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Successful Ownership Transition Leads to Profitability

Selling a family-owned business can be a daunting experience. Questions of valuation of the business, management transition, employee anxiety, business distraction, customer and supplier concerns all need to be addressed. Read how one Jamestown, NY manufacturer successfully handled these issues.

Filegar Cutting Technologies manufacturers, distributes and services industrial cutting tools for a wide variety of applications, particularly within the automotive/truck (tier II), wood dimensioning, furniture and building products markets. Its broad product line includes circular saw blades, router and molder tooling, non-ferrous cold saws and carbide tipped saws. These highly-engineered products are used to cut various materials including wood, plastic, ferrous and non-ferrous metals.

The company, located in Jamestown, NY, covers a geographic area within a 350 mile radius of Jamestown. Although a relatively small company of just 12 employees, Filegar Cutting Technologies is considered a technology leader within its service area. The majority of its competitors are generally smaller, regional companies that provide limited products and service.



Filegar Cutting Technologies' Pat Bunce services industrial flooring head.

Situation

The company was founded over fifty years ago as Filegar Saw & Tool. In recent years the family owned business began experiencing serious financial issues due to a number of factors, including a declining business base. A new Vice President of Operations (non-family member) was hired in 2002 with the ultimate intent of acquiring the business from the surviving family members. Due to the changing nature of the business and complications relating to the existing ownership structure, it was difficult to determine the true market value and overall potential for the

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Quality Tools Improve Accident Investigations

by Sharon Hilts

It's a typical February in Western New York and your parking lot is icy, as usual. As first shift arrives, miraculously no one slips despite the dark, frozen sheen. Then the office folk arrive with their dress shoes and

whoosh! There goes the top manager in one embarrassing swoop. After you finish apologizing, you promise that you will con-

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The "Quality" of Revenue and Profit Dollars Matters by Benjamin Rand

The transfer of business ownership, along the lines described in our Filegar Cutting Technologies case study this issue, is a hot topic. Economists see a significant wave of such transfers as the baby boom

generation begins to retire, increasing the level of business owner retirements by an estimated sevenfold. Growth in the number of businesses for sale could create a buyers' market. However, there are a number of steps you can take as a business owner to maximize the value of your company.

Many buyers will determine a company's value based on a multiple of its profits or revenues. However, all profit and revenue dollars are not created equal. The "quality" of these dollars will also matter to potential acquirers. You can maximize your company's value by increasing both the quantity and quality of your revenue and profit dollars. Here are some key factors that affect the quality of those dollars:

Diversity of Customer Base: Are you reliant on one or two customers for the majority of your sales? If so, you are at greater risk than a company whose largest customer is less than 10% of sales. A short-term option is to acquire a competitor with a diverse customer base. The long-term solution is to identify and penetrate new customers and/or new markets. How will you diversify your customer base?

Diversity of Product Offering: Are you reliant on one or two products for the bulk of your sales? If so, you are at greater risk from competing products and/or new technologies than a company with a broad product line. You can develop new products internally or consider buying or securing distribution rights to another company's product line to fill gaps in your own. How will you diversify your product offering?

Growth Potential: Potential buyers are used to hearing glowing forecasts for future sales growth. You can dramatically improve the credibility of such forecasts by developing

a track record of growth. Has the company entered into new markets in the past? Has the company been able to develop and launch new products? Is there a systematic process in place to identify opportunities for growth and move them efficiently from ideas to reality?

Revenue Predictability: Sales from long-term contracts, service agreements, licenses, etc. are more valuable than opportunistic or competitive sales because they are more reliable. The way you structure your sales will impact your company's value. Imagine where Microsoft would be now if it had sold its operating system to IBM instead of licensing it. How can you sell your product to maximize reliable, recurring revenue?

Barriers to Entry: Patents, trademarks, exclusive distribution rights, government permits and licenses can all enhance your company's value by raising barriers to entry for potential competitors. What opportunities do you have to create such barriers to entry?

Staff Depth and Quality: Many small- and even medium-sized companies are heavily dependent on their owner/operators. But reliance on a single person, just like reliance on a single customer or a single product, will be a negative for potential buyers. You can reduce this risk for a buyer, by investing in training & professional development, establishing a formal performance review process and using employment contracts and non-compete agreements to secure key staff. What can you do to improve the quality of your team?

You can only sell your business once. Maximize your company's value by taking steps now to increase both the quantity and quality of your revenue and profit dollars.



