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Bob Forshay, CPIM, CSCP, CLM Presents

Quarterly Business Review Effective Collaboration

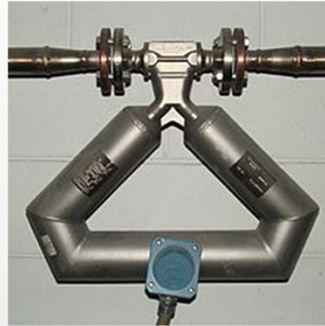
ASQ, April 2013

Agenda Today

- You will learn:
- Quarterly Business Review?
- Why be so formal?
- How to be effective?
- Collaboration is critical!
- Summarize the concepts



Who Is Bob Forshay



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30 years in project, operations and supply chain management

High tech, low tech, from small shop to global supply chain, medical devices, construction, custom engineering MTO, steel fabrication MTS, electronics MTS & ATO, food, LEAN/Six Sigma/TOC

Educator since 1989

Consulting since 2005

Adjunct Faculty – Mfg Management & Adv Mfg Management

Train the Trainer

Public Speaker

Mentor

Certified Lean Master – ROI gain in 90 days

The Fresh Connection – Supply Chain simulation facilitation

Define the Plan/Process

- A plan with 4 Focus Areas;
 - Cost of Quality,
 - Cost of Doing Business
 - Cost of Product – Least Total Cost
 - Value of Support

Supplier Qualification requires focus in 4 areas – must have or develop a plan to engage and manage all four areas;

Ask for examples of issues included: Post on board.

Pull in 4 focus areas after done posting suggestions

Define the Situation

- Goal: Not strictly about simple cost!
- Goal: To know and evaluate risks
 - What happens if you don't always get all ACES?



Ask session for examples of;

What are pros-cons on shopping for cost first

Low unit price but high min order quantity

Low unit price but high change or restock charges

Low unit price but slow response to handle changes, revisions, quality or schedules

Risks to identify and evaluate?

Quality and consistency

On Time and availability

Reliability and Capability

Open-ness and Sharing

Direct vs. Overhead

Setting Expectations

- Clarity in the Contract Up Front
- Visible & Visual daily performance dashboard
- Operational Definitions
- SLA's, Service Level Agreements
- Specific Performance thresholds
 - Quality
 - Speed
 - Dependability
 - Flexibility
 - Cost
- Certain "lows" trigger pain and penalties
- Certain "highs" trigger rewards



Effective Quarterly Business Review

- So you have a plan, now what?
- Identify
- Assess
- Evaluate
- Monitor
- Strategy for Risk Management



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Running an Effective Quarterly Business Review – So you have a plan, now what? One of the biggest challenges organizations have is putting a plan into action – moving from the off-site to monthly decision making throughout the year. A visible sign of a plan that is being executed is hold monthly or quarterly business review or, as we call them, Strategy Review Meetings.

Identify



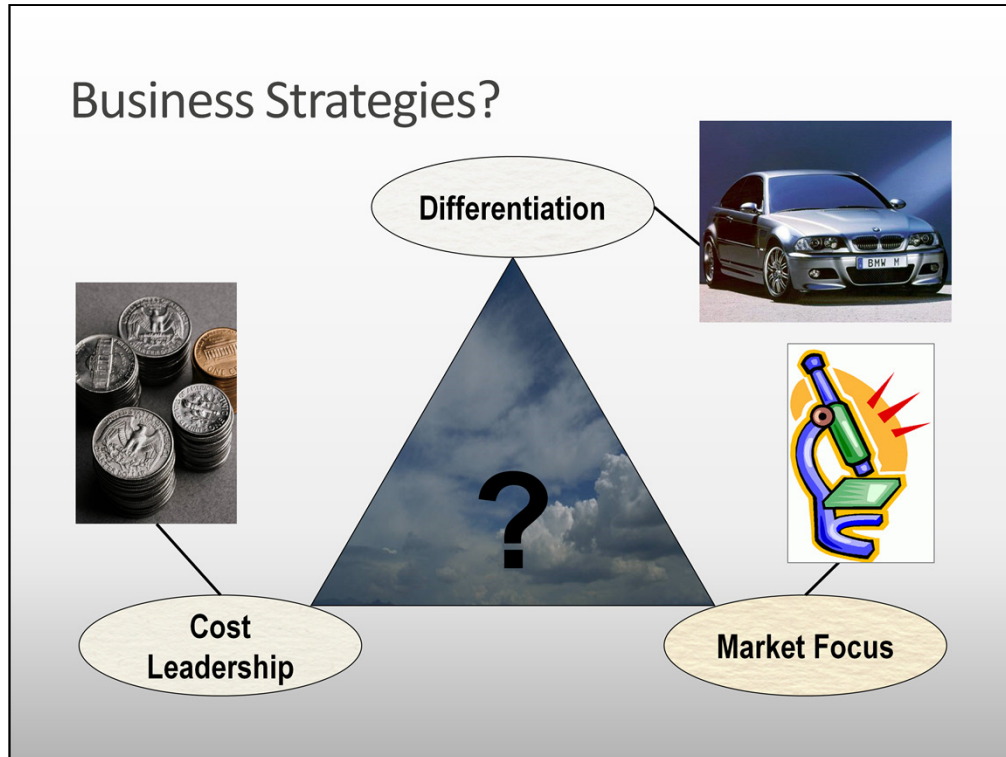
Supply Chain Management Objectives

- How well are you and your suppliers aligned?
- Industry focus?
- Business model?
- Leadership style?
- Strategy aligned B to B?
- Growth or not?
- Leading or lagging?
- Mfg strategy fit to Biz strategy?

