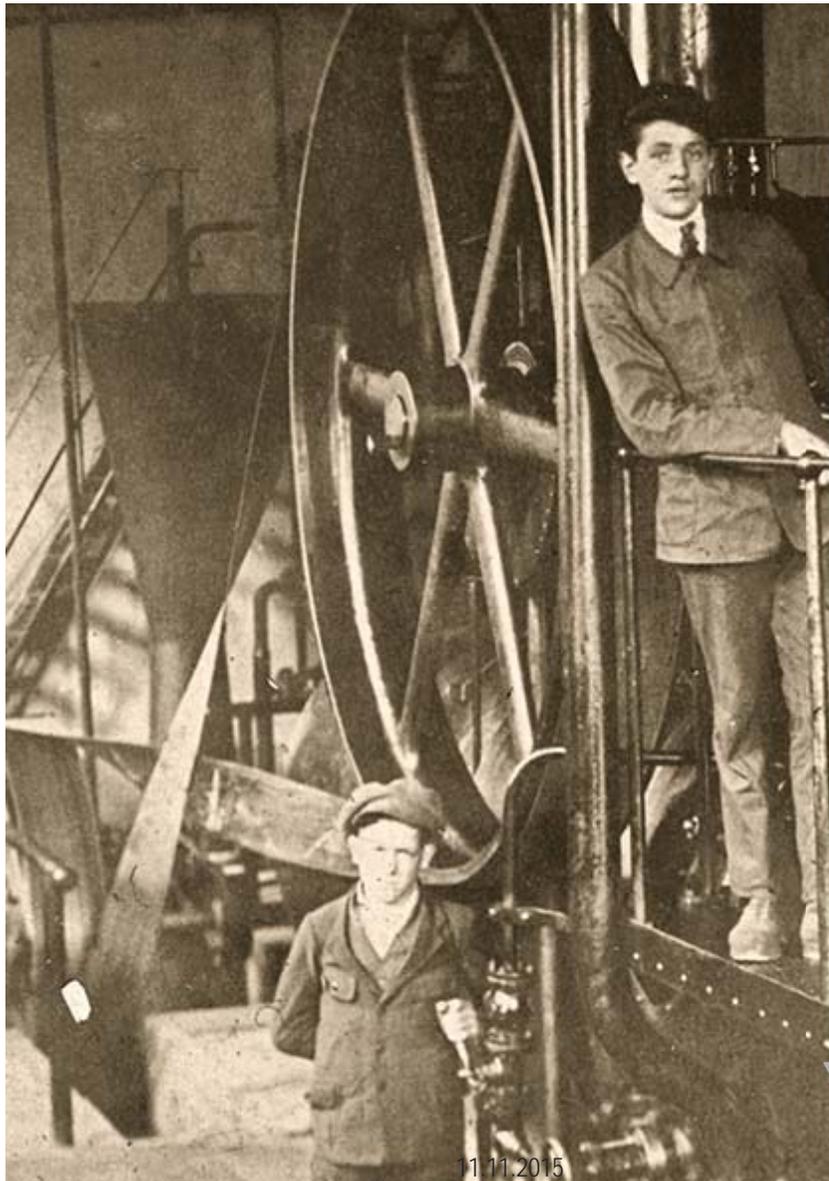# Shift from "Approved Vendor" to Strong Supply Chain Partner

Presented by Randall D'Amico
November 10, 2015

# Our heritage: 149 years of business success



| | | |
|---|---|---|
| **1866** | ● | Establishment of a Mannheim-based steam boiler inspection association by 22 operators and owners of steam boilers, with the objective of protecting man, the environment and property against technology-related risks |
| **1906** | ● | First vehicle periodic technical inspection (PTI) |
| **1926** | ● | Introduction of the "TÜV mark / stamp" in Germany |
| **1958** | ● | Development of a Bavaria-wide network of vehicle inspection centres in the late 1950s |
| **1990s** | ● | Conglomeration of TÜVs from the southern part of Germany to form TÜV SÜD and the expansion of business operations into Asia |
| **2006** | ● | Expansion of services in ASEAN by acquiring Singapore-based PSB Group |
| **2009** | ● | Launch of Turkey-wide vehicle inspection by TÜVTURK |
| **Today** | ● | TÜV SÜD continues to pursue a strategy of internationalisation and growth |

