

A Business Case For Quality Certifications And Their Impact On Diverse Suppliers

Do TL 9000 and ISO 9001 Certifications Have An Effect On Top Line Revenue?

TL 9000, the global communications quality management standard is now in its second decade. During that time, TL 9000 has been adopted by more than 1,500 organizations and has gone through several revisions and refinements designed to keep pace with next generation networks and emerging technologies.

In the past few years there have been studies completed that document the influence that TL 9000 certified companies have on the communications industry as a whole, in terms of network quality and performance. These studies have analyzed third party audited data such as on-time delivery (OTD) and return rates in multiple product categories. **TL 9000 has a quantifiable, positive impact on industry quality.**

Today, nearly all Fortune 500 companies are faced with the challenge of sourcing and developing diverse suppliers. It is now a basic practice in strategic sourcing and supply management. Corporate customers are looking for new suppliers who can address demand, innovation, collaboration, problem solving and niche solutions. Their suppliers must be able to provide metrics and performance data regarding speed to market, time to delivery, reliability (risk mitigation) and common measures of performance. If any supplier (diverse in status or not) can meet these customer needs, they can effectively compete in large supply chains. As a result, quality management certifications like TL 9000 have either become a requirement or a recognized competitive advantage that customers look for. **TL 9000 helps both the industry and the corporate customer win with supplier quality.**

The Question:

What impact does TL 9000 have **on the supplier companies** who choose to certify to the standard? Furthermore, what about the diverse suppliers who choose to certify in an effort to compete more effectively with larger suppliers? Certified companies make a commitment when they become a “quality” organization. With that decision comes the investment of both financial and human capital. **This study summarizes the impact TL 9000 certification has had on a population of diverse suppliers.** It examines what TL 9000 certification has done or not done for their organizations, both operationally and financially.

About The Diverse Suppliers:

At a 2011 QuEST Forum Best Practices Conference, several diverse suppliers spoke to a panel about what TL 9000 certification had done to transform their businesses. Some agreed to participate in a study that included a broader group of diverse suppliers who have achieved TL 9000 certification. All of these diverse suppliers agreed to share personal information about the process of TL 9000 quality certification, including data regarding revenue and market share, as well as testimonials both positive and negative.

100% of the participants were diverse suppliers: 66% WBE, 44% MBE and 22% DVBE. 33% of the companies had 2 or more diversity classifications. 66% of the companies were dedicated solely to supplying the telecom industry, but the remaining companies served multiple industries and vertical markets with a large cross section of services including accounting, transportation, logistics, IT, engineering, network development, product manufacturing and warehousing. The study sample represents 18% of the diverse suppliers certified to the TL 9000 standard.

The companies who participated in this study have revenues that range from less than \$1M to \$1B, providing a wide range of business perspectives:

Diversity Classifications Of Study Participants

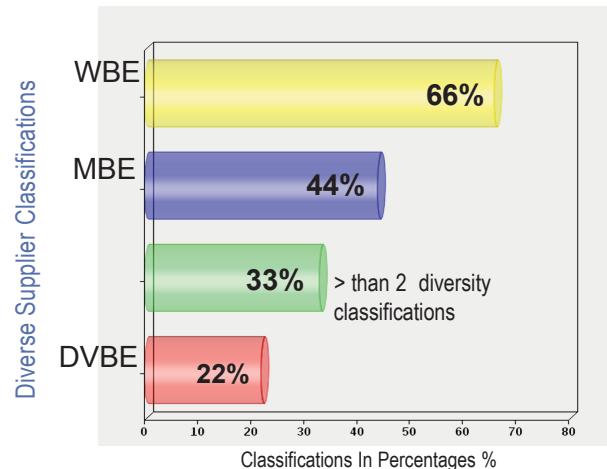


Figure 1- Diversity Classifications of Study Participants. Source: BIZPHYX TL 9000 Diverse Supplier Study Data, 2011.

How They Came To Certify:

57% of the study companies have been certified for about 3 years and 29% for less than two years. 14% have been certified for more than 7 years. When asked if they were required or strongly encouraged to obtain certification by a customer, **86% of the companies responded that they were in fact encouraged or required.** However, 42% of the participants were upgrading from an existing ISO 9001 certification, recognizing that an additional TL 9000 designation was necessary to compete for contracts with the large service providers. 14% decided to pursue certification independently.