Operations performance objectives

- Ensure that operations performance within the supply chain is based on the right mix of
 - quality
 - speed
 - dependability
 - flexibility
 - cost.

Business Strategies?



How do these different strategies require;

- Different approaches?
- Different Suppliers?
- Different Relationships?

Operations Strategy's Vision

What are your
Strengths – Weaknesses – Opportunities - Threats?

What can a supplier add to your operation?

What else your supplier brings to the table?

Setting & managing expectations?

Source: *Operations and Process Management*, Slack et al., 2nd ed., 2009; reprinted by permission of Pearson Education

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Knowing where you are on your path of evolution.

Knowing your strengths and where you need to leverage your suppliers in key relationships.

Knowing what to ask of your suppliers.

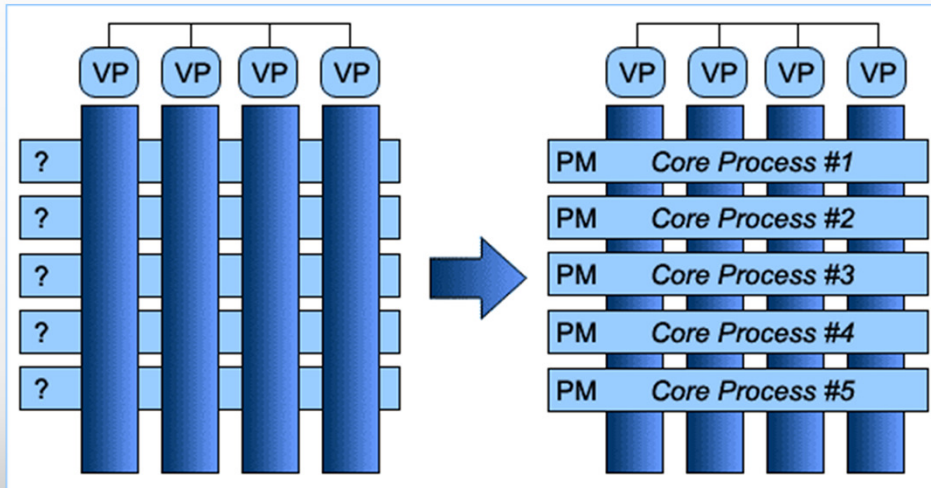
Are you getting what you paid for?

Build A Bridge

- Goals = Win-Win
- Two-Way Communication?
- Two Way Accountability?
- Open Dialogue?
- Level of Engagement?



Collaboration – Internally - Externally



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Which type organization is more likely to achieve overall system performance?
How would these two orgs be different?

Expectations

Communication

Budgeting

Performance

Reward systems

Suppliers relationship

Customers relationship

Selecting the Right Suppliers



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Discuss how your "Partner" could have a different business strategy.

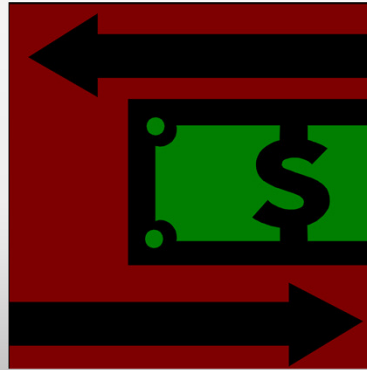
What if you are best product strategy and your supplier is lowest cost strategy?

- Discuss the potential conflicts?

The Business Relationship

- What do we need?

Strategic or Transactional?



Comparing Options

- Make/Buy
- Out-sourcing
- In-sourcing
- Off-Shoring
- Near-Shoring
- On-Shoring

Establish Level of Engagement



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- Collaboration - Sharing of data and ideas
- Partnership – Invite to join forces for common good
- Strategic Alliance – Able to pursue larger market

Supplier Core Competencies

- What are they REALLY good at and why?
- If cost is important, how are they competitive?
 - Good at eliminating waste?
 - Culture for driving regular improvement?
 - Proactive and strategic?
 - Or
 - Good at cheap?
 - Reactive and Band-Aid?

You want your suppliers to have core competencies in the things that are important to you.

Low price may be important – that means your supplier must be good at cost control and eliminating waste.

Field Warranty Performance?

Volume discounts on large batch runs?

Contract Manufacturing

Contract Manufacturing: The **outsourcing** of a requirement to **manufacture** a particular **product or component** to a third party company. Contract manufacturing **enables companies to reduce** the level of **investment in their own capabilities** to manufacture, **while retaining** a product produced to a high **quality**, at a reasonable price, and delivered to a flexible schedule.

- The Economist.com “Business Encyclopedia”

This is a key concept – the firm is narrowing its span of competencies, but gaining flexibility

Leveraging A Particular Supplier?

- Gain skills/abilities helping to secure new customers.
- Achieve quality at lower costs; increase competitiveness.
- Exploit core competencies.
- Spread business risk.
- Industry leadership must be global, not just domestic.
- Horizontal vs. vertical integration.

Assess



Basic Criteria

- How is the supplier on the FIVE generic performance Criteria?
 - Quality
 - Cost
 - Flexibility
 - Speed
 - Dependability
- Focus and Strengths?
- Commitment?
- Responsiveness?
- New Product Launch Support?
- Account Team Support?
- Technical Team Support?

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Considering what suppliers get on the “short list” and why.
Do they meet the basic criteria for Order Qualifiers in your view?