# TÜV SÜD in numbers: Growing from strength to strength

| | |
|---|---|
| **1** | One-stop technical solution provider |
| **150** | years of experience |
| **800** | locations worldwide |
| **2,060** | million Euro in sales revenue 2014 |
| **22,000** | employees worldwide |

Note: Figures have been rounded off.

# Global expertise. Local experience.



Global Headquarters
Munich, Germany

**Legend:**

■ Countries with TÜV SÜD offices

● Regional headquarters

Note: Figures have been rounded off.

| GERMANY | INTERNATIONAL |
|---------|---------------|
| Euro 1,240 mio 11,400 staff | Euro 820 mio 10,600 staff |

# TÜV SÜD America Inc.

- TÜV SÜD America Inc., founded in 1987, is the North American subsidiary of TÜV SÜD AG.

- TÜV SÜD America Inc. provides complete services through its divisions:
  - Management Service
  - Product Service
  - Industry Service
  - Chemical, Oil & Gas
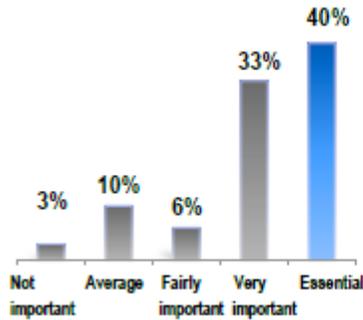  - Global Risk Consultants (GRC)
  - RCI Consultants