Years Certified To TL 9000 / ISO 9001

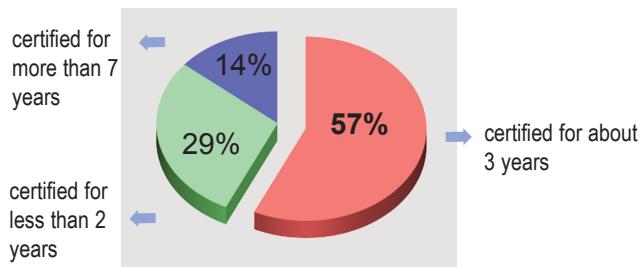


Figure 2- Years Certified (Study Participants). Source: BIZPHYX TL 9000 Diverse Supplier Study Data, 2011.

71% of the diverse suppliers stated that they came to learn about “quality” or “quality management certifications” from supplier education programs offered by a corporate customer. Specific to this study and the telecommunications sector, **of this 71%, 42% of these respondents substantiate that they earned their quality certification as the result of a corporate sponsored supplier development or mentor program.** The other 29% made the investment independently.

Operational Impact On The Companies:

86% of the participants stated that certification to a quality management system (ISO 9001 and TL 9000) had a significant impact on their operations. They reported some of the following operational benefits that they believe have made them better companies and therefore better suppliers:

- Better measurement and analysis
- Provided a structure needed to grow
- Disaster recovery planning and risk management planning
- Solving business problems more efficiently
- Reduced costs by better identifying defective components and services
- Increased customer satisfaction

Two respondents offered very detailed examples of how certification helped their companies organizationally and how their QMS helped them solve a specific customer problem:

“A specific example of how TL 9000 has impacted the productivity of the business is through the development and use of the Corrective Action process... We were working as a subcontractor to a major corporation and ran into quality problems that were determined to be caused largely by our inability to interface with the end user of our services...we ended up severing our ties with the prime vendor in order to pursue work directly with the corporate client because we determined that the lack of control over the finished product was a serious problem. As a result, it changed how my company markets itself and how we chose our business partners.”

“A great example of how we have used TL 9000 requirements to solve a customer’s problem is how we continually reduce costs in the supply chain. One of our larger clients under the scope of our TL 9000 used to order over 65% of their products via overnight air shipments in order to meet project deadlines...Through our product ordering and on time delivery processes, as well as our extensive work with our manufacturers (OEMs), we were able to dramatically reduce the need for overnight air shipments to our client...”

When asked if TL 9000 has helped them scale their businesses to handle growth, 85% stated that it had, while 15% stated it had not. Some of the companies asserted that being certified has helped them better measure their own supplier performance.

One company stated that as a result of certification they were able to acquire another company and integrate the two operations, while increasing revenue. They also explain:

“...a consistent understanding of processes, tools and systems across the business team ensures a level of readiness when it comes time to implement a business case, relocate an AWT [assemble, wire and test] or open a new distribution center. TL 9000 is the foundation for this consistent understanding and enables us to adjust quickly and effectively to the dynamics of our industry and the rapidly changing needs of our customers.”

while another supplier revealed:

“...Because processes are scalable they can be adapted to meet the changing needs of the business without needing to return to the drawing board...”

Often, diverse suppliers are concerned that the investment to obtain a quality certification may not produce a return on revenue (ROR). They acknowledge that over time they will experience an operational ROI, but do not want to pursue a certification unless they know they can expect a direct increase in revenue. This is the case with small, diverse suppliers. **The remaining part of the study addresses revenue growth, market share and efforts to leverage their TL 9000 certification.**

Impact On Market Share and Revenue Growth:

When asked if certifying to TL 9000 has helped their business grow in terms of market share or revenue, **a surprising 75% reported business revenue growth.** 25% stated their improvements were more operational, including cost reductions.