Transforming the Upstate Economy

by Christina Orsi

In January, we witnessed an historic event when Governor Spitzer presented his State of Upstate address in which he detailed his vision to make Upstate New York the best place in the world to live, work, raise a family and run a business. This first ever State of Upstate is the latest in a series of firsts. We've seen the creation of Upstate Empire State Development (Upstate ESD), Regional Blueprint sessions held across Upstate, the introduction of the Governor's City by City projects, and the Governor's proposed \$1 billion Upstate Revitalization Fund.

These firsts, along with existing programs, are designed to transform the upstate economy through strategic investments that create high quality jobs and stimulate economic vitality. As an outcome of our efforts over the last year we are realizing results. In 2007 Upstate ESD secured private-sector investments amounting to over \$2 billion. These investments result in pledges to create more than 8,500 new jobs and preserve more than 24,000 jobs across the 48 counties that are the Upstate Region.

Upstate Empire State Corporation is headquartered in Buffalo and supported by seven regional offices throughout Upstate's 48 counties. Chaired by Daniel C. Gundersen, Upstate ESD is charged with delivering on Governor Spitzer's strategy for economic development — to lead New York's transition to the innovation economy, focus investments on targeted industry sectors and infrastructure improvements, and align state activities with local and regional needs.

Under Chairman Gundersen's leadership we recognized that in order to move

Upstate forward, programs and ideas couldn't be developed in a vacuum in Albany, but instead, through regional collaboration. Chairman Gundersen organized a series of Regional Blueprints — an unprecedented initiative that engaged more than 500 economic development professionals, business and civic leaders in a dialogue that enabled Upstate ESD to identify the barriers faced by each region. The Governor in turn used this information to formulate an Upstate strategy and has proposed a budget that devotes significant resources to address the needs regional leaders identified.

Looking ahead, the \$1 billion Upstate Revitalization Fund will capitalize on the progress to-date and, in aggregate, is designed to spur Upstate's economy through a variety of strategic investments. Most importantly, \$350 million have been dedicated to address the needs upstate regions defined as the most pressing. For example, the construction and enhancement of development-ready sites and industrial parks; provide small business loans for machinery, equipment, real estate and other needs; and fund programs, tools and facilities needed to link idea creation and job creation.

In addition, it creates a \$10 million Venture Capital Fund — a pilot program to provide seed capital tied to accountability measures for 10 to 15 small companies that have the potential to expand into major employers. Low cost power programs, brownfields reform and a continuation of the City-by-City funding are also included.

The Governor also recognizes that the success of Upstate is tied to being glob-



Christina Orsi, Regional Director, Upstate Empire State Development Corporation, Western New York Region.

ally engaged. In the State of Upstate he proposed an international marketing fund, and Chairman Gundersen has begun building up an international staff to assist manufacturers in finding markets for their products.

These initiatives will operate in concert with existing ESD programs and services like the Manufacturer's Assistance Program (MAP) that provides grants of up to \$1 million to encourage investment in projects that increase a business's productivity and competitiveness, and Environmental Services that provides businesses with financial and regulatory assistance, market information, and information on new technologies to reduce waste and prevent pollution.

We believe Upstate New York is a great place to do business, and these initiatives will positively contribute to the growth and expansion of our manufacturing base.

Christina Orsi is the Regional Director of Upstate Empire State Development Corporation - Western New York Region. She can be reached at 716/856-8111 or corsi@empire.state.ny.us. ❖

Can a Rust Belt City Government Apply Lean & Six Sigma Principles with Success?

Book Review:

Performance is the Best Politics

by Graham Richard, Mayor, Fort Wayne Indiana

Over the past 5 years, Fort Wayne Indiana has become a showcase for how Lean and Six Sigma methods can be applied to government departments to provide improved services while saving millions of dollars, reducing the tax rate and providing increased opportunities to government employees to advance their professional knowledge and change their jobs for the better.

Seven Success Stories

The author, Mayor Graham Richard, presents seven examples of how teams of cross-department employees learned and began applying unfamiliar Lean and Six Sigma techniques in improving activities in various city departments. In one example, the time to repair potholes was reduced from over 35 hours to less than four hours. In another situation, missed garbage pickups provided by an outside contractor were cut

in half. And in one case, sewage treatment plant operational expenses were decreased by hundreds of thousands of dollars per year and a major capital expenditure avoided by establishing more consistent procedures between shifts.

So What Prevents Government from Improving?