Evaluate



Scorecard, Rating, Improvement

- How will you measure the important things:
 - quality
 - speed
 - dependability
 - flexibility
 - cost.
- Matrix of measures
- Weighting factors to drive focus
- Calculate score for periodic rating
- Track for improvement

Scoring Matrix - Quality

Quality		1-100	
	Weight	Score	Factored
Product quality	0.2	80	16
Process quality control	0.1	75	7.5
Waste	0.2	60	12
1st Pass Yield	0.2	60	12
Rework	0.1	50	5
Scrap	0.05	50	2.5
Warranty failure rate	0.1	80	8
Schedule adherence	0.05	75	3.75
Sum	1		66.75

Scoring Matrix - Speed

Speed		1-100	
	Weight	Score	Factored
Order Acknowledge	0.2	95	19
Order Promise Commit	0.2	75	15
Order Fulfillment	0.2	95	19
Flex Response Time	0.1	80	8
LT for new orders	0.1	80	8
New Product Ramp Up	0.05	70	3.5
RMA processing	0.1	80	8
Eng Change Mgmt	0.05	65	3.25
Sum	1		83.75

Scoring Matrix - Dependability

Dependability	Weight	Score	Factored
		1-100	
On Time Delivery	0.2	80	16
Order Accuracy	0.2	95	19
Quantity Accuracy	0.2	97	19.4
Inventory Availability	0.1	90	9
Reporting	0.1	95	9.5
Technical Support	0.05	85	4.25
Risk Mitigation Plan	0.1	85	8.5
Schedule Changes Impl	0.05	80	4
Sum	1		89.65

Scoring Matrix – Flexibility

Flexibility	Weight	Score	Factored
Flex <30 day +/- 20%	0.3	95	28.5
Flex <60 day +/- 50%	0.2	90	18
Schedule change <15 days	0.2	50	10
Mix change <15 days	0.1	60	6
ECO management	0.05	95	4.75
E&O inventory < 2%	0.05	75	3.75
Capacity flex <30 days at large	0.1	85	8.5
Sum	1		79.5

Scoring Matrix – Cost

Cost		1-100	
	Weight	Score	Factored
Cost visibility	0.2	75	15
Cost reduction x% Qtr/Qtr	0.1	80	8
Cost variance w/l Qtr <.5%	0.1	85	8.5
E&O Inventory <X%	0.1	90	9
Cost Reduction from Process	0.1	80	8
Transportation Cost +/-	0.2	75	15
Inventory Carry Cost	0.1	80	8
Setup Cost	0.1	75	7.5
Sum	1		79

Scoring Matrix – Summary

	Curr Qtrr	Prev Qtrr	Change
Quality	66.75	65	1.75
Speed	83.75	85	-1.25
Dependability	89.65	90	-0.35
Flexibility	79.5	75	4.5
Cost	79	85	-6
Summary	79.73	80	-0.27