# THE NUMBERS BEHIND ACCREDITED CERTIFICATION USAGE AND VALUE

**TÜV SÜD America**
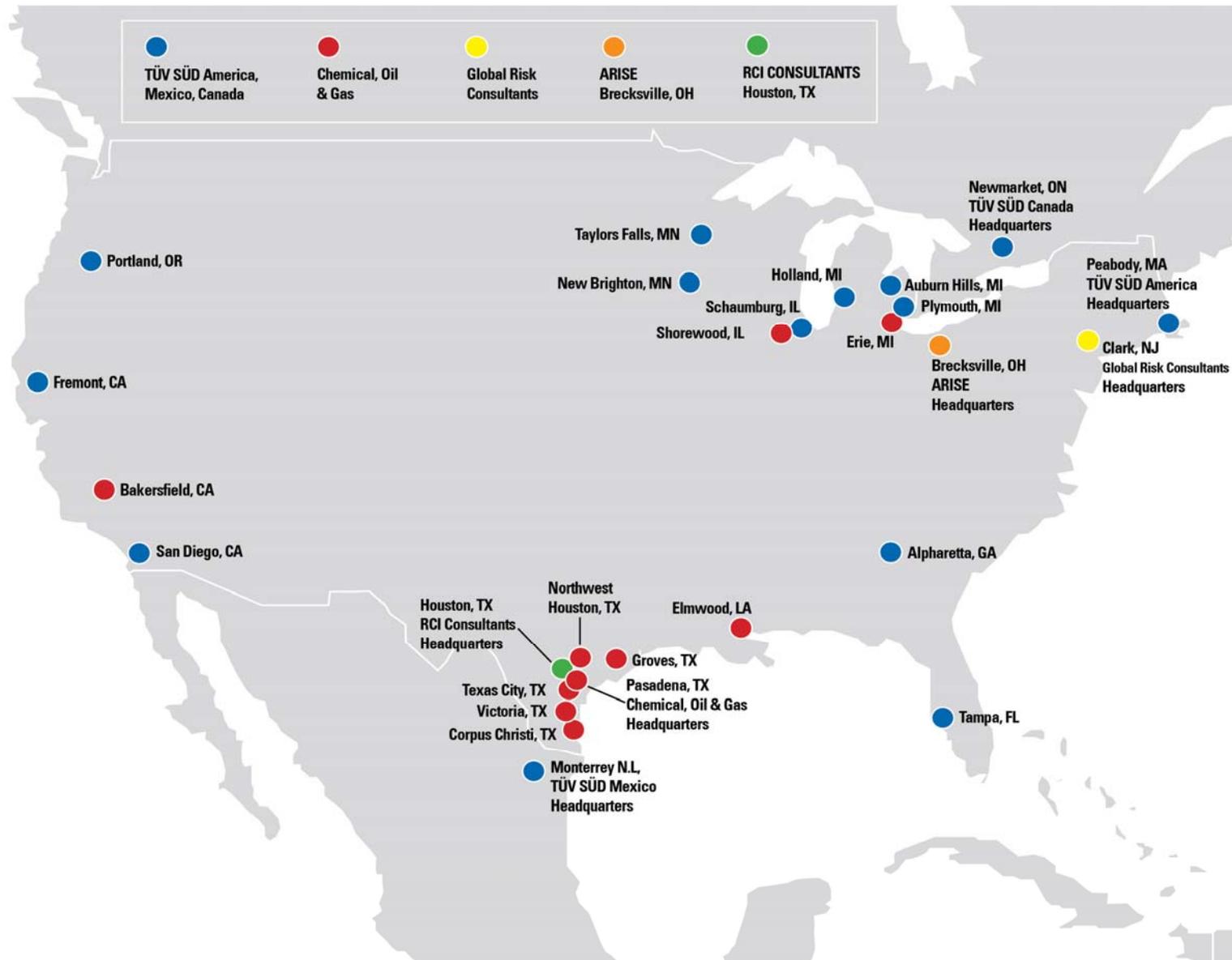
## TIMING

71% found process met expectations with only 7% precieving the process too long.

**71%**

## ACCREDITATION

Nearly every business considers it highly importa that their certification is covered by accreditation.

Chart values: Not important 3%, Average 10%, Fairly important 6%, Very important 33%, Essential 40%
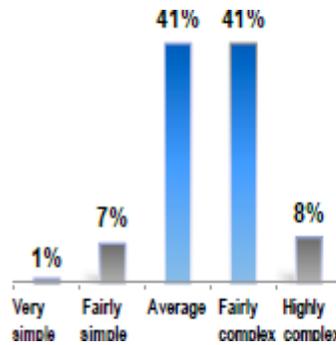
## COMPLEXITY

Nearly an even split between an average or complex process.

Chart values: Very simple 1%, Fairly simple 7%, Average 41%, Fairly complex 41%, Highly complex 8%
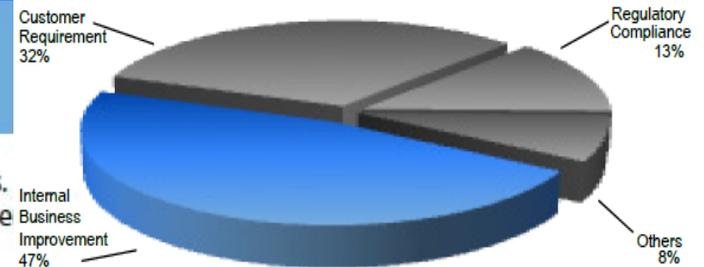
## VALUE

62% of responders agree or strongly agree the certification process provided value for the money.

**62%**

## DRIVER FOR SEEKING CERTIFICATION
### Internal and external desire to improve quality

47% of respondents stated the primary driver was to improve internal business operations and processes. 32% reported their customers required it, while 13% stated it was to satisfy regulatory requirements. Othe reasons cited included using it as a marketing tool or to achieve a competitive advantage.

