McMillan Electric Company

PRECISION ELECTRIC MOTORS

To Whom It May Concern:

Monday, January 17, 1994, was a watershed date in the life of McMillan Electric Company. This was the day that I first met Ashok Thakkar and began my journey into professional Quality Management Systems. Before I tell you why this relationship was so important to me, let me first tell you a little about McMillan Electric Company.

Incorporated in 1976, McMillan Electric Company began producing 2,000 small electric fan motors per day with approximately 50 employees. A management team with significant experience in the motor industry coupled with low start-up costs yielded us advantages in the marketplace. Over the next 18 years we remained firmly ensconced in our fan market niche. Economies of scale stemming from a single product coupled with large production runs made us financially successful.

Yet, this success was slowly evaporating in an almost imperceptible way. We were losing ground to foreign competition. We didn't have an effective sales and marketing program, we didn't have a new product development team, and we didn't have a Quality Management System which could support the additional sophistication that new customers demanded.

Because of our intense specialization, our quality was "reasonably good" for an American company. Approximately 1% of the fan motors we produced were returned under our two-year warranty return policy. I thought this was acceptable; I was wrong. Each time we attempted to diversify into other areas of the motor business, we encountered significant resistance in the area of new product approval. This was due, primarily, to the fact that we simply did not have a reliable Quality Management System able to guarantee defect-free production and extended motor life

Let me now return to Monday, January 17, 1994. My first meeting with Ashok Thakkar was very enlightening. He spoke of a formal ISO 9001 Quality System. He talked about statistical process control, parts to print, quality built into the product rather than high levels of inspection. He talked about eliminating warranty returns and the significant cost advantages this would bring. He also spoke of the customer loyalty the improved quality would engender. Over the next nine months, McMillan effectively implemented the ISO 9001:1994 Quality Management System. Ashok's help was indispensable in this regard. He knew how the system should operate. He knew the best way to implement the system. He knew the best way to train employees and he knew the best way to insure strict adherence to the Quality Management System. Most importantly, he did all this with enthusiasm and a positive, friendly approach, which helped each McMillan employee embrace the changes being made.

I could go on and on about the benefits that a professional Quality Management System has brought to our company, but there is neither time nor space for that here. Rather, I would like to offer a close-up view of three specific company Critical Success Factors, which have been dramatically improved by the implementation of our Quality Management system. (See Exhibit A for details)

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Satisfied customers, satisfied employees, competitive pricing, corporate profitability, and long-term growth—these are but a few of the true benefits of an effective Quality Management system.

Ashok, I cannot thank you enough for teaching us these essential Quality Management System techniques. Each employee of McMillan Electric Company thanks you. We are forever in your debt.

Sincerely,

Douglas McMillan
Chief Executive Officer

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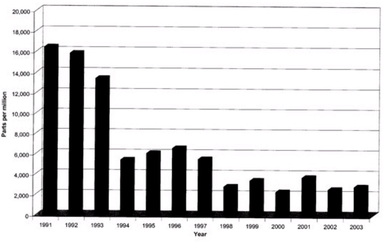
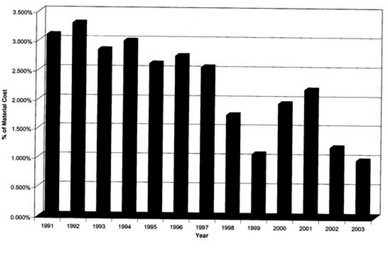
EXHIBIT – A

1. **Warranty Returns - As you can see by the chart, our warranty return rate has fallen from a high of sixteen thousand motors per million in 1991 to our current rate of twenty-eight hundred motors per million. While our product mix has changed somewhat over the years, it is reasonable to assume for comparison purposes that the cost of each returned motor averages approximately $15. Thus, the annual savings in warranty returns accruing directly to McMillan Electric Company's bottom line is over $200 thousand per year. There are many other benefits associated with low warranty returns. We have gained new customers because we have an excellent quality record. We retained existing customers because of improved Quality Systems. While these benefits are difficult to quantify, I can tell you, based on 30 years experience in the motor industry, we probably would have lost a significant portion of our customer base had we not implemented a robust Quality Management System. Truly, it may have been the difference between remaining in business and going out of business.**



2. **Scrap – As you can see, over the years our scrap rate has fallen dramatically to below 1% of material used. Employee training, preventative maintenance, print control, parts to print, statistical process control—all of these Quality Management System techniques brought to us by Ashok Thakkar, have yielded a dramatic reduction in our scrap rate. If the percentages are translated into dollars, the yearly material savings from 1991 to now would be over $500 thousand per year. All this, again, flows directly to the bottom line. Again, there are tremendous soft benefits to a low scrap rate. Employees are proud of a defect-free product, they enjoy machines that work well, they like statistical process control and they have a great deal more pride in the jobs they perform. This yields pride in their work, pride in their company, and an increased dedication to productivity. While I can't be sure, I would say the soft benefits of low scrap are at least equal to the actual material savings listed above.**



3. **Employee Productivity – Over the years, McMillan Electric Company has invested several million dollars in new equipment to increase employee productivity. This needs to be mentioned in conjunction with our Quality Management System because it is a significant factor in our quest to increase output per employee. That said, automation must be coupled with a robust Quality Management System if it is to be successful. Training on sophisticated equipment must occur on time and on a regular basis. Machines must be maintained properly using a robust preventative maintenance system. Set-up instructions, measurement systems, gauge calibration—all these Quality Management system techniques and more are essential in delivering the high levels of employee productivity required in today's competitive marketplace. Increases in employee productivity have generated yearly savings of nearly $350 thousand per year. This, again, flows directly to the bottom line. And what are the soft benefits of increased employee productivity? As a company you are far more competitive, you are far better able to compete against low cost foreign competition. Without increased employee productivity, you simply cannot stay in business today.**