Certification Impact On Revenue and Operations

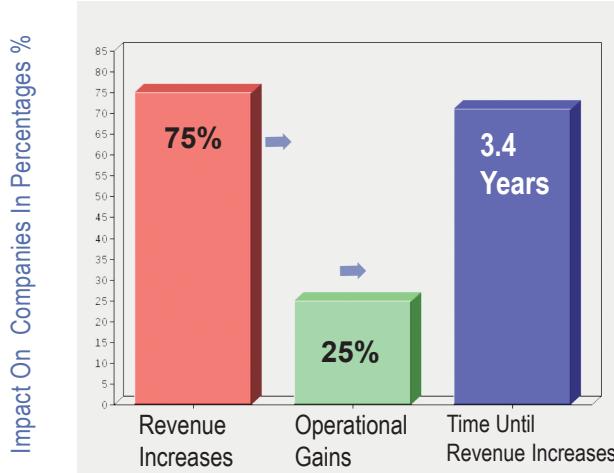


Figure 3- Certification Impact On Revenue and Operations. Source: BIZPHYX TL 9000 Diverse Supplier Study Data, 2011.

The study participants were also asked the time frame that it took after certification to realize any revenue growth. Of those who reported a time frame from their certification date, **71% reported an average of 3.4 years to realize revenue increases.**

Of the 75% who reported revenue growth, the range was from 20%-220% with an average of 108% growth. (These businesses ranged in revenue from \$5M to \$1B.)

Here are some specific examples:

- Grew by 30% and acquired two new contracts
- Doubled revenue and increased work from existing clients based on performance
- 20% increase in revenues
- 170% growth and increased relevant networking opportunities within QuEST Forum

One participant stated:

"Yes, our TL 9000 certification has helped us diversify outside the telecommunications industry even though TL [9000] is telecom-centric. Our mature Quality Management System has allowed us to stay organized and readily accept new customer contracts. Since our certification in 2008, [our company's] business has grown over 220%, and we attribute so much of that growth to our quality checks, monitoring and measurement of our quality objectives, and our streamlined and documented quality processes."

In terms of dollars and not percentages, one diverse supplier stated that prior to certification they were **less than a \$5M company and they now report revenues in excess of \$10M** (less than 2 years). Another company reported going from **\$5M in revenue to \$7.5M in revenue** (3 years).

These suppliers were also asked how much they attributed their overall revenue growth directly to TL 9000 and/or ISO 9001 certification. **85% reported some relationship of their revenue growth to TL 9000** and of those who could quantify the relationship, 60% of their reported revenue growth was directly related to TL 9000. The other participants stated quantifying a direct relationship (entirely) was a little difficult.

"How much of that growth is directly contributed...is difficult to answer. It [TL 9000] provides us a solid foundation to build our complete value proposition on..."

Some provided metrics to authenticate their conclusions:

- one company stated that all (100%) of their 30% in revenue growth was a direct result of TL 9000 certification
- another stated that about one fifth (or 20%) of their 50% in revenue growth was a direct result of TL 9000 certification

Others offered summary statements as substantiation:

"Several of our largest customers may not have awarded additional business to us... had we not been TL 9000 certified."

"...a very large part of our growth in terms of dollar revenue.... is attributed to TL 9000..."

How Is TL 9000 Regarded In Supply Management?

While ISO 9001 and TL 9000 quality management systems are fairly well known among C-suite executives in the communications industry, the study participants were asked if they had to educate their specific customers about TL 9000.

80% indicated that they had to do some form of education or "sales", even though many equally stated there was a general knowledge about TL 9000 or that it was a customer requirement.

Some explained:

"...TL 9000 is broadly known throughout our customer base, but in those instances where TL 9000 is not specifically called out, we are able to easily draw upon the relevant areas of our QMS that are of interest to our prospective customers..."

Another stated:

"...none of our clients at this time require the TL 9000 certification, but most of them recognize the value of having it. But even if the client is a supporter of TL 9000, the local managers whom we meet with to introduce our marketing platform is to provide basic information about TL 9000 and how it increases the value of the services we provide. In fact, we added a tab on our company website that explains what it is and why it matters. I have found that highlighting the value of the TL 9000 certification is most effective at the end of a pitch, not the beginning because the audience will remember it and be able to apply the benefits to what [our company] is proposing to do for them."

The study participants were also asked to provide examples of **how they educated their clients** about TL 9000 (especially if clients did not know about the standard in any great depth). This statement summarizes how many answered the question:

"...We have shared our quality policy, quality objectives, performance data, and our processes with clients who were both familiar and unfamiliar with the ISO 9001:2008 and TL 9000 standards. By utilizing the TL 9000 standard's thorough performance data and process requirements, our clients understand that our quality policy and objectives are backed by quantifiable data, and our processes undergo numerous quality checks..."