Pie chart:
- Customer Requirement 32%
- Regulatory Compliance 13%
- Internal Business Improvement 47%
- Others 8%

## BENEFITS OF CERTIFICATION — Sales up, regulatory requirements met, and customers pleased

### VALUE
84% agreed or strongly agreed the certification process added value to their organization.

**84%**

### SALES
51% confirmed increase in sales as a result of certification.

**51%**

### REQUIREMENTS
80% stated achieving certification helped meet regulatory requirements. In addition, 35% agreed and 46% strongly agreed this is important to their customers.

**80%**

### CUSTOMERS
81% indicated that certification is important to their customers.

**81%**

# Accredited Registration Programs (Standards)



**Quality**

- ISO 9001
- ISO / TS 16949
- TL 9000
- AS9100
- AS9120
- ESD 20.20
- ISO 20000

**Environmental**

- ISO 14001
- ISO 50001
- QC 080000
- Responsible Recycling (R2)

**Social compliance**

- SA8000/26001

**Other Systems**

- R&TTE Directive Annex V (FQA)
- PQC
- Supplier Audits
- Risk Management

**Safety / Security**

- OHSAS 18001
- BS 8800
- ISO 27001

**Food**

- ISO 22000
- FSSC 22000
- SQF 1000 & 2000

TUV SUD has issued over 43,000 Certificates

# Agenda

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|---|---|
| **1** | Benefits of partnering with supplier |
| **2** | How ISO integrates and encourages supplier control/partnering |
| **3** | Outsourcing-A true partnership |
| **4** | Building Effective Supplier Partnerships |
| **5** | Conclusion |

# Benefits of Partnering with Suppliers

## What are suppliers?

- Suppliers are companies and/or individuals that provide resources needed to produce goods and services

## What is a partnership?

- A long-term commitment between organizations for the purpose of achieving specific business goals and objectives by maximizing each other's resources.

## Why should we partner?

- Improved quality
- Increased efficiency
- Lower cost
- Increased opportunity for innovation
- Continuous improvement of products and services

# Benefits of Partnering with Suppliers

- Normally, an organization spends the most money on the purchase of raw materials, components and services (after labor).  Therefore, supplier quality can greatly affect the overall cost of a product or service.  One of the keys to obtaining high-quality products and services is for the customer to work with suppliers in a partnering atmosphere to achieve the same quality level as attained within the organization.
- Organizations and suppliers have the same goal- satisfying the end user. The better the supplier meets the needs of its customer (the organization) the better its own position becomes.
- They must work together as partners to maximize their returns on investment.

- Deming's Rule #4

> Customers must stop awarding business based on the low bidder because prices have no basis without quality. He advocated single suppliers for each item to help develop a long-term relationship of loyalty and trust. Joint efforts improve quality, reduces costs, and increase market share for both parties.

- Successful supplier partnerships require commitment and continual nurturing. Both must remember they are in it together.

# Benefits of Partnering with Suppliers

- A true supplier partnership is the discipline of strategically planning for, and managing, all interactions with anyone that supplies goods and/or services to the organization.
- A true supplier partnership means creating closer, more collaborative relationships with key suppliers* in order to uncover and realize new value, and reduce risk.**

* The organization needs to identify "key" suppliers, either by a money spent, impact on final product etc.  Plan is not to partner with all suppliers, only those that matter most.

** Risk assessment key part of 2015 standard

# Benefits of Partnering with Suppliers

**Dr. Kaoru Ishikawa's 10 principles to ensure quality products and services and eliminate unsatisfactory conditions between the customer and the supplier:**

- Both are fully responsible for the control of quality.
- Both should be independent of each other and respect each other's independence.
- The customer is responsible for providing the supplier with clear, sufficient requirements so that supplier knows precisely what to produce.
- Both should enter into a non adversarial contract with respect to quality, quantity, price, delivery method, and terms payments.
- The supplier is responsible for providing the quality that will satisfy the customer and submitting necessary data upon customer's request.