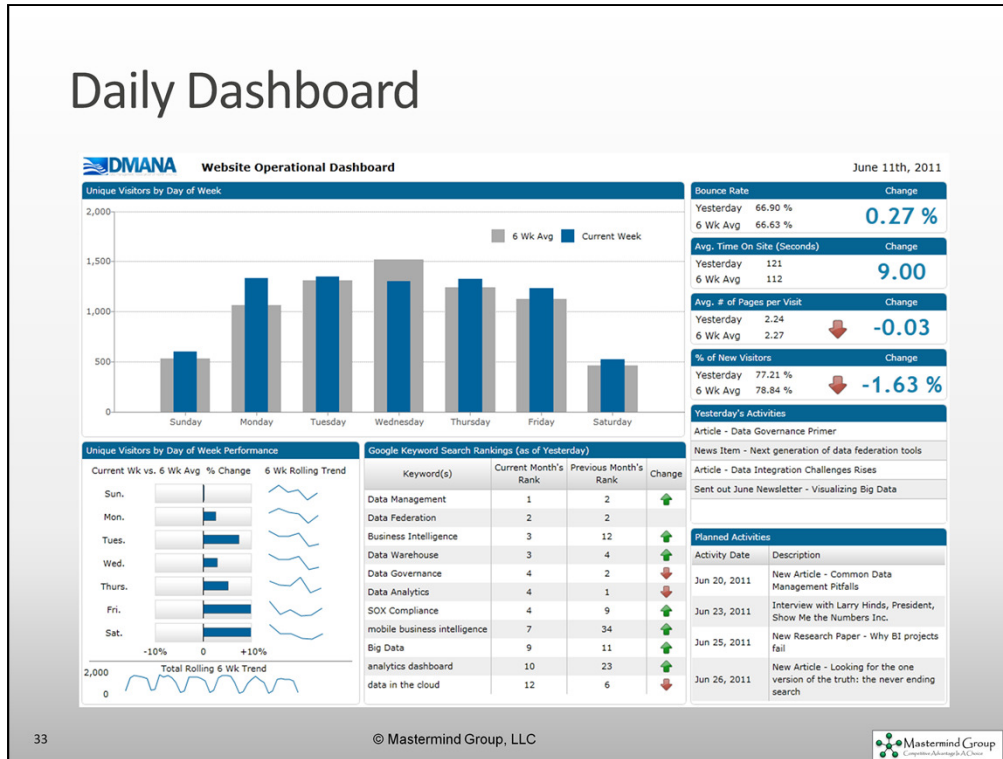
Monitor



Dashboard vs. Looking Back

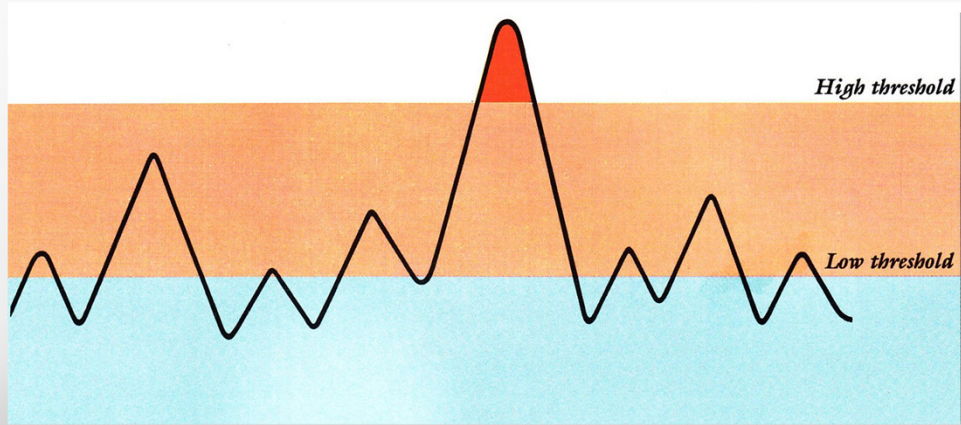
- Daily dashboard where possible.
- SLAs threshold triggers, No Surprises.
- Visual management.
- SMART Planning – Both Ways
 - **S**pecific
 - **M**easurable
 - **A**chievable
 - **R**ealistic
 - **T**imely
- Team Bonding/Networking = CSF, Critical Success Factor
- Parking Lot for future, maybe, and wishlist
- Meeting Schedule & Travel as required

Daily Dashboard

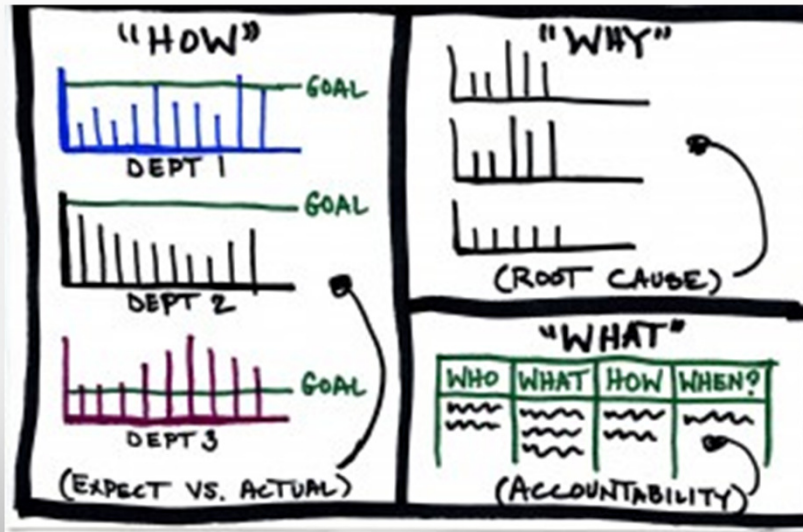


Need not be electronic - Can easily be whiteboard.