Mayor Richard emphasizes that there are many dedicated and capable employees in government who, if given training, guidance and permission, are willing and able to improve services while reducing costs to the taxpayers and making their jobs more satisfying. However, he states that it is the internally-focused management style that leads to unhappy customers and taxpayers. That is, government is often managed in a manner where employee goals and performance reviews are based almost exclusively on what the department manager thinks is important versus external or customer-related measures. Often government departments do not even think in terms that they have customers. Also, because work is done in the public eye, there is a very conservative attitude of taking the safest path, which usually means maintaining the status quo, and not sticking out one's neck to make changes. Additionally, part of an internal focus is a strong silo mentality where each department is focused on their jobs with little concern for communication with people in other departments. Some less enthusiastic long-time employees may have an attitude where they 'wait out' an elected officials or appointed manager's finite term.

How to Tips

The mayor provides tips on how elected officials can initiate and sustain improvements in government operation using Lean and Six Sigma approaches. Among his suggestions are to initially involve external help to teach and guide government employees in applying Lean and Six Sigma concepts, to identify and appoint enthusiastic individuals already in various government departments to lead and sustain change efforts, and to drive toward early successes that can provide momentum in convincing skeptics. Mayor Richard also indicates the importance of identifying 'who' the department's customer is and basing decisions and improvements on tangible metrics that are relevant to the customer.

This fast reading book provides evidence that with the right leadership, government effectiveness and efficiency can be dramatically improved. ❖

Principles of Lean Manufacturing

Join Insyte Consulting for a fast-paced, information-packed session that will show you how to reduce costs, speed up delivery times and improve quality in your manufacturing operations.

Date: Wednesday, June 4, 2008

Time: 8:00 AM - 4:30 PM

Site: LCo Building, 726 Exchange Street,
6th Floor, Barton Room, Buffalo NY 14210

Cost: \$75.00
(includes lunch & training materials)

For more information or to register visit
www.insyte-consulting.com or call 716.636.3626.

This interactive workshop introduces the basic concepts of lean manufacturing and demonstrates the tools and methodology necessary to implement "lean" on the shop floor by combining a comprehensive classroom presentation with hands-on simulation of a production facility. ❖

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duct a full investigation of this incident.

As you walk down the hall, you ask yourself, "Where do I begin?" You hate to admit it but the causes of accidents in your company are usually identified as employees who are careless, negligent or just plain klutzy. How do we say that about the General Manager? Clearly, a new way to identify the causes to an accident must be concocted and soon!

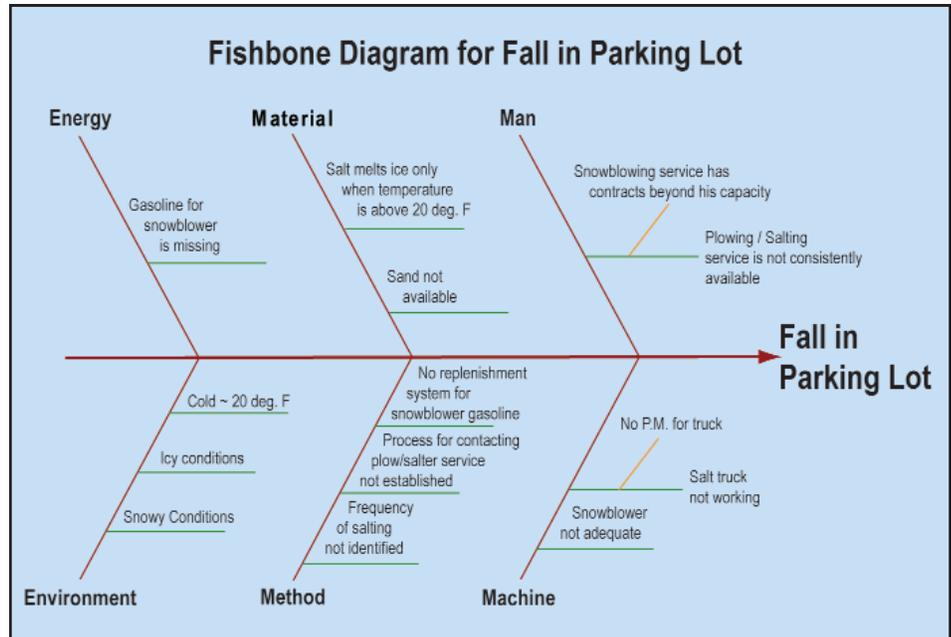
Fishbone Diagrams — Not Just for Quality Issues

Then it hits you as you look on the wall while passing the Quality Manager's office. It's an Ishikawa fishbone diagram. If it provides a structured approach to identifying the root causes of quality issues, why wouldn't it work for safety mishaps?

