

WHITEHALL GROUP

“Managing the Help that You Didn’t Ask For: What Happens When Your Customer Sends In the Consultants”

As a supplier in today’s highly competitive environment, many of you may face a defining event when your OEM/Tier 1 customer informs you that they are sending in a third-party consultant, at your expense but beyond your control, to address some combination of quality, delivery, and financial problems.

The primary OEM/Tier I concern is continuity of supply, and protecting their plants from shut down costs that can be in excess of **\$200,000 per hour**. There is the natural consideration of quality, to ensure a “zero-defect” ownership experience for their customers. And, there is the concern of financial viability of the supplier, to adequately finance and cash flow the operation. If your customer decides to send in a consultant, as a supplier you’ve demonstrated (at least in their mind) that you are not fully in control of these fundamental issues. Your customer is looking to protect their position in a number of ways, escalating through the normal supplier management actions.

For quality issues, if your customer has a basic confidence in your quality system, they will ask for Level 1 self-containment, for isolation and 100% inspection of parts while root cause and corrective action are determined. Without that basic confidence in your system, they may decide to interject a third-party for Level 2 containment, and to analyze your quality system and all PPAP documentation including FMEA’s, gage R&R, material certification, and part layout information. To address technical part or process issues, you can seek relief in terms of tolerance and dimensional issues via an engineering change (even a temporary change while resolving open issues), material substitution or packaging changes.

Beyond the quality issues, your customer will want to focus your production and logistics resources to look at process flow, run at rate, and the material release and scheduling functions to ensure you can provide part quantities as required. They will also want to see proof that your own suppliers are capable of providing the required quality and quantity of materials necessary to support your production.

From a financial perspective, your customer may require a review of your financial statements, with a focus on working capital and both revolving and long-term debt (and related covenants). If the issue is cash flow, you can request accelerated payments (with a cost of money attached) or even bridge financing in the form of third-party or customer loan agreements, with non-resourcing agreements and special offset waiver considerations.

If you believe the root cause of your financial problem is pricing, you can pursue relief if there is a fundamental change in part design, process, or quantity from the original quote. Consider the “market test” option, but only if you are confident of your costs relative to your competitors, and you have exhaustively pursued all cost reduction opportunities.

As a last action, your customer may insist upon an inventory “bank build” of several weeks of production while the analysis is being done and the alternatives are considered. If there is a customer decision to resource, there can be an orderly transition as the tooling goes to another supplier, including guarantees on the purchase of the bank build inventory at a price and terms reflective of agreed upon costs.

A third party independent assessment can be valuable for all of the quality, delivery, and financial issues, even if just in a “referee role”. Utilize the systems and resources that both your customer and the consultants can bring; these people are experienced professionals capable of guiding you toward permanent solutions. Remember, if your customer has sent in consultants, they want to ensure you have diverted all internal resources to their issue, irrespective of your other customers. You can take control of the help and use it to your advantage – your senior staff should personally manage the situation on a daily, even hourly, basis. Be cooperative and open-minded to improvement suggestions. Protect your position – but be prepared, and have the data to support your position. Ultimately, the real answer is to be proactive in getting outside help if you need it – don’t wait for your customer to make the decision – the cost is less and your control is greater when you make the decision, and the OEM/Tier I will recognize your commitment to improvement.



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