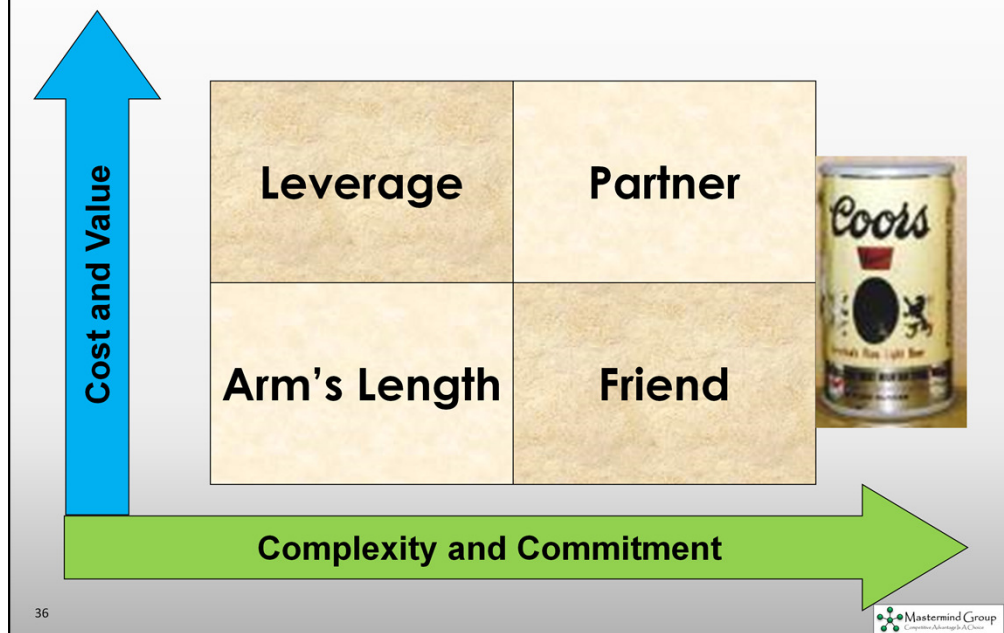
Threshold Triggers



Visual Management



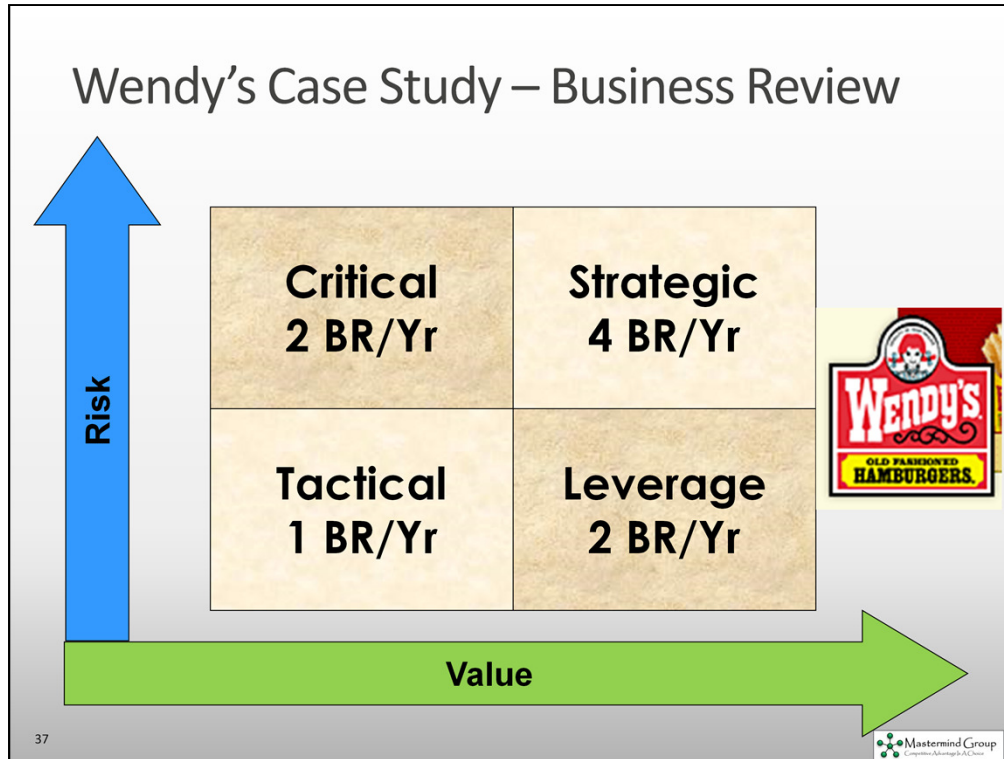
Coors Case Study – Suppliers Aligned?



Let's break down what's important and why?

Examples of each box

Dialogue on early years and how changed over time.



The Wendy's model for segmenting and managing their suppliers.

There are intense "Business Reviews" with varying frequencies depending on the supplier risk/value proposition.

Ask: What would be "Strategic" suppliers to Wendy's: Beef, Poultry, Cheese

Ask: What would be "Leverage" suppliers: French Fries, Packaging

Critical: Uniforms, Cleaners

Tactical: Condiments

Open up a discussion on the agenda/topics and participants in the Business Reviews. Drive home that this goes beyond Purchasing and that the Planner/Buyers, Master Scheduling, and Operations need to be involved.

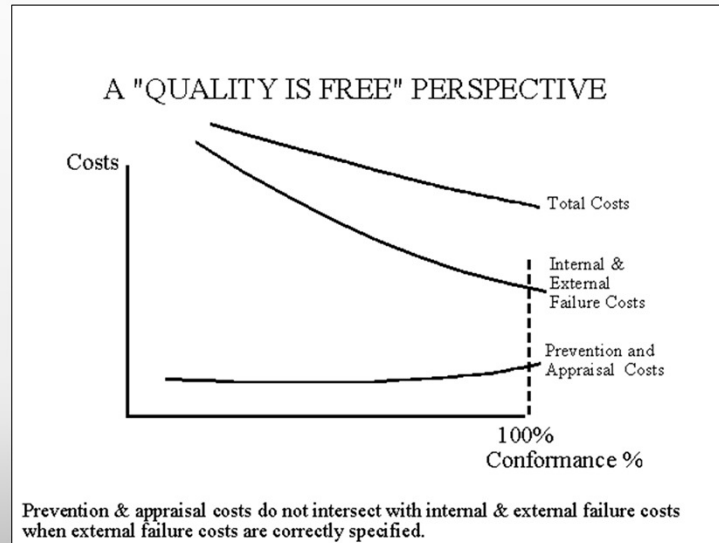
Action Plan

		Cup Cakes R US		Action Log			
Log Update: 1/17/2013							
Date of Meeting: January 11, 2013						Escalate	
Date - Next Mtg: January 25, 2013					V	Weak Plan	
						On Plan	
		Internal	External	Date	Priority	Target	Actual
Item #	Issue / Solution	Owner	Owner	Opened		Close Date	Date Closed
Generally							
1	PRD Released	Mickey	Jane	7/4/12	AAA	9/2/12	9/11/12
1	MRD Released	Tom	Sue	8/2/12	A	0/25/2012	10/23/2012
1	Proto BOM	Sam	Tim	10/5/12	A	1/24/13	
2	CM Tooling	Jim	Tom	12/14/12	A	2/5/13	
2	Qualification of Firmware	George	Andy	2/4/13	A	4/5/13	
2	Customer User Interface	Ellen	Karen	2/7/13	A	4/9/13	
2	Forecast	Barb	Kia	12/15/12	A	4/9/13	
2	Product Feature List	Art	Bill	12/15//12	A	4/9/13	
2	Capacity Plan	Phil	Sarah	1/4/13	A	2/15/13	
2	Long Lead Time Items, Risk Buys	Brandi	Mike	10/5/12	A	1/25/13	
3	User Documentation	Mary	Kim	1/22/12	B	4/10/13	

Monitor

COST MANAGEMENT

Cost of Quality



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How well do you and your supplier execute on continuous quality improvement, not just being as good as yesterday?

