



Cowtown Quality Roundup 2018

Supply Chain Quality Excellence: A Model for Supplier Quality Improvement

Journey from qualified supplier to preferred supplier
and for some certified supplier

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Session Description

- Journey from qualified supplier to preferred supplier and for some certified supplier.
- Supplier audits and testing cost companies millions of dollars each year. The number of suppliers will most likely stay the same or increase. Many companies do not have the resources to audit all suppliers or test all goods provided by suppliers whether it is components, raw ingredients, or finished goods.
- Improving supplier quality can lead to supply chain quality excellence and reduce the cost of auditing and testing, but many supplier quality management programs do not look at ways to manage risk and measure supplier performance. These systems need to be in place to determine how suppliers rank.
- This session will look at the key steps involved in the supplier quality improvement journey including risk management, performance measurement systems, reduced sampling and testing, and for some certification.

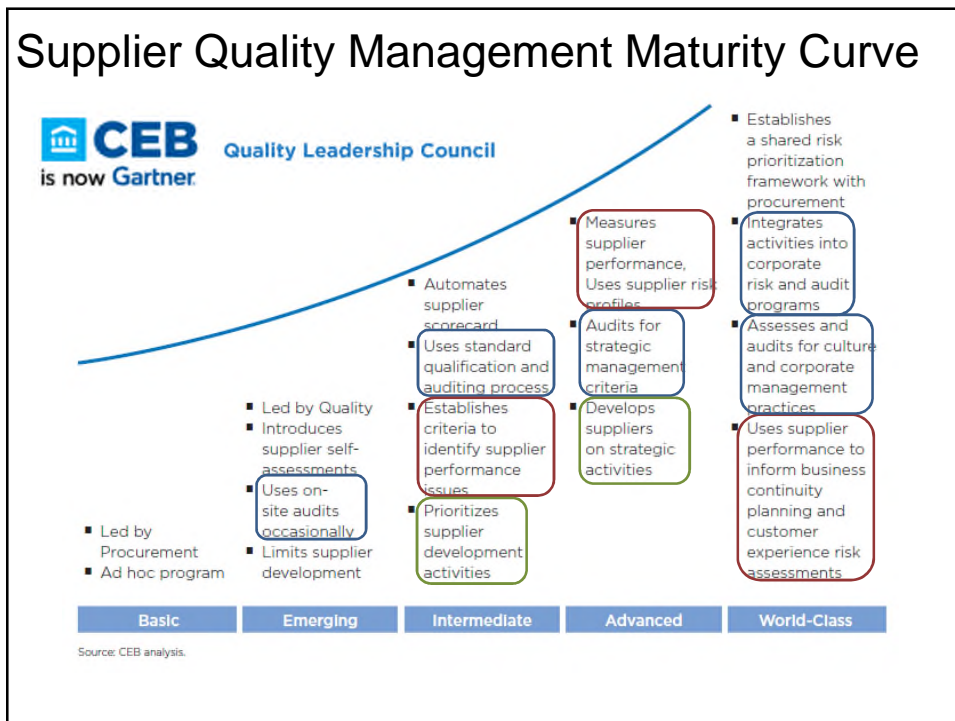
SUPPLY CHAIN QUALITY EXCELLENCE

This session is going to focus on these key activities:

- **Managing SQM Risks**
- **Maturing Supplier Performance**
- **Supporting Supplier Development**
- **Rewarding Supplier Performance**

The extent to which these supplier activities are performed will allow you to impact your supply chain quality through an enhanced supplier quality management program ultimately improving the products and services you receive from your suppliers!

Supplier Quality Management Maturity Curve



Managing

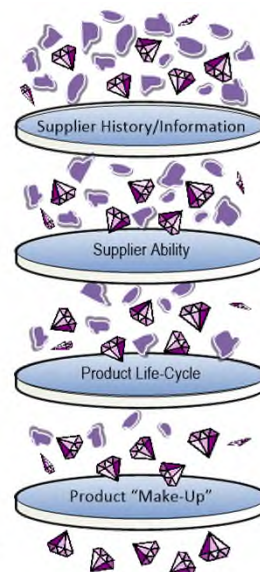
SQM Risks

Key risk assessments and tips to mitigate risks relating to supplier qualification

RISK FILTERS

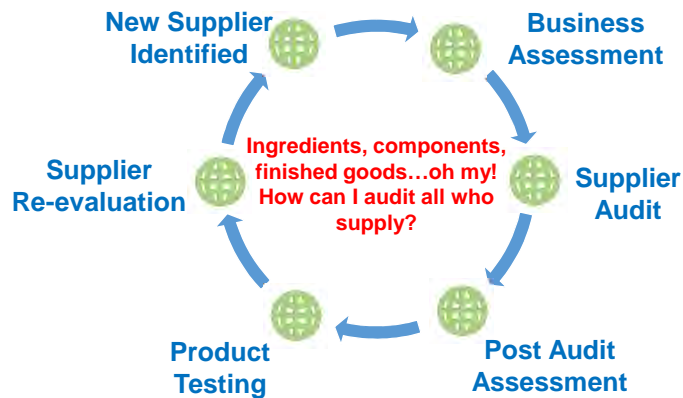
Two main categories of **risk filters** are:

1. **Supplier** Characterization
 - Supplier History/Information
 - New Site/Equipment? Product/process commercialized?
 - Supplier Ability
 - Core competency/specialty? Any part outsourced?
2. **Product** Characterization
 - Product Life-Cycle
 - High profile? New product/technology? Limited edition?
 - Product “Make-Up”
 - Water-based? Component support microbial growth? Robust/proven formula?