# Benefits of Partnering with Suppliers

**Dr. Kaoru Ishikawa's 10 principles to ensure quality products and services and eliminate unsatisfactory conditions between the customer and the supplier (cont'd):**

- Both should decide the method to evaluate the quality of the product or service to the satisfaction of both parties.
- Both should establish in the contract the method by which they can reach an amicable settlement of any disputes that may arise.
- Both should continually exchange information, sometimes using multifunctional teams, in order to improve the product or service quality.
- Both should perform business activities such as procurement, production, and inventory planning, clerical work, and systems so that an amicable and satisfactory relationship is maintained.
- When dealing with business transactions, both should always have the best interest of the end user in mind.

# Benefits of Partnering with Suppliers

- Too many times the supplier refuses to share information with the customer.
- How to measure quality, and what constitutes acceptable levels of quality should be agreed upon by both parties.
- Problems should be worked on together.
- Clear lines of communication need to be established so information is shared real time and not after it's too late.

# Benefits of Partnering with Suppliers

- There have been many events that have changed supplier relations.
- Prior to the 1980s, procurement decisions were typically based on price, thereby awarding contracts to lowest bidder.
- As a result, quality and timely delivery were sacrificed.
- Deming's fourth point addressed this problem. It stated that customers must stop awarding business based on the low bidder because low price is meaningless without quality.
- In addition, he advocated single suppliers for key items to help develop a long-term relationship of loyalty and trust.

- Another change in supplier relations is the just-in-time (JIT) concept.
- Raw materials and/or components must reach the production operation in small quantities right when they are needed.
- The organization benefits as inventory costs are kept low.
- The supplier must  reduce setup and lead time or its cost will increase and the manufacturer will be idled.
- The quality of incoming material must be very good or the production line will be shut down.
- The supplier must become a nimble operation.
- This creates a symbiotic relationship and requires both to trust and help one another.

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# How the ISO standards integrate and encourage supplier partnering

- The series of ISO standards require you to approve, monitor and reapprove as necessary suppliers who you rely on to provide your organization with key components or services.
- By correctly using the requirements of the standard an organization can implement a partner relationship with key suppliers.
- For ISO 9001, a partnership can lead to better quality.
- For ISO 14001, a partnership can lead to better environmental stewardship.

# How the ISO standards integrate and encourage supplier partnering

- The driving force behind the ISO series of standards is continuous improvement.
- Continuous improvement has caused many suppliers to develop partnerships with their customers.
- TS 16949 requires first tier and tiers subsequent to the OEMs to build supply chain development through three key factors: zero defects, 100% on-time delivery, and a process for continuous improvement.

- ## ISO9001:2008
  - The organization shall ensure that purchased product conforms to specified purchase requirements. The type and extent of control applied to the supplier and the purchased product shall be dependant upon the effect of the purchased product on subsequent product realization or the final product.
  - The organization shall evaluate and select suppliers based on their ability to supply product in accordance with the organizations requirements. Criteria for selection, evaluation and reevaluation shall be established.
  - Purchasing information shall describe the product to be purchased, including, where appropriate;
    - a) requirements for approval of product, processes and equipment
    - b) requirements for qualification of personnel
    - c) quality management system requirements.
  - The organization shall ensure the adequacy of specified purchase requirements prior to their communication to the supplier.

- ## ISO9001:2015

### 8.4 Control of externally provided processes, products and services

#### 8.4.1 General

The organization shall ensure that externally provided processes, products and services conform to requirements.

The organization shall determine the controls to be applied to externally provided processes, products and services when:

a) products and services from external providers are intended for incorporation into the organization's own products and services;

b) products and services are provided directly to the customer(s) by external providers on behalf of the organization;

c) a process, or part of a process, is provided by an external provider as a result of a decision by the organization.

The organization shall determine and apply criteria for the evaluation, selection, monitoring of performance, and re-evaluation of external providers, based on their ability to provide processes or products and services in accordance with requirements. The organization shall retain documented information of these activities and any necessary actions arising from the evaluations.