Trust but Verify - How do you verify?

Certify the supplier

Certify the part

Certify the process

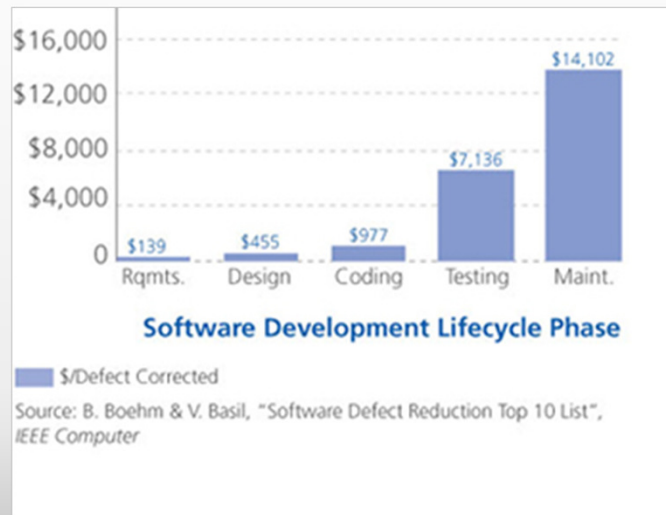
Regular Audits

Supplier on Auto-pilot?

Quality Starts Where?

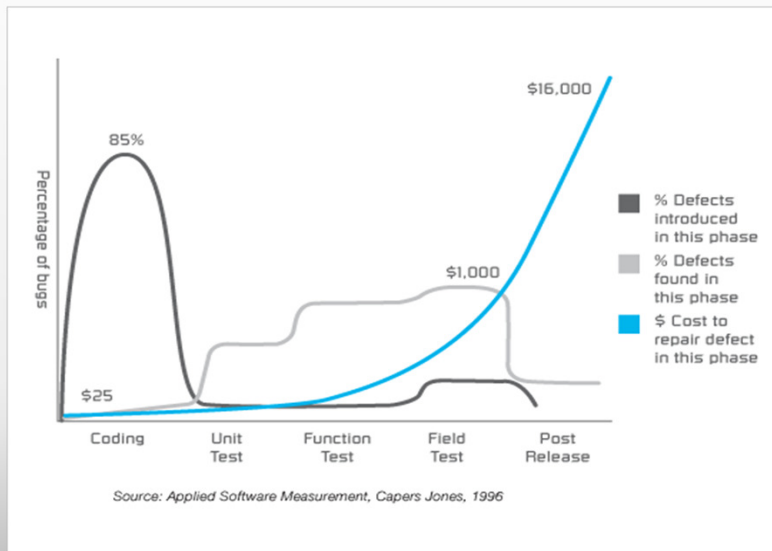
- Design
 - Modular – Ease of access, replacement?
 - Service – Fault detection obvious?
 - Customer interaction – desirable, enabled?
 - Manufacturability – the first time?

Cost of Defects - Software



According to IEEE - IT projects typically experience 60% + failure rate with 50% of total project cost from rework.

Cost of Defects



Cost of Quality Gaps

- Case Studies
- Shipments Stop?
- RIF?
- M&A or sold off?
- Cooperation - interdepartmental

Cost of Doing Business

- Brainstorm



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Competitive Advantage & A.C. Case

Examples:

Contracts

Transactions

ERP and Data Transfer

Risk Sharing

Cost Reduction Initiatives – Six Sigma, Lean

Quality Management Systems

Communication and technology

Other overhead costs?

Travel & Lodging, short term, triage, long term remedial, permanent

Multi time zones delay action

SCM costs of managing WIP and In Transit

Bonded Freight Locations

Transportation Mgmt & Freight Costs

Expediting and Schedule Change

Change Management

PDM, Product Data Management tools

Training

Relationship Management at a distance

New Product Launch Support and Technology Transfer

Product Testing and Validation

Supplier/Process Quality Management

- Clarity – Expectations, Documentation
- Performance Reporting Standards
- Periodic Reporting
- Process Management
- Trust – But Verify
- Quarterly Business Reviews
- Corrective Actions
- Resources to manage effectively?

Total Landed Product Cost

The sum of all costs associated with making and delivering products and services to the point where they produce revenue – your customer's door.

Or to the point of use, if you are looking to reduce waste through-out your value stream.

Total Landed Cost Includes...

- Unit price
- Avg fully loaded transportation costs
- Avg handling
- Duties, tariffs, and taxes
- Documentation and broker fees
- Financial transaction costs
- Inventory carrying costs
- Inventory obsolescence costs
- Rework and damage costs
- Expediting costs
- Customer service penalties

Total landed cost according to GT Nexus

Total Landed Cost Example

	Malaysia	USA
Quoted price per board	50.00	59.00
Export packaging	1.00	-
Ocean freight	2.20	-
Marine insurance	0.26	-
Supplier price	53.46	59.00
	(CIF Los Angeles)	FOB Origin
Port of entry handling	0.80	-
Customs duties	2.14	-
Customs brokerage fee	0.25	-
Inland ground transportation	1.25	0.80
Inventory	3.12	0.86
	(8 weeks)	(2 weeks)
Communications	0.16	-
Travel	0.63	0
Administrative	0.60	-
Additional cost	8.95	1.66
Total Landed Cost	62.41	60.66

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Walk through the total landed cost for a printed circuit board

What about loss of flexibility, longer response times, systems, airfreight!!!

