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Think You're in the Finishing Business? Think Again...

What business are you in?"

The typical response from someone in our industry might be, "I'm in surface finishing," or, "My family owns a metal plating company," or, "I manage the powder coating operation for XYZ Company."

While the aforementioned statements might explain some of the services your operation provides, I believe that none of them truly describe the aspect of your business that will be most critical to your future success.

So what business are you really in? I contend that as surface finishers we are in the business of customer inventory management.

I reached this conclusion in speaking with an industry executive who had just analyzed his recent customer satisfaction review, and after considering several trends affecting manufacturing.

In the case of the conversation with the executive, his company has a unique procedure for gauging customer satisfaction that requires that a company executive have face-to-face contact with their largest 15 customers at least every 6 months. In every one of these meetings the customer is asked to detail what could be done to make the company's level of service even better.

In the last 6 months of data, there were some interesting facets to the customers' responses. Eight customers wanted even quicker turns of their orders. Two customers referenced isolated container labeling issues, and another two pointed to particular instances of paperwork discrepancies. One noted a specific piece count error. Only two customers suggested anything specifically related to the quality of the finishing.

Note that more than half the responses pointed to faster processing of orders as a key way in which the finisher could improve. In my experience, process control, capacity management and rework minimization

are important parts of improving turn times. However, experience has further proven that the two biggest keys to quick turns and on-time delivery are exceptional backlog administration and sound order scheduling, both of which are directly related to the management of customer product through your facility.

The container labeling and paperwork discrepancy concerns are clearly outside the fold of the finishing processes themselves and rather pertain to the management of customer inventory.

Thus, over 86% of the responses as to where this particular company could better serve its customers were in areas other than the actual finishing process and are instead directly related to the finisher's customer inventory management.

The results of this particular informal study are not the only reason to focus on inventory management as a critical aspect of your finishing businesses. There are also several trends affecting your customer base that will result in the need for your perfection in managing their inventory:

Trend #1 – Perhaps the most obvious trend, stamping, fabrication, machining, and casting operations are moving outside the U.S. In general, the work that remains will be that requiring more customization and will thus be made to order. Manufacturers will not be able to carry pre-order inventory for these products. When an order is received by the manufacturer, the entire supply chain will be pushed to turn product in less time. Additionally, some of the customization required will directly affect the finishing industry. Assume a manufacturer offers a product in a dozen different colors. By holding inventory in a pre-coated state and having it painted or coated to order, fewer total units will be tied up in inventory. Finishers with sophisticated inventory tracking systems will be able to manage uncoated inventory as a value-added resource to their customers and prospects.

Trend #2 – Rising interest rates will increase your customers' inventory carrying costs and thus create a disincentive to holding finished goods. The result to finishers will again be shorter turn times.

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Trend #3 - Manufacturers will continue to divest themselves of non-core operations. The pressure on the finishers to whom captive operations are outsourced will be to meet the same or nearly the same turn times that the captive operation provided.

Trend #4 - Rising costs of energy, metals and commodities have had and will continue to have a major impact on the industry. Since it is unlikely that these increases can be passed along to customers in their entirety, profit margins will continue to be squeezed. To maintain profits, finishers will need to find ways to augment revenue and provide additional value to customers. One way to do so will be by assisting customers in reducing their inventory carrying costs through quicker turns or by housing product for them.

Trend #5 - Customers moving to Electronic Data Interchange (EDI). If you have yet to see this trend first hand, I guarantee you will before long. Advanced manufacturers are already managing production forecasts, purchase orders, order status reports, packing slips, invoices and payments completely electronically. Since data is processed by a computer program, and not a living, breathing human being, errors, pricing variances, piece count discrepancies and the like can be cause for rejection of orders, nonpayment of invoices and perhaps back charges for the problems they cause your customer. Perfect EDI requires perfect management of customer inventory.

Trend #6 - There will be more consolidation in our industry as smaller, less sophisticated finishers are sold or decide to close up shop. For this reason the finishing companies that remain will be larger and will process a higher volume of orders. Relying on archaic systems of inventory management will not do in a high-order volume environment, and a more innovative approach will be necessitated.

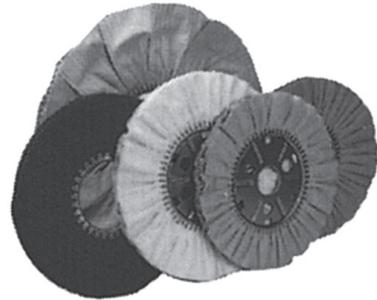
Consider the results of the customer satisfaction survey discussed earlier and contemplate the six trends outlined above. Are you in the "Inventory Management" Business? If your finishing operation is to thrive in the future you must be.



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