The fishbone diagram, drawn to resemble the skeleton of a fish, puts the problem statement, in this case, a fall in the parking lot, at the head of the skeleton. General categories identify the main bones or the causes of the accident. For Safety, these may include man, machine, material, method, environment, and energy. It is important to focus on the multiple causation factors that are present in most accidents to spur further consideration of these different factors.

Brainstorm the Direct Causes

The skeleton of the fish is expanded by adding direct causes to the accident in branches coming off of the appropriate main categories. The trick is determining these direct causes. Brainstorming with employees who may have some knowledge of the issue can serve this purpose. Once possible causes have been generated, make sure to use a voting technique to identify the most likely contributors.



Use the 5-Why Approach to Determine Root Causes

In conjunction with brainstorming or on its own, the 5-Why Approach may also be used. It will serve to drill down to the root causes of each factor influencing the incident by asking why the condition exists approximately five times. The answer to each 'Why?' can be added to the diagram as an off-shoot of the appropriate branch. Since the root cause is likely to affect an assortment of potential incidents and not just a single event, associated corrective actions may prevent multiple safety mishaps from occurring.

Promote Positive Outcomes

Borrowing the fishbone diagram from Quality professionals and applying it to accident investigations can promote many positive outcomes. Multiple causes surface even though, initially, they may not have been readily apparent. We also see that human error is typically only a symptom and not a root cause to many safety incidents. Quality management principles tell us that 85% of the

factors leading to quality problems are management's responsibility. We are likely to find that the same is true for safety incidents thereby allowing us to identify areas where widespread impact can be made for safety.

Fixing the Problem is the Crown Jewel of this Treasure Hunt

Be sure to examine the comprehensive system as depicted by the fishbone diagram while noting the interrelationships. Identify the best way to control the entire system so that none of the root causes will lead to a similar incident in the future. This becomes the best corrective action and the one that should be implemented without delay. Verify the effectiveness of the fix to confirm that future incidents will be prevented.

Sharon Hilts is an Insyte consultant. Her leadership focus on safety improvement has resulted in significantly fewer recordable incidents and corporate awards in OSHA's Safety and Health Achievement Recognition Program (SHARP). ❖

GMP Requirements for Medical Device Suppliers

by David English

Medical Device manufacturers must comply with FDA Good Manufacturing Practices (GMPs) specific to Medical Devices and, to a varied extent, GMPs apply to their suppliers. If you want to be a supplier to a medical device company, you need to fit the criteria set by your customer.

Medical Devices Manufacturers are required to comply with regulations FDA 21 CFR - part 820 GMPs. This Quality System Requirement (QSR) establishes system structures.

An ISO 9001 standard establishes a Quality Management System that is generally the same as QSR 820's four main systems. The FDA QSR 820 is specific to just Medical Device industries and FDA QSR's 210 and 211 are specific to the Drug and Pharmaceutical industries.

IEP Funding Available to Fund Improvement Initiatives.

The Industrial Effectiveness Program (IEP) is designed as a participatory grant to reimburse WNY manufacturers for out-of-pocket consulting expenses that introduce improvement initiatives into their company. Typical projects may include strategic planning, quality systems, lean manufacturing, human resources, marketing, supply chain management, information technology, safety, etc. Multiple activities may be covered under a single grant.

Contact Insyte Consulting at **716.636.3626** to see if there are opportunities for your company.

World Trade Celebration 2008

Thursday, May 8, 2008

Presented by

World Trade Center Buffalo Niagara

Keynote Speaker

Joe Loughrey, President & COO,
Cummins Inc.

For details contact Barbara Whalen at 716.852.7160 or
bwhalen@wtcbtn.org.

Basically, the 820 regulations are established in 15 logical subparts in four main systems that define how to manufacture and control in a manner to ensure that finished devices will be safe and effective for care givers and users. The main systems are:

- Management Controls
- Design Controls
- Production and Process Controls
- Corrective and Preventive Action Controls

While these subparts are too detailed for this overview, be aware that this is how the FDA regulates Medical Device manufacturers.

A new ISO standard, ISO 13485, was created to set specific ISO requirements for Quality Management regulations in order to achieve regulatory compliance in the Medical Device industry. ISO 13485 follows the format, structure and process approach of ISO 9001 with additional specifics where appropriate.

The major added requirement to ISO 13485 is the strengthening of the Design Controls and Development requirements, adding risk management throughout the product realization process as a requirement.

Risk management is so critical to the Medical Device industry that reference is made in the ISO 13485 standard to follow a separate ISO standard for risk management. This standard is ISO 14971 - guidance for risk management. In addition ISO 14969 provides guidance for the application of ISO 13485.