What-if Something Changes

	Malaysia	USA	What-if
Quoted price per board	50.00	59.00	50.00
Export packaging	1.00	-	1.00
Ocean freight - 95%	2.09	-	2.61
Marine insurance - 95%	0.25	-	0.25
Air freight - 5%	1.11		1.39
Supplier price	54.45	59.00	55.25
	(CIF Los Angeles)	FOB Origin	(CIF Los Angeles)
Port of entry handling	0.80	-	0.80
Customs duties	2.14	-	2.14
Customs brokerage fee	0.25	-	0.25
Inland ground transportation	1.25	0.80	1.56
Inventory	3.12	0.86	3.12
	(8 weeks)	(2 weeks)	(8 weeks)
Communications	0.16	-	0.16
Travel	0.63	0	0.79
Administrative	0.60	-	0.60
Additional cost	8.95	1.66	9.42
Total Landed Cost	63.40	60.66	64.67
			Trans = 25%+

Value of Support

- Compliance with appropriate standards, suitability for use; safety to end user
- Product Development – Design
- Product Qualification, Agency approval
- Logistics and Freight management
- Packaging for Quality
- Product Support
- Sourcing & Supply Chain Positioning

Standard Process

- ISO is fine BUT...
- Most need more clarity – specifics
- Parallel, in background and continuous
- Escalation path pre-defined
- Response mechanism pre-defined
- Process visible and accessible
- Process Buy-In

	Benefits	Challenges
CUSTOMIZED CRITERIA	<ul style="list-style-type: none"> • Customizes supplier evaluations to meet organization's needs • Focuses on industry-specific standards • Addresses each supplier's respective development area 	<ul style="list-style-type: none"> • Requires extensive development time and capital commitment • Creates lack of uniformity across business units and results in supplier miscommunication
STANDARD CRITERIA	<ul style="list-style-type: none"> • Reduces need for preliminary qualifications and site visits • Provides an internationally recognized foundation for quality measurement 	<ul style="list-style-type: none"> • Costly process for suppliers • Does not guarantee continuous quality improvement • Quality standard too general for specific material

Source: Procurement Strategy Council Research (2003)

Risk Management



- 1. What level of partnership does your company maintain with your component suppliers who manufacture the specified strategic components?**
- 2. How has this partnership insured a non-interrupted supply of these components?**
- 3. What has been the most constrained item in the last 18 months? How has this affected your ability to deliver product on a timely basis? What was your back-up plan to insure product for your customer?**

Besides designing and managing a supply network, SCM as a core competency needs to be pro-active in balancing the risks and costs of potential disruptions.

The 3 points above are an example of what one company received from a potential customer.

McDowell Label has agreements with non-competitors in other parts of the US to support their customers in case of fire or other disaster to their facility.

Supply Chain Audits

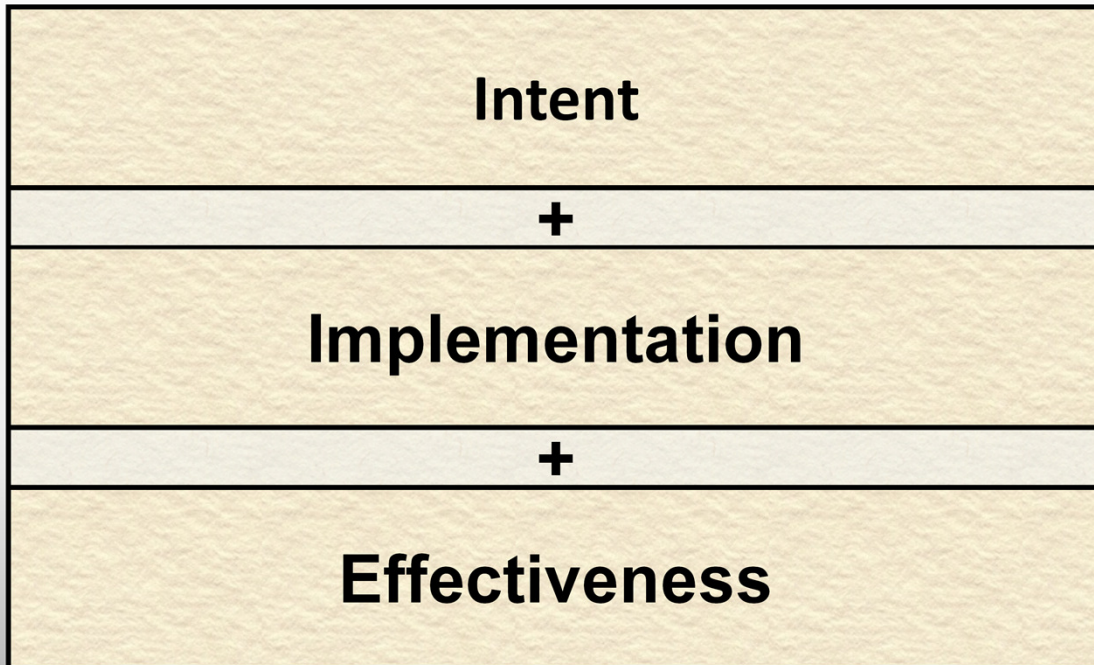
**How do
you know
you have
arrived?**



WI Manufacturing Extension Partnership

Areas	Criteria
Customer Focus Leadership Organization Partnering Information Culture Production Equipment Engineering Accounting	Traditional Pilot Deploying Support Systems Continuous Improvement

Three Point Approach



Intent

Documented evidence of expectations for objectives or business processes.

This evidence is generally in the form of policy statements and standard operating procedures.

Implementation

Verification that the documented evidence of the intent of objectives or processes has been implemented throughout the organization.

This verification is generally in the form of process audits, meeting audits, and analysis of current plans.