SUPPLIER RISK ASSESSMENTS

Supplier qualification process consists of several **key risk assessment** steps.



MANAGING SQM RISKS

How can I audit all who supply?

- Start with what is available
 - Production history (existing suppliers)
 - Regulatory inspections (FOI Act)
 - Supplier Certifications
 - ICH, EXCiPACT, EFfCI, HPC, BRC, GFSI, etc.
- Request self-assessments from suppliers
- Utilize 3rd party audit firms/auditors
- If available, join industry consortiums

MANAGING SQM RISKS

Next, assess risk and prioritize audits based on risk.

Risk Factors/Indicators
 Supplier Characterization
 Product Characterization
 Volume/Exposure
 Regulated product
 Quality events
 Time since last audit
 Regulatory audit history
 Recognized certification
 Service Levels
 Future business plans

Risk Matrix Scorecard

For each risk factor, determine the variables and weight associated with it to determine risk score.

| Time since last audit | Weight |
|-----------------------------|--------|
| More than three years/never | 5 |
| Two to three years | 3 |
| One to two years | 2 |
| Less than one year | 1 |

Confirm risk assessment accuracy and determine risk tiers.

Maturing

Supplier Performance

Moving from "Inspect → Expect"

SUPPLIER PERFORMANCE

Begin Moving from “Inspect → Expect”

- Establish clear division of responsibilities
 - Document in a supplier quality agreement (SQA)
 - SQAs are required in many regulated industries and should be required for key/critical suppliers
- Set goals/targets for identified categories on the scorecard
 - Develop metrics around common KPIs and provide clear definitions of how metrics will be calculated

Example:

Definition:

Calculate as:

SUPPLIER SCORECARD

• Business

- Commercial (Proven products/technology)
- Service (On-time delivery)
- Adaptability (Fluctuation in orders, delivery dates)
- Cost/Price (Maintain cost/price points)

| Business | Q1 | Q2 | Q3 | Q4 |
|---|--------|--------|--------|--------|
| -Commercial (Proven products/technology) | Yellow | Yellow | Yellow | Green |
| -Service (On-time delivery) | Green | Yellow | Red | Yellow |
| -Adaptability (Fluctuation in orders, delivery dates) | Green | Yellow | Red | Red |
| -Cost/Price (Maintain cost/price points) | Yellow | Yellow | Green | Green |

SUPPLIER SCORECARD

- **Quality**

- Incoming quality score (% In Spec Lots)
- Quality Incidents (Occurrence and Severity)
- Timely response to quality events
 - Root cause identified in a timely manner
 - Corrective actions put in place
 - Preventive actions to prevent recurrence

| Quality | Q1 | Q2 | Q3 | Q4 |
|--|-------|--------|--------|--------|
| -Incoming quality score (% In Spec Lots) | Green | Green | Green | Yellow |
| -Quality Incidents (Occurrence and Severity) | Green | Green | Yellow | Yellow |
| -Timely response to quality events | Green | Yellow | Red | Red |

SUPPLIER PERFORMANCE

- When the scores are calculated, you will see how your suppliers perform.

HIGH PERFORMING SUPPLIERS

UNDERPERFORMING SUPPLIERS

- Look for trends/monitor performance
- Without a measurement system to determine how your suppliers are performing, how can you tell if they are getting BETTER or WORSE!

Supporting

Supplier Development

Ensuring underperforming suppliers improve their performance and capabilities over time

SUPPLIER DEVELOPMENT

What is your company's business needs/SQM strategy?

Oftentimes, underperforming suppliers need help.

- What expertise can you share with your suppliers?
 - You can provide “free consulting”, training, tools, checklists, forms, etc. that could benefit your suppliers
- Create a Clear Issue Resolution Process
 - Provide investigation support such as root cause analysis

Sometimes, they need motivation.