- ## ISO9001:2015

### 8.4.2 Type and extent of control

The organization shall ensure that externally provided processes, products and services do not adversely affect the organization's ability to consistently deliver conforming products and services to its customers.

The organization shall:

a) ensure that externally provided processes remain within the control of its quality management system;

b) define both the controls that it intends to apply to an external provider and those it intends to apply to the resulting output;

c) take into consideration:

1) the potential impact of the externally provided processes, products and services on the organization's ability to consistently meet customer and applicable statutory and regulatory requirements;

2) the effectiveness of the controls applied by the external provider;

d) determine the verification, or other activities, necessary to ensure that the externally provided processes, products and services meet requirements.

- ## ISO9001:2015

### 8.4.3 Information for external providers

The organization shall ensure the adequacy of requirements prior to their communication to the external provider.

The organization shall communicate to external providers its requirements for:

a)  the processes, products and services to be provided;

ISO 9001:2015(E)

b)  the approval of:

    1)  products and services;

    2)  methods, processes and equipment;

    3)  the release of products and services;

c)  competence, including any required qualification of persons;

d)  the external providers' interactions with the organization;

e)  control and monitoring of the external providers' performance to be applied by the organization;

f)  verification or validation activities that the organization, or its customer, intends to perform at the external providers' premises.

# How the ISO standards integrate and encourage supplier partnering

- **ISO 14001:2004** - Establishing, implementing and maintaining procedures related to the identified significant environmental aspects of goods and services used by the organization and communicating applicable procedures and requirements to suppliers, including contractors.

# How the ISO standards integrate and encourage supplier partnering

- ## ISO 14001:2015 - The organization shall that outsourced processes are controlled or influenced. The type and extent of control or influence to be applied to the process shall be defined within the EMS  Consistent with a lifecycle perspective, the organization shall:
  - a) establish controls, as appropriate, to ensure that its environmental requirements are addressed in the design and development process for the product or service, considering each life cycle stage
  - b) determine its environmental requirements for the procurement of products and services, as appropriate
  - c) communicate its relevant environmental requirements to external providers, including contractors
  - d) consider the need to provide information about potential significant environmental impacts associated with the transportation or delivery, use, end of life treatment and final disposal of its products and services

# How the ISO standards integrate and encourage supplier partnering

- ISO9001 requires the organization to establish criteria for the acceptance of a supplier.
- Criteria should include communication on quality issues.
- Most companies evaluate a suppliers performance annually and send a report card or status update.
- Fine for suppliers of commodity items.
- For crucial raw materials or "mill stoppers", partnership should be developed.
- 2015 requirement for risk analysis can be used to determine if a partnership should be pursued and how deep that partnership should go.

- Evaluation of suppliers key component of the partnership.
- Most often, there is a breakdown between the measuring arm of the company and the procurement department.
- Many times, quality issues or delivery miscues are not reported.
- By establishing a partnership with key providers, the information flows both ways, and bonds are strengthened.
- ISO 9001 provides the latticework to build the system that will benefit both parties.

- ISO 14001 requires organizations to select suppliers with clean environmental records when possible.
- By forming partnerships with key suppliers, the organization can have greater influence in their operations.
- By helping suppliers achieve and maintain a better environmental footprint, the organization can help itself achieve its ultimate goal, a greener presence.
- Environmental monitoring of suppliers should include any notices of violation they receive so the organization can help them steer in the right direction.

- Defining "KEY" suppliers.
- Can be done multiple ways, total sales, importance of product or service supply.
- Key supplier can also be a service.
- Important not to overextend –can go broke partnering with too many suppliers.
- Can break down approved supplier list into 3 categories, Key Suppliers, Critical Suppliers and everyone else.

# How the ISO standards integrate and encourage supplier partnering

- Key Suppliers- top 5% of expenditures, key/majority ingredient in product or service
  - Worth partnering-as you go, they go
  - Could be sole source or customer directed
  - Have major influence
- Critical Supplier- products or services that have a direct relationship to the product or service offered
  - Component parts, OEM machine parts
  - Multiple sources
  - Have influence
- Supplier- provider of catalogue items
  - No influence, Staples etc.