Effectiveness

Analysis of actual results in meeting business objectives and executing business processes.

This analysis is generally in the form of published performance, random audits, and discussions with employees.

Random audits of:

Inventory record accuracy

Customer orders

Maintenance schedules

Documentation submitted – carbon disclosure project

Balanced Scorecard



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Competitive Advantage & Success

Make sure your package of measurements is balanced.

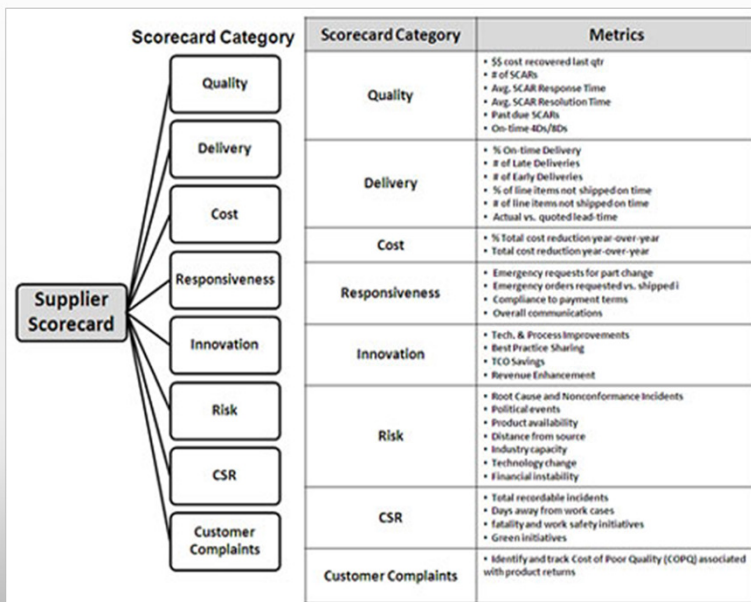
Discuss the "Balanced Scorecard" book.

Examples of Financial: Cash to cash, ROI, EBITDA, ROA, etc. Issue = tend to look backward.

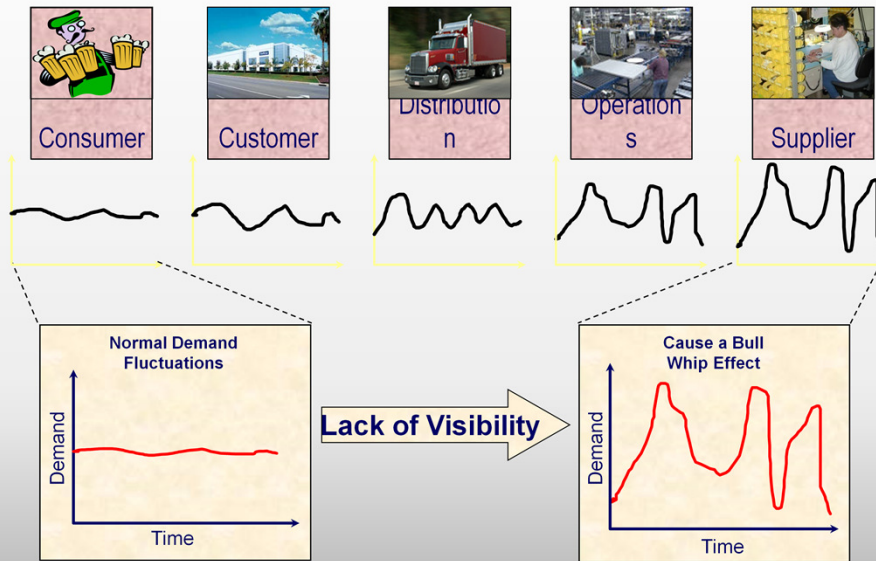
Customer: On time delivery, surveys, etc.

Processes: Cycle time, New Product Introductions, Lean concepts.

Innovation & Learning: Cross Training, Patents, etc.



The Bull Whip Effect – Risk?



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Ask who has heard of the bull whip effect.

This is the main reason we need to collaborate with our supply chain partners.
Reduce Risk!

SCM as Core Competency

Supply chain management is the management of a network of interconnected businesses involved in the ultimate provision of product and service packages required by end customers. It spans all movement and storage of raw materials, work-in-process, and finished goods from point of origin to point of consumption.

- Harland, 1996



Next step in supplier qualification is

Developing SCM as a core competency is the fourth element of crafting a lean supply chain.

Reward System?



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We don't need any Shaft awards

Summary of Today

- You we learned:
- Quarterly Business Review?
- Why be so formal?
- How to be effective?
- Collaboration is critical!
- Summarize the concepts



A Balanced Approach to Quarterly Review
Includes:

**A) Contract, Performance Clause, Reward Opportunity,
Service Level Agreement**

**B) Scorecard, Quality reporting, On-Time Performance,
Project Status**

C) All of these

D) Identify, Assess, Evaluate, Monitor

C

Measurements

Performance measurements should:

A) Clearly Defined and understood by all

B) All of these

C) Unambiguous

D) Stated in terms relevant to daily operation

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B

Measurements

Quarterly Business Review should;

A) All of these and more

B) Leverage skills from both supplier and customer

C) Reflect priorities laid out in strategic aligned plan

D) Clearly articulate plan, accountability & schedule

A

Measurements

End of Presentation



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Competitive Advantage. A.C. Choice.

Thank you for your participation.

Please check our website for future Webinars

Questions - References - Footnotes

- Transformance Advisors, www.transformanceadvisors.com
- APICS
- ISM



How to Reach Us



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