How Have They Leveraged Their Certifications?

These diverse suppliers were asked if they had tried to leverage their certification to obtain new business. **71% reported trying to leverage their quality certification in this way.**

Leveraging Certification For New Business



Figure 4- Leveraging Certification For New Business. Source: BIZPHYX TL 9000 Diverse Supplier Study Data, 2011.

A few offered illustrations:

"We have recently won 2 contracts with Tier 1 providers for [service provider] that require their suppliers to be TL 9000 certified..."

Others Shared:

"...by demonstrating how it increases the value of the services we provide. TL [9000] is a solid foundation to build our complete business value proposition on..."

"Being TL 9000 was a requirement by our large communications customers. Being certified has also given us an advantage in pursuing new customers who are looking for a quality driven source."

"Again, our TL 9000 certification has helped us grow outside of telecom. We are confident that other industries know our commitment to quality based upon our willingness to hold our Team to a more in depth standard."

19% reported trying to leverage their quality certification without success. Here is an example:

"We have attempted to leverage our TL 9000 certification. It appears that some Tier 1 suppliers may not be adopting the Carriers Goals and Objectives when it comes to Supplier Diversity. Tier 1 suppliers who choose to only consider suppliers with a National footprint vs. a Regional footprint would limit the amount of supplier diversity participation in large contracts. This will also lead to fewer TL 9000 certified suppliers because fewer suppliers would be involved in the overall supply chain."

Is It All Milk and Honey?

Of the entire population of diverse suppliers who were asked to participate in the study, 22% did not complete the survey questions or participate in the interview process.

In fact, one company has decided not to keep their QMS certification going forward. This diverse supplier is now pursuing clients in different vertical markets and didn't see the value that other diverse suppliers did in terms of trying to leverage their certification in other sectors. They stated they are not going to maintain their TL 9000 certification because they are pursuing clients in a more digital media and advertising space.

Another stated they saw no value at all in TL 9000 certification and therefore did not complete the study. They reveal losing contracts to non-TL 9000 certified companies since their certification.

Was It Worth Their Investment To Certify?

To bring the study to a conclusion the participants were asked if certification was worth their investment. **78% stated that certification was worth the investment.**

They intend to maintain their existing ISO 9001 and TL 9000 certifications. Several diverse suppliers offered some thoughtful insights. Here are a few examples:

"Like any certification, TL 9000 is not the magic key that opens the doors that invite in business opportunities... A company should have a solid base of customers and a realistic business plan in place prior to seeking TL 9000 certification."

"We strongly recommend TL 9000 certification and feel that it adds tremendous value to the ISO 9001:2008 certification. You will not regret how much more robust your Quality Management System will become by adding additional depth to your processes, procedures and measurements!...[is it worth it]—Absolutely!!!!"

Is It Worth The Investment To Certify?

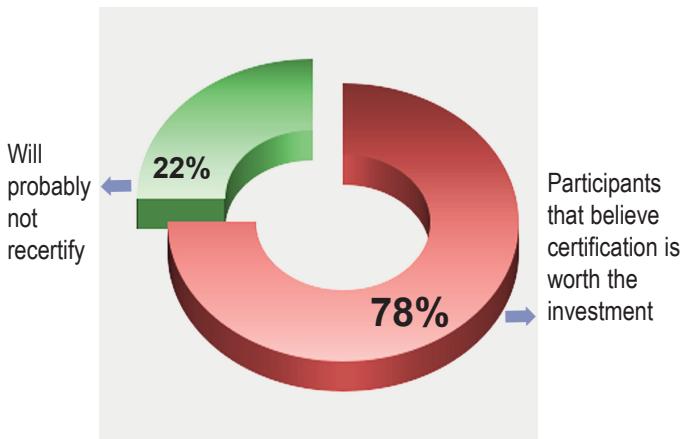


Figure 5- Certification Value and Plans To Recertify. Source: BIZPHYX TL 9000 Diverse Supplier Study Data, 2011.