Wrap up
- Use the ISO standard to drive your supplier control program;
  - Should be more than a report card mailed at years end
  - Focus on quality not price.
- Make it collaborative, not one way;
  - Data should flow both ways
  - Real time problem solving.
- Divide supplier list so focus can be on the suppliers that deserve it.

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# Outsourcing

- Outsourced Products or Processes are any product or process that are sent to an outside agency to be completed.
  - Can be for capacity reasons or a special process that the organization doesn't have in house.
  - Can also be a commodity type item that the organization can purchase cheaper from another supplier.
- True partnership as most often, the end user is unaware of the outsourced process.
- In some cases, the product is privately labeled and shipped right to the customer without the organization ever touching it.

# Outsourcing

- ISO9001:2015 strengthens the requirements for control of outsourced products

a)  the potential impact of the externally provided processes, products and services on the organization's ability to consistently meet customer and applicable statutory and regulatory requirements;

b)  the perceived effectiveness of the controls applied by the external provider.

The organization shall establish and implement verification or other activities necessary to ensure the externally provided processes, products and services do not adversely affect the organisation's ability to consistently deliver conforming products and services to its customers.

Processes or functions of the organization which have been outsourced to an external provider remain within the scope of the organization's quality management system; accordingly, the organization shall consider a) and b) above and define both the controls it intends to apply to the external provider and those it intends to apply to the resulting process output.

# Outsourcing

## 8.4.3    Information for external providers

The organization shall communicate to external providers applicable requirements for the following:

a)  the products and services to be provided or the processes to be performed on behalf of the organization;

b)  approval or release of products and services, methods, processes or equipment;

c)  competence of personnel, including necessary qualification;

d)  their interactions with the organization's quality management system;

e)  the control and monitoring of the external provider's performance to be applied by the organization;

f)  verification activities that the organization, or its customer, intends to perform at the external provider's premises.

The organization shall ensure the adequacy of specified requirements prior to their communication to the external provider.

# Outsourcing

- The organization must ensure the same systems and controls used on its own processes are applied to the outsourced processes.
- A risk analysis will tell the organization the level of controls it needs to apply.
- A thorough application of the supplier approval process, coupled with the risk analysis on level of control, and the reevaluation of the supplier will ensure there isn't an impact to the organizations ability to deliver consistent quality products.

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# Building effective supplier partnerships

- Organization and Supplier personnel should meet with other people besides those in the purchasing office.
  - It is important to meet with personnel who actually make the product.
  - Supplier audits are a good way to get a deeper understanding of the suppliers systems.
- The price-only approach to negotiations should be eliminated.
  - Product quality, and delivery concerns should also be part of the negotiations.
  - The goal of the negotiations should be to achieve the optimum deal when price, feature, quality, and delivery issues are all factored in.
- Strive toward a dock to stock program
  - The quality of supplied product should be driven by the supplier's quality system.
  - The organization should have no need to inspect the supplier's products.
- Both sides should be capable of sharing information electronically
  - Electronic data exchange is particularly important for a successful Just in Time (JIT) program.
- The supplier should fully understand and be able to practice just-in time (JIT).
  - No need to maintain inventories.

# Building effective supplier partnerships

- Timeliness
  - The suppliers should ensured that they deliver the required inputs on time, while in return, the organization should pay for the supplied inputs on time, saving time and creating a good relationship.
- Information
  - The organization is responsible for providing the supplier with clear information on requirements
  - Both the customer and the supplier should continually exchange information, sometimes using multifunctional teams, in order to improve the product and service quality.
  - While the purchasing team should remain in the loop, once the supplier is added the majority of the contact should be between the production and quality members on each side

# Building effective supplier partnerships

- Product evaluation
  - Both the organization and the supplier should decide the method used to evaluate the quality of the products or services.
  - By allowing the supplier in on the discussion, and understanding their capabilities, the organization will enhance their relationship .

