with Stages 1 and 2 showing that these early stages provide value to the supply chain. However, in the long-term, high value is achieved if activities are aligned with the needs of the value chain and emphasis is placed on reducing waste and increasing involvement in product development, as shown in Stages 3 and 4.

Without a strategic approach to supplier development, an organization's focus will remain primarily on tactics that yield limited value and may not necessarily enhance the competitiveness of the supply chain through outcomes such as waste reduction, performance improvement, operational agility and speed-to-market. Bottom-line benefits are incremental in Stages 1 and 2, and the ability to sustain profitability is limited, as shown in Figure 2.

A strategic focus, on the other hand, is proactive and begins by selecting and collaborating with key suppliers



and then identifying initiatives that are important if an organization is to improve the performance of the value chain. Stages 3 and 4 require the development of a methodology that would identify where development work should take place within the supply chain—the weakest link or the one that will provide the greatest enhancement in return for the effort—the expected costs and the proposed benefits.

How to Begin Development

A supplier development program needs to be carefully planned. It begins by identifying what creates value for the entire value chain and then establishing a framework for performance and con-

tinuous improvement. This is done by defining appropriate metrics, followed by activities and initiatives that reduce waste and promote collaboration on design and development activities.

This method will provide a means for organizations in the supply chain to integrate across company boundaries and leverage the required technology and knowledge that will result in enhanced competitiveness and significant breakthroughs in bottom-line performance. ###

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ity management solutions. She is presently working on a Reliability Committee for the American Society for Quality (ASQ), is an ASQ-Certified Quality Engineer, a Certified Reliability Engineer and a Six Sigma Black Belt. Ms. Simons has an MS in Industrial Engineering/Operations Research from Wayne State University in Detroit and can be contacted by e-mail (norma.simons@simons-white.com).

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