- Potential for new business

SUPPLIER DEVELOPMENT

Process Improvement Initiatives

- SPC (less variability – tighter upper and lower limits)
- Reduced scrap
- Adaptability to ebb and flow of demand
- Work place organization/Kaizen events
- New technologies

Updates

- Update suppliers on trends, issues, concerns, regulatory requirements
- Have suppliers update you on the same

Rewarding

Supplier Performance

Ensuring high performing suppliers keep performing and are motivated to stay on top

FOUR Cs OF SUPPLIER PERFORMANCE

Company/Supplier alignment or “fit” is critical for business success

•Culture

- Character of the Company

•Commitment to Improvement

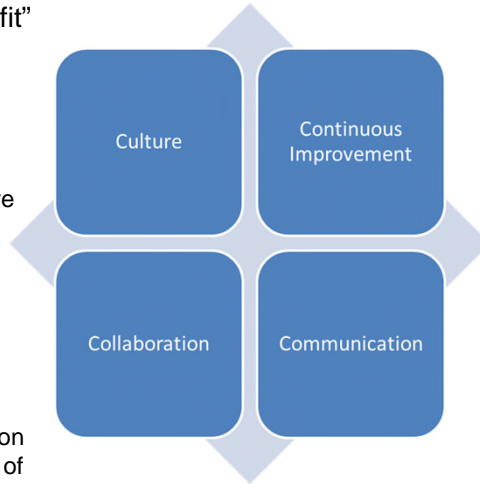
- Quality of response to corrective actions
- Consistent Performance/ Continuous Improvement

•Collaboration

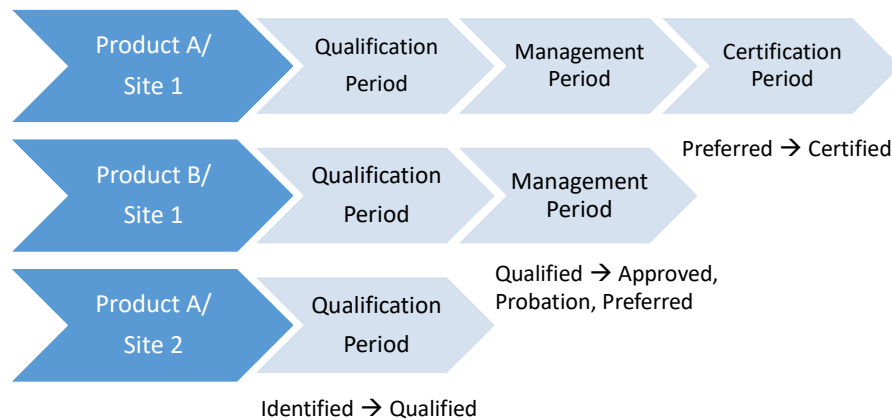
- Valued Business Partner

•Communication

- Clear and regular communication (transparency) plus notification of changes that could impact product



SUPPLIER PERFORMANCE LIFECYCLE



SUPPLIER CERTIFICATION

Purpose of supplier certification is twofold:

- Actively engaged suppliers
 - Recognize high performing suppliers
 - Potential for new business
 - Access to best practices, forums, etc.
- Improve supplier quality to reduce your cost
 - Cost of sampling
 - Cost of testing
 - Cost of warehousing/holding product

SUPPLIER CERTIFICATION DEFINITIONS

- **Preferred Supplier** is a qualified supplier who is actively participating in the certification process. This supplier has an excellent quality history and may be operating with reduced sampling and testing.
- **Certified Supplier** is one who, after extensive investigation, is found to supply material of such quality that it is not necessary to perform routine testing on each lot received.

GENERAL CERTIFICATION CRITERIA

- Supplier consistently ranks as a HIGH on the supplier scorecard.
 - No product-related lot rejections for a significant time period or for a stated volume
- Recent on-site audit/quality system evaluation with acceptable results including an appraisal of the process or processes that produce the material.
 - Processes should be mapped out and deemed stable and in control
- Agreed on specification and the ability to furnish timely copies of certificates of analysis, inspection data, and test results.

PREFERRED SUPPLIER

Reduced Sampling & Testing

- What needs to be tested?
 - Look at the specification.
- Who is testing?
 - Have clear responsibilities for who is doing what.
 - Clearly identify any tests that are required to be performed by customer.
- How is testing recorded/documented (at supplier and customer)?
 - Determine system of record for test results.
 - Include COA with all shipments.
- What is the frequency of testing by customer?
 - Skip lot testing, x number of samples/specified time
 - Define tracking method

CERTIFIED SUPPLIER

Certification? No testing! How can that be?

We must have an agreement between you and me!

- A supplier quality agreement must be established that will outline responsibilities and serves to mitigate risk for the future. Topics should include:
 - Regulatory registration/filings
 - Quality management
 - Change control
 - Material control
 - Packaging and labeling
 - Lab control
 - Equipment qualification
 - Validation
 - Audits/inspections
 - Training

Key Takeaways

Actions to take and things to share

KEY TAKEAWAYS

- **Manage supplier risks** from the beginning
- **Utilize what you have** and information that is available
- **Prioritize** audits based on risk
- Move from **inspect to expect** with supplier quality agreements and supplier scorecards
- Provide **support** to deserving suppliers
- Remember the 4Cs
 - **Culture, Commitment to Improvement, Collaboration, and Communication**
- **Reward** supplier performance
 - Reward good performers with preferred status
 - Reward great performers with certified status

THANK YOU!

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Secretary &

Cosmetic Community of Excellence Leader



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