

The Toolbox by David Taylor, C.P.M. **March 2007**
Value Added-What It Is and How to Identify It

You know when you are receiving Value-Added services from a company when:

- The sales representative brings donuts when they arrive for their appointment
- A sales representative brings a dozen eggs for key people in your office when they show up without an appointment
- Your supplier provides you tickets for a sports game or buys you lunch

WRONG—not quite!

During manufacture of a product or selling a service, each time something is done to the item or service, a part is added or assembled it adds value to the final price. The product is physically changed and improved with each additional step. The factory overhead is not considered part of the value add it is just **burden** and the company allocates a portion of that fixed cost to the final price—likewise your service station charges you an oil disposal fee and may charge for shop towels, part & injection cleaners used even a portion of their uniforms etc.

Today's market with its' increasing emphasis and awareness on Quality, be it TQM, QS-9000, ISO-9001 or TS-16949, **expects Quality** as part of the cost of doing business. Several months ago our management team visited a plant where Quality was treated as an incremental cost-priced at three different levels. Each time we questioned whether certain procedures of inspection, verification and documentation were in place, each one carried an additional add-on to the final piece price. Needless to say their quality did not add value, it added cost to the product while competitors provided it as a value add—it was a standard that was consistent from customer to customer like burden.

You may find that certain products in their manufacture require different services and components to be added during their completion. Each time an additional supplier or link in the supply chain is added. Integration has brought us to the point where we consolidate services or operations at one source or site—in essence shortening the supply chain. In a tour we took last year of TAC Mfg in Jackson, the tour guide described how wooden portions of luxury steering wheels were once manufactured in Japan then imported to be final assembled here. Today, TAC has a sub-contractor who leases space in their Jackson factory. That sub-contractor provides the equipment, workers and supervision to run a small one room factory inside a larger factory. They built a complete wood shop there, purchased the wood domestically in pre-cut planks. These are then milled, sanded and finish lacquered and dried on-site. The parts when completed are put on a pallet and moved across the hall for final assembly onto the steering wheel. The Value-Add to the product removed additional handling, overseas shipping, additional inspection and special packaging required to guarantee arrival of un-damaged product. The changes provided a quality finished product at less cost, for less time and handling.

In Holt, Intier Seating/Dakota systems does integrated manufacture of passenger compartment modules, much like its' competitors Lear, Johnson Controls and others. Shrinking the supply chain often yields unusual value-add benefits.

In our firm we used to outsource numerous machined components and stamped brackets. Before a tube assembly could be completed on a design of a bracket, a special welding fixture had to be purchased from a local tool and die shop. The two suppliers worked independently and often their shipping schedules collided and delayed final design and build of the bracket. Today, one machining house provides the fixture design and build along with the development of the stamped bracket and other machined components. It eliminates as much as a week and a half of the prototype build time, lowers the cost and guarantees the weld/brazing fixture works when received—since it is developed along with the bracket that ultimately is held by it for welding/brazing to the tube assembly. It also has eliminated an additional shipping step in the final analysis. Our supply chain was shortened, delivery improved, shipping and final costs were driven down, while improving final quality—that is Value-Add with the benefit of one-stop shopping.

These are just several examples of value add. Another might be warehousing and logistics services now offered by many 3PL services, or the engineering and expertise provided by your sales engineer representatives at no extra cost to you.

Final notes: A reminder of just a few Value-adds from joining ISM & NAPM-Central Michigan:

- Just yesterday as I have done at least once or twice a month recently, I went to ISM's website: www.ism.ws to search for examples of pricing terminology and wording, to update our Purchase Order boiler plate and text paragraphs for manual POs. This is available thru the members-only word or topic search, and thru articles available thru the CAPS research section. My library copy purchasing manual was incomplete on the subject.
- Regularly I network with other supply chain professionals I know thru ISM for information on area suppliers and services.
- At a recent dinner meeting, one local participant (with new responsibilities) found other members and the speaker answering questions and offering suggestions they had not considered before. The inter-action was exciting and beneficial.
- Earn CEU hours towards C.P.M., A.P.P. or APICS certifications by attending our dinner meetings or Higgins Lake.
- Just today, I received a call from a head-hunter and directed them to other potential job-seekers from our local membership. That is just another benefit. . .
- Knowing our local members represent the finest supply chain professionals in our region. I would like them on my team.
- We look for value added in business, why not consider value-added for the retail stores we shop in, or for the services we utilize? If you buy strictly on price—buyer BEWARE--you get what you pay for!