- Monitor and share customer complaints
  - When dealing with business transactions, both the organization and the supplier should always have the best interest of the end user in mind.
  - Having a complaints system in place will help identify trends relating to products.
  - Resolve any issues involving the supplier with the suppliers input.  Issuing a SCAR and waiting for a response will not foster a good relationship.

# Building effective supplier partnerships

- ## Ensure necessary tests are done
  - Many products need testing to ensure they are free of defects and consistently meet any statutory or regulatory standards that apply.
  - You must be able to support this with evidence. Having an effective QA/compliance program helps you to gather this evidence.

- ## Provide dependable products
  - In a supplier partnership it's the role of the supplier to ensure the quality and reliability of the products they supply. The supplier must be reliable at all times.

- ## Anticipate changing needs and acting on them
  - The organization should be aware of changing needs of the end user and adjust accordingly.
  - The supplier should adjust according to the needs of the organization.
  - A solid relationship and two way communication will allow for quick reactions to market forces.

# Building effective supplier partnerships

- Commitment
  - A long-term commitment to the partnership provides the necessary environment for both parties to work towards continuous improvement
  - Each party contributes its unique strengths to the process
- Communication
  - Any issues should be communicated to the supplier on time.
  - This will ensure there are no delays which could lead to continued production of off quality.
  - Suppliers that do not maintain a policy of open communication- or even worse, actively practice deception- should be avoided at all costs.
- Plan ahead for recalls
  - It is in everybody's best interests to act quickly and surely to return products as soon as they have been found.
  - A well understood return policy will add to customer satisfaction

# Building effective supplier partnerships

- Relationships between an organization and its suppliers have been defined by the low-bid process.
- Rather than working together, buyers use their leverage to force suppliers to absorb costs to win the low bid, resulting in lower quality or introducing price increases later, causing the buyers to look for another low cost supplier, introducing variation into their own processes.
- Suppliers look for ways to minimize their losses by barely meeting the buyer's specifications. Processes are set to meet the low end of the specification.
- The goal is to create and maintain a loyal, trusting, reliable relationship while promoting the continuous improvement of quality, productivity, and competitiveness.

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# Conclusion

Identify and select suppliers to manage costs, optimize resources and create value

Establish relationships considering both the short and long term

Share expertise, resources, information and plans with partners

Collaborate on improvement and development activities

Recognize supplier successes

# Conclusion

## Timeliness

- Both an organization and it supplier should execute their respective responsibilities in a timely manner. Suppliers should deliver the required inputs on time, and the organization should process timely payment.

## Information

- An organization must provide a supplier with the necessary information to provide the organization with exactly what it needs. Both the organization and the supplier should continually exchange information to improve product and service quality.

## Product evaluation

- An organization and its supplier should mutually agree on a method to evaluate the quality of products or services to the satisfaction of both parties.

# Conclusion

## *Product testing*

- Many products are subject to mandatory regulations and standards to ensure that they are safe for use. A formal compliance program can help ensure conformity with these requirements.

## *Customer complaints*

- A formal system for handling customer complaints can help both an organization and its supplier quickly identify trends or adverse incidents related to the quality of a product.

## *Product recalls*

- An organization should have a formal product recall procedure in place to reduce risks associated with unsafe products and to help protect brand identity.

# Conclusion

Suppliers are important to an organizations success.

Critical suppliers should be treated as partners.

Sharing information is important and must flow 2 ways.

2015 standards strengthen requirements for managing suppliers.

If used effectively, it can lead to success for both parties.

# Questions?

## Contact us today

**Randall D'Amico**
Lead Auditor ISO 9001, Strategic Product Development
P: 978.880.2698
E: rdamico@tuvam.com

**For a copy of this presentation and other inquiries email**
webinar@tuvam.com

# THANK YOU