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## Malcolm Baldridge National Quality Award 1990 Recipient Wallace Co., Inc.

Wallace Co., Inc., a Houston-based industrial distribution company, bucked the conventional business wisdom during the mid-1980s. With the Gulf Coast economy in the doldrums and new construction activity -- its primary source of revenues -- at a standstill, Wallace avoided short-term remedies, and pursued a long-term strategy of Continuous Quality Improvement.

In only a few years, Wallace has distinguished itself from its competitors by setting new standards for service. It has emerged as a stronger firm with a rapidly growing sales volume, steadily increasing market share, and better profit performance.

Now entering the final stage of the three-phase quality program it initiated in 1985, Wallace has effectively merged business and quality goals, built new partnerships with customers and suppliers, and instilled associates with a commitment to one overriding aim: total customer satisfaction.

### WALLACE: A SNAPSHOT

Founded in 1942, Wallace is a family-owned distribution company primarily serving the chemical and petrochemical industries. Its 10 offices, located in Texas, Louisiana, and Alabama, distribute pipe, valves, and fittings, as well as value-added specialty products such as actuated valves and plastic-lined pipe. Wallace distributes directly in the Gulf Coast area but serves international markets as well.



In tandem with its move to Continuous Quality Improvement, Wallace shifted its marketing focus from engineering and construction activities to maintenance and repair operations, now the source of 70 percent of its sales. In 1989, sales totaled \$79 million. The company employs 280 associates, all of whom have been trained in quality improvement concepts and methods.

### "CONTINUOUS QUALITY IMPROVEMENT"

The seeds of the Wallace quality process were sown and cultivated by the company's five top leaders, directed by John W. Wallace, Chief Executive Officer, and C.S. Wallace, Jr., President. Comprising the Quality Management Steering Committee, each of the five has undergone more than 200 hours of intensive training on the methods and philosophy of Continuous Quality Improvement. Their hands-on involvement is typified by the participation of at least one senior leader in all quality activities, including on-the-job training for associates.

Leadership drafted the company's Quality Mission Statement, which was circulated throughout the company. Embodying input from all associates, the final document serves as Wallace's public commitment to Continuous Quality Improvement. It is distributed to all associates, customers, and suppliers. Furthermore, Wallace developed 16 Quality Strategic Objectives -- nine of which focus on improving customer satisfaction -- to guide business decision making. In fact, business and quality aims are one and the same, formulated in Wallace's Quality Business Plan.

Associates are responsible for devising and carrying out plans to accomplish objectives under the company's cooperative, yet centralized, approach to quality improvement. Since 1985, participation on teams, whose membership is voluntary and cuts across departmental and district office boundaries, has increased sixfold. Team planning and decision making are greatly aided by an extensive set of customer-focused databases,

accessible to all associates through the company's computer system. Teams are assisted by 12 statistical process control (SPC) coordinators, who chart trends, conduct failure mode effects analysis to isolate real and potential problems, and evaluate progress in accomplishing quality objectives. Each district office has at least one SPC coordinator on staff, and one day a week at all sites is devoted to evaluating and planning quality improvements.

Wallace has fixed its sights on providing the products and services that best meet the needs of its regional market, but the scope of its quality improvement efforts is truly worldwide. Measurable quality benchmarks are identified in global searches for the top-performing companies in each category of service or business operation, from on-time delivery to safety performance.

Not only does Wallace comprehensively monitor its activity -- it has identified and now measures 72 discrete processes that contribute to on-time delivery and accurate invoicing -- but it invites the scrutiny of customers. Customers receive computer-generated reports that document how well the company has been servicing its accounts. Customer feedback is ensured through four types of surveys, "partnering" meetings, frequent contacts by sales representatives, and a Total Customer Response Network that must respond to all inquiries and complaints within 60 minutes.

Moreover, customers have access to some of Wallace's databases. Wallace also has led the way in converting customers to Electronic Data Interchange. Both Wallace and its customers reap the advantages of better inventory management, time savings, error reduction, and more accurate data. About 40 percent of Wallace's sales orders are now handled electronically, compared with less than 5 percent in 1988.

Wallace holds suppliers to its same high standards, requiring firms to provide statistical evidence of the quality of their shipments and to guarantee their products for a minimum of 12 months. Based on its quality surveillance measures, the distributor has trimmed the number of its suppliers to 325, down from more than 2,000 in 1987. To ensure that suppliers consistently provide products meeting the expectations of customers, Wallace provides training in Continuous Quality Improvement, a first in the industry. Last year, 15 suppliers initiated processes based on the Wallace model.

In another pioneering initiative spawned by a committee of Wallace, customer, and supplier representatives, the company has implemented a vendor certification process, in which Wallace and its major customers will jointly assess the quality processes of suppliers. Because associates drive quality improvement, Wallace has invested about \$2 million in formal training between 1987 and the end of 1990. Teams of associates closest to a specific area targeted for improvement are charged with identifying the steps necessary to accomplish a quality objective, with standardizing the methods to assure consistent performance, and with conducting the necessary training at all departments and offices.

"Quality wins" are reported in the company's monthly newsletter, acknowledged in congratulatory letters from the CEO, and rewarded with dinners for the responsible associates and their families or with team picnics.



Simultaneous with management's efforts to increase associate involvement in Continuous Quality Improvement, rates of absenteeism, turnover, and work-related injuries have dropped sharply. New associate-led projects are intended to foster greater dedication and higher levels of job satisfaction. For example, teams are studying ways to enhance career development opportunities. In a newly begