

# THE SEVEN STAGES TO WORLD CLASS MANUFACTURING

## OVERVIEW:

What does it mean to be a world-class competitor? It means being successful in your chosen market against any competition, regardless of size, country of origin or resources. It means matching or exceeding any competitor on quality, lead time, flexibility, cost/price, customer service and innovation. It means picking your battles, competing where and when you choose and on terms that you dictate. It means you are in control and your competitors struggle to emulate your success.

But how can a company become and remain world class? There are seven stages to becoming a world class manufacturer. These are specific actions that must addressed and accomplished by your company. We will briefly discuss each of these stages, with examples and their impact on manufacturing organizations.

## The seven stages:

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Reduce lead times

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Speed time to market

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Cut operation costs

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Exceed customer expectations

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Manage the global enterprise

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Streamline outsourcing processes

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Unlock the potential

## REDUCE LEAD TIMES

Shorter lead times are always a good thing. In many markets, the ability to deliver sooner will win business away from competitors with similar product features, quality and price. In other markets, quick delivery can justify a premium price and will certainly enhance customer satisfaction. In all cases, shorter lead times increase flexibility and agility, reduce the need for inventory buffers and lower obsolescence risk. Lead times are cumulative and bi-directional, that is, order handling, planning, procurement, inspection, manufacturing, handling, picking, packing and delivery, all contribute to the lead time; and the time it takes to get signals down the supply chain to initiate each activity adds to the overall time it takes to get the job done.

Inflexible business rules and policies can drive undesired effects, Purchasing rules too focused on unit cost lead to large quantity buys that result in high inventory and long lead times. Ironically, this type of buying can also lead to shortages, since longer lead times mean you will be making and buying to a less accurate forecast. The best combination of price and lead time often comes from a stable buyer-supplier collaborative relationship based on long term contracts with deliveries according to a forecast that is shared with the supplier and updated frequently. The same is true on the customer side. Instead of focusing on securing large, one-time, single orders that clog up the supply chain, companies must focus on creating long-term contracts with customers and sharing forecast information with customers to reduce lead times.

The same issues concerning large lot sizes also apply to internally produced parts and products. Large lots, driven by a focus on lowest unit cost, raise inventory and lengthen lead times while reducing flexibility and responsiveness, increasing eventual cost through premium expediting, instead of using large fixed lots, companies must dynamically adjust the lot size based on market demand, product mix and capacity. Ongoing continuous improvement efforts focused on reducing set up times can help companies reduce lot sizes, which provides flexibility in responding to market demand.

Appropriate measurements contribute to high performance on the plant floor. On-time shipment and inventory turns are good examples of high level measures that tie to company objectives. Focusing on isolated measurements like equipment utilization on non-constraining resources, encourages “busy work” that creates excess inventory and longer lead times. Shop floor measurements must encourage overall performance-shipping orders on time at minimal total cost and minimal total cycle times.

Performing manual transactions often slows down the supply chain and adds to lead time. Reporting transactions at each operation or creating a paper purchase order before suppliers work on a component, are just two examples. In addition, manual transaction reporting often introduces errors and impacts work productivity. Companies must eliminate non-value added transactions and automate transactions to speed up the supply chain. For example, supplier purchase orders can be electronically sent or completely eliminated using Supplier Relationship Management (SRM) solutions.

## CUT OPERATIONS COSTS

Although recent developments in planning and Customer Relationship Management (CRM), have focused more on top-line benefits-growing revenue-the bottom line is still greatly dependent on controlling costs. Companies with a lower operational cost structure enjoy an obvious advantage in profitability, and the ability to adjust pricing to meet competitive pressures, to maintain or gain market share.

Costs are really just part of the scoreboard. When a company implements world-class operational processes, it improves multiple measurements simultaneously, including cost, lead times, inventory and customer service. This approach is superior to a pure cost reduction focus without associated business process change, which can negatively impact other operational measurements. Localized cost reduction efforts, can often increase costs in other areas. Moving production overseas to an area with lower labor rates, for example, will increase costs for procurement, transportation, inventory and reduced flexibility, among others.

The relative cost of source/make/deliver, and therefore, the opportunities for cost reduction, will vary with the specific industry and the kind of products the manufacturer makes. Most manufactured products today have relatively little direct labor content, generally less than 20% and often less than 10%, whereas the material content of most products is more than one half the Cost of Goods Sold (COGS). The rest is "overhead". Since most direct labor costs tend to be fixed, effective deployment of these resources can reduce unplanned manufacturing overtime, premium expediting and outsourcing, as well as dramatically reduce cycle times. Since material cost is the dominant cost, significant opportunities for reduction lie in analyzing current spending and devising effective sourcing strategies for material. Overhead reduction is always a fertile area for cost reduction, using automation to streamline the procurement, manufacturing and customer management processes.

Additionally, fulfillment costs have not received as much attention as it deserves; inventory cost, transportation, admin costs, electronic communications, and storage account for a significant part of the cost of doing business. Fortunately, improving customer service can also generate cost benefits at the same time. Improve business performance visibility. Today's fast moving, ever changing manufacturing environment demands faster responsiveness to changes in the market, product innovation and supply chain events. In this environment, ignorance is one of the greatest threats to a

manufacturing company's health and success. Executives and senior managers must understand how the enterprise is meeting strategic objectives. Middle-level managers need visibility into how they are performing against tactical objectives. Responsible individuals must be notified immediately when supply chain issues threaten the completion of objectives, so actions can be taken to ensure customer delivery and quality requirements continue to be met.

A well-implemented and effective business solution delivers overall visibility into the health of the company and its operations and provides detailed information for performance measurement, process management and problem identification and remediation. Such a system can help improve revenue through competitive advantage, help you understand your business and therefore, manage it better, reduce operational costs, improve performance and improve results for all stakeholders, owners, executives, managers and employees.

## SPEED TIME TO MARKET

Developing and introducing new products and services is vital to most manufacturing companies.

Good ideas are not enough; well managed processes for bringing new products to market can lead to significant competitive advantages. Those activities, however, represent a significant risk that can lead either to missed opportunities or to huge financial losses.

In addition to new product development, the same processes and resources are applied to product improvements, corrections and variations throughout the product lifecycle. Based on market research, products are subject to frequent engineering changes due to customer requests, technological advances, regulatory concerns or competitive pressures.

Changes and improvements are easiest to make, and least costly and disruptive, earlier in the process. It is good business practice to collaborate with all operational areas of the business while the product and process are still being

designed. Cooperation should be focused on the following areas: making sure the new product meets market needs (marketing and sales), that it is priced to sell and generate a profit (marketing and accounting), that it can be manufactured efficiently (production, production engineering, quality, purchasing and key suppliers), and that the product can be maintained and serviced (service)

Because customer expectations are increasing and competition is coming from new players around the world, bringing better and less expensive products quickly to market is more crucial than ever.

Research and development is a key success factor in a manufacturer's survival and growth. Efficiency and responsiveness of R&D processes will impact the top line as well as the bottom line.

Customers are quick to compare and switch vendors. The internet empowers buyers by providing fingertip access to many more suppliers around the globe; they can even customize products over the internet without having to ask an engineer to quote their specific requirements. These capabilities change behaviors and expectations, and success in today's markets can only be achieved through innovation, agility and aggressive marketing.

## EXCEED CUSTOMER EXPECTATIONS

The ultimate goal in any business is pleasing your customers. The most successful companies don't just meet customer expectations, they exceed them and beat the competition by setting the bar at a level that makes it difficult, if not impossible, for others to surpass. Successful manufacturers manage the entire customer relationship, from prospect to post-sales service and support, involving the entire organization in a customer focus. Whether or not they have direct contact with customers, contributors must keep the customers needs in mind as they plan and carry out day to day operations.

Manufacturers must truly understand the customers goals and objectives. Your products and services must strive to support the customers vision. Communication is very important; neglect is the number one reason that customers terminate a relationship. The key is to give customers access to all appropriate information about your relationship and make it readily available whenever and wherever they might need it, the web is your ally in achieving this objective.

As most companies have painfully learned in recent years, customers often change their mind. To be fair, market conditions are such that product cycles and demand patterns are constantly changing. Agility is extremely important. A solid, collaborative partnership with customers will provide the most reliable advanced information and therefore the earliest warning of upcoming changes.

In short, the best strategy is to make the customer want to do business with you. Strive to be the preferred supplier

through competitive products, high quality, the right price and superior customer service.

Arguably, the most important aspect of customer service is on time performance. There are two sides to on time delivery: promising a realistic date; then delivering on that promise. You must take that promise seriously, meaning that it is not given lightly, all considerations and constraints are factored in before committing to a delivery date. Performance measurements are a must; if you don't know how you are performing, you cannot improve upon it. It is not unusual for companies to consistently have 98%-99% success in meeting agreed to ship dates.

Quality must be considered a given. Work with your customers and engineering as early as possible in the product development cycle to determine the required measurements. Measuring and improving all processes through the order and fulfillment cycles, with an eye toward continuous improvement, will allow you to achieve or even surpass expectations.

## STREAMLINE OUTSOURCING PROCESSES

Outsourcing of manufacturing operations is a common practice today because it offers flexibility, the ability to change products or processes rapidly, and can often save money by exploiting economies of scale or other favorable cost factors offered by the contractor. There are two approaches to outsourcing: a single process step or group of steps may be performed by an outside resource or the entire manufacturing process might be contracted to a third party. In either case, the manufacturer relieves demand on its own plants and can concentrate on its core competencies, which might not include volume manufacturing, while its partners provide the resources for producing products.

Depending upon your current resources and circumstances, outsourcing a part of the manufacturing process could save you from having to expand your manufacturing space (perhaps even having to add a new plant), searching for and hiring experienced resources, training the new hires and paying various expenses involved in ramping up a new production line or process. Capital assets can become a liability in a fast-changing marketplace. As customer demands and technologies change the nature and makeup of products, it can be an advantage to not be tied to a relatively inflexible physical plant.

For companies large and small, the goal is to become a world class organization and to be able to compete in today's global markets. For manufacturers, the fastest and easiest way to achieve this goal is through partnerships with companies that have attained superior capabilities in a particular phase of the process, like production. By partnering with world class contract manufacturers, you can reap the benefits almost immediately, this is, well managed processes, high quality, on time deliveries, and increase your performance and expectations. At the same time, you can focus your own resources on the things that you do best: product innovation, design, marketing, distribution, sales or manufacturing.

## MANAGE THE GLOBAL ENTERPRISE

The world in which we do business is shrinking, and virtually every enterprise is now involved in some form of international trade, whether marketing and selling to customers in other countries, or simply using parts or materials that are produced elsewhere. We can thank the internet, or blame the internet if you prefer, for opening markets to product and services almost without regard to time and distance.

The "glass is half full" crowd will view these developments as the onset of unlimited opportunity.

If you lean toward the "half empty glass" crowd, you are likely to see significant threats in virtually unlimited competition from literally any place on earth.

Like it or not, every executive must recognize this new reality and factor global business into plans, processes and strategies. Design products to appeal to international markets. Search for suppliers in other geographies. Understand local regulations and expectations, import/export processes and requirements. Consider language challenges in labeling, documentation and marketing. Establish new sales channels or coordinate manufacturing operations across geographies and time zones. The internet is a key tool for joining the global business community and conducting business around the globe.

Globalization and web commerce have changed traditional business behaviors and practices. If manufacturers don't expand into new geographic markets, their market share is likely to shrink as new competitors will enter their territory and target their historical customers. Companies must adapt their products and services to those new potential customers. They must use collaborative technology in order to respond to customer's requirements better and faster.

Manufacturers often grow and enter new markets by acquiring or merging with other companies. This usually means, however that different facilities within the newly merged enterprise are using several applications on different hardware platforms, applying different part numbers for the same items and using different operating procedures. The challenge is to bring as much uniformity to the varied facilities as practical without destroying the uniqueness and competitive edge that the individual units had before the merger. The new divisions need to communicate, exchange many kinds of data (product information, customers, suppliers, employees, etc), coordinate and synchronize logistics operations, provide visibility to materials and components requirements, optimize fixed assets utilization across multiple facilities, consolidate financials and much more.

A natural consequence of having operations scattered through multiple locations, whether around the world or in a specific region, is the need to gain visibility across all sites. Visibility can lead to more negotiating power for purchased parts, more efficient centralized credit and collections and accounts payable, and opportunities for improved customer service by gaining access to world wide inventories and production capabilities.

## UNLOCKING THE POTENTIAL

The stages to becoming a world class manufacturer are not a secret, they are not even especially profound, they are simply a distillation of the experience of leading companies and how they have managed to excel in their chosen markets. Any company can take advantage of the wisdom and the practice developed in more than 100 years of manufacturing since the industrial revolution, but many simply do not have the insight or the will to recognize what must be done and to accomplish it.

It is a poor workman who blames his tools for shoddy work, but it is also true that professionals understand the value of good tools and insist on having and using the best whenever possible. When selecting a production machine, a machine center, insertion machine, automated assembly line or robot, you would certainly look for one that can handle the tasks you have in mind, but also one that is flexible enough to adapt to additional products and uses that may arise in the future. This practice is even more important with a business solution because the handling and use of information is changing faster than any other technology on the planet. And, remember that information management is a fundamental support for each and every one of the stages to world class performance

The stages to world class manufacturing dictate a requirement to deploy capabilities to improve manufacturing operations and processes. Subsequently, technology-based solutions must then be built around the functional processes of design, sell, plan, source, make, deliver, service and finance. Being world-class is all about being as good as any competitor in the world, and just a little bit better, quicker, smarter, or more responsive than the rest. World-class manufacturers can choose their battles and compete on their own terms. They are in control of their own destiny and are seldom, if ever blindsided by something they haven't anticipated or cannot handle.