

Edge For Entrepreneurs

OUTSOURCING

A Good Home For 'Orphan' Products

Many manufacturers have *them*—product lines with slipping sales but an installed customer base, or aftermarket parts that are generations behind the cutting edge. Gregory Willard, president of Quality Control Corp. (QCC), calls these "orphan" products, and his Chicago-based company and its Orphan Product Placement Program gives them a home.

QCC, a maker of machined parts and components, takes over manufacturing responsibility for another company's product line. The concept would work for other companies, regardless of industry, Willard believes.

"We had some specific projects in mind when we conceived the idea, and what we found is about six different varieties initially," says Willard. "For example, one company had a machining part of its business that wasn't considered core, and it wanted to discuss outsourcing its whole machining operation. Another said, 'We don't have an orphan; we've got a *tweener*'—something that was between what the company did and what it planned on doing—and the product needed a home. Another one was closing a facility: The company still needed to generate the product, didn't really have another place to put it, and wasn't aware that it had opportunities in the marketplace to handle that type of product."

Willard says the orphan program is different from traditional outsourcing in that it focuses on noncore activities of the customer company, which then move to QCC along with most of the actual operation, equipment, and inventories. QCC identifies its people, facilities, and specific process improvements that can increase value of the orphan lines, and, typically, QCC's role

is transparent to the end customer.

"The concept for us is that we're good at manufacturing. Our customers have been good at selling, marketing, and distribution channels for that product," says Willard. "We want each organization to do what it's good at."

The program also differs from outsourcing in that the decision-making process is strategic, not conducted at the purchasing level. "Even at the plant level, a plant manager does not necessarily want to give up work that's

work also gives QCC employees some diversity, although the company does seek orphans that promise extended life and that mesh with its competencies.

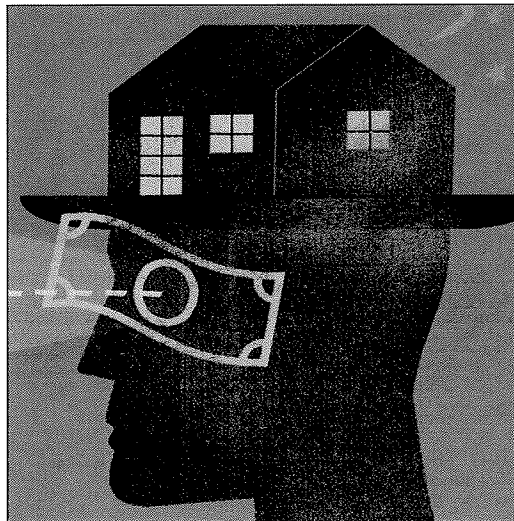
For customers, QCC's orphan program frees up resources. Customers usually pass all responsibilities for the orphan to QCC, including part fulfillment and financial responsibility for finished-goods inventories. "There are probably new areas that they need to spend their time and resources on," says Willard. "By outsourcing the

whole thing they get the best of both worlds: They get the fact that [the product] is still around for them and their installed customer base, but someone else has potentially reengineered it or reengineered a portion of it to make it more cost effective."

Customers are then able to produce new products with higher returns from the square footage previously occupied by the orphan line, and they continue to receive returns from the orphan. Lyle Martin, director of purchasing at Sauer-Sundstrand, Ames, Iowa, says his company uses QCC's orphan program for the manufacture of mechanical face seals.

Sauer-Sundstrand transferred all the inventory and unique manufacturing equipment that applied to these parts to QCC, while all post-sales and distribution issues stay with Sauer-Sundstrand. "As far as our customers know we are still manufacturing the part."

Sauer-Sundstrand proceeded to "use the square footage—the brick and mortar resources—but, more important, the personnel resources for newer products that are coming into the marketplace to replace the ones that are phasing out," adds Martin. "It became obvious that this was a good match."



keeping his people busy today. He may not have the vision of where the organization is going to or growing to and what that opportunity may create for the organization and its people. It takes a top-level position to understand the long-term potential of outsourcing something the company currently is doing or thinks it has some expertise in."

Willard says the program has provided QCC—which has approximately 250 employees and annual revenues of \$33 million in 1998—more stability than companies that are "jumping on the bandwagon for new products." The