These participants were also asked if they had any advice for other diverse suppliers who might be considering certification. 78% affirmed that they should pursue certification and each one offered a favorable suggestion. Here are few testimonials of advice as to why they recommend certification:

"...Most diverse businesses are small and the only competitive advantages we have most of the time are quality and price. TL 9000 helps you improve both."

"The value of creating a solid plan to measure and track the quality of your services or products is immeasurable, especially if your business is small and lacks formal structure. Many major corporations require or at least recognize the ISO standards, and you can set your business apart from competitors..."

"...the certification lends tremendous value in qualifying your organization as one focused on providing high quality initiatives, and in turn the customer with high service levels."

The Conclusion and The Challenge:

Specific to TL 9000, there is still much work to be done to elevate the knowledge of the standard and what value a TL 9000 certified supplier can bring to a corporate supply chain. This includes pushing knowledge down to the contract management level.

80% of the participants had to do some form of education or "sales", even though many equally stated there was a general knowledge about TL 9000 or it was a customer requirement.

The study revealed some very powerful numbers in support of quality certifications for diverse suppliers both operationally and financially in terms of opportunity for substantial revenue growth. While ISO 9001 and TL 9000 certifications will over time help a company to reduce costs, improve efficiency and provide a process for scalability and growth, diverse suppliers are still primarily interested in certification if they can grow top line revenue. This study clearly demonstrates that it is possible to realize significant revenue growth as a result of certification.

Of the 75% who reported revenue growth, the range was from 20%-220% with an average of 108% growth and 71% reported an average of 3.4 years to realize revenue increases. These numbers are compelling.

The remaining challenge may be supplier education. Supply management and supplier diversity organizations must get on the same page and clearly define the possibilities for small and diverse suppliers, such as **working with a Tier 1** (especially during this time of global supply chain consolidation). It is also important to make quality requirements clear. If your senior management embraces ISO 9001 or TL 9000, it is important to push that information down through every level of procurement. **Risk in the supply chain is sharply reduced when quality certified suppliers are used.**

While the larger supplier diversity programs offer some form of supplier development, such as formal mentoring programs, even the smallest organization can start with basic quality education. Even if a supplier diversity organization does not have a formal program or funding to help selected suppliers obtain quality certifications, the cost is negligible to **provide education about quality certifications** and what they can do for a diverse supplier's business.

Nearly one third of the diverse suppliers in this study decided to pursue certification on their own and they have realized large financial benefits from that decision. **They are also better supplier partners as a result.**

About BIZPHYX:

BIZPHYX is the nation's leading quality management consultancy, specializing in the implementation of TL 9000, the ISO 9001 based quality standard of the telecommunications industry, now required by many of the large service providers. We also assist clients in other industries such as transportation and energy, with ISO 9001 and ISO 14001 implementation, training and QMS maintenance, delivered through a range of solutions from gap analysis to internal audits, customized to meet the needs of each client.

Nationally recognized as TL 9000 Experts, we are a global QuEST Forum selected training provider and **BIZPHYX** has the distinction of two TL 9000 Master Trainers on staff. Unlike other consultants, **BIZPHYX** is also certified to both ISO 9001 and TL 9000. Few quality management consulting firms are certified to the standards they implement.

BIZPHYX also publishes **THE STANDARD** and as subject matter experts, provides clients with complimentary access to a robust knowledge base and a live support desk.

This level of expertise translates into results for our clients, as evidenced by an unprecedented 100% client certification rate.

Every business wants to improve the way it operates, whether that means increasing market share or driving costs down. Quality standards provide the framework and tools necessary to help you achieve these goals.

BIZPHYX helps you take your QMS to the next level-improving your bottom line.

A Special Thank You To These Diverse Suppliers:

We would like to thank several of the companies that participated in this study. The following diverse suppliers provided very detailed responses to questions, many of which are featured as quoted testimonials in this case study.

Krishna Chittabathini, Managing Partner, 3K Technologies

Ron & Lisa Greenwood, President and Vice President, Global Energy and Technology

Garry Castro, CEO, LogistiCorp

Trevor Putrah, COO, KGP Telecommunications

Ken Davis, Principal, Maximize Communications Group

Lisa Somerville, President & CEO, Restor Telecom

Cindy Kazee, President, Universal Network Development Corporation (UNDC)