If you are working with a Medical Device manufacturer as a source for components or assemblies, you need to be aware that these ISO requirements guide their relationship with suppliers. A successful supplier will be one that can implement controls that will support GMPs and any requirements specified for a Medical Device that has been designed with risk reduction built in. This translates to "your specifications with verifiable acceptance criteria."

If you have an effective holistic Quality System you are a solid candidate to become a supplier to the medical device industry. Just remember that the customer is trying to be very compliant while delivering a safe and effective device to a caregiver or patient.

David English, Insyte Consultant, has extensive compliance experience with ISO and FDA-cGMP, including ISO 13485 inspections in the medical device and pharmaceutical/ drug industries. ❖

Filegar Case Study



Filegar Cutting Technologies continued from page 1

business. The prospective owner also recognized that significant changes would be required if a profitable business situation were to be realized after completion of the proposed acquisition. For these reasons Insyte Consulting was engaged to provide more clarity to the financial situation and to also assist with the ownership transition once the anticipated sale was consummated.

Solution

The first step was to conduct a business valuation of the company that would determine a fair and reasonable price for the business, primarily based on free cash flow analysis. This information was used for negotiating purposes for the involved parties as well as appropriate financial input for the lending institutions funding the sale.

Upon completion of the business valuation, a formal strategic plan was formulated in 2004 during the negotiation period of the sale. Not only did this exercise define the company's vision, mission and core values, it also helped to identify its strategic goals, objectives, action plans and key performance measures that would help drive the future growth and success of the organization.

With this document in place and the ownership transfer completed in April, 2005, the new management staff was able to begin focusing on the resolution of the various issues raised during the strategic planning process. Of particular concern were the existing accounting system and IT capabilities of the organization. The DOS-based business system was not only antiquated, but was at a stage where ongoing support was unlikely. The system's capabilities were generally limited to basic accounts receivable/payable and general ledger functions. Purchase orders, invoices and customer-rela-

tionship management functions were strictly manual activities. The system also had no search capability or easy compilation of historical data. In general, the use of this system was limited to just the president and office manager with limited shared file capability between the two.

Insyte Consulting assisted with the installation of an internal network and server that could be used by all key individuals within the organization. Simultaneously, Quickbooks was installed as the new accounting package and in-depth training was provided to those responsible for these activities. With minimal orientation, the staff was quickly able to electronically complete sales orders, packing lists, purchase orders, invoices and inventory management functions. This not only improved internal efficiencies but dramatically improved customer service and response as well. This improvement should be further enhanced once the sales force is enabled with hand-held IT field capability.

Results

The company has benefited significantly as a result of these consulting engagements over the last 2-3 years. Despite a fairly complicated transaction, the transfer of ownership was completed with virtually no business disruption or adverse affects on either customers or vendors. The company has also achieved operational profitability. Filegar Cutting Technologies has realized a positive monthly net income of 8-9% and the average accounts payable has been reduced by nearly 70%. The company has maintained open credit with all key vendors; low margin business has been replaced with more profitable accounts; and bank debt linked to the acquisition has been reduced by 25%. Real growth of 5-10% annually is also projected for the foreseeable future. ❖

“The company has returned to being a profitable, well run business. Insyte played a critical role, both during and after the ownership transition period. Their involvement has contributed greatly to the operational improvements that have been realized.”
Neal Gustafson, President

Firm Benefits

- Ownership transfer complete without business disruption or adverse effects on customers or vendors
- 8-9% positive monthly net income realized
- 70% reduction in average accounts payable
- Open credit with all key vendors maintained
- Low margin business replaced with more profitable accounts
- 25% reduction in bank debt linked to acquisition
- 5-10% annual growth is projected for the foreseeable future



Chuck Yaw sharpens high speed steel knives at Filegar Cutting Technologies.

Affiliates News

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Celebrating 25 Years of Service

Founded in 1982, we are one of the largest management consulting organizations in Western New York.

Our mission:

“to transform our region by stimulating the growth and creation of dynamic companies to provide a superior standard of living for our residents.”

We do this by working with WNY manufacturing and technology companies to help them grow their sales and profitability. Our industry-experienced, full-time staff provides results-oriented solutions customized to our clients' specific situations.

Since 2000, our work with WNY companies has resulted in*:

- over 3,900 jobs created or retained
- over \$525 million in sales, cost savings and new investments
- an average of \$39 payback for every dollar spent with Insyte.

**according to independent surveys of our customers
Amount reported January 1, 2000 - December 31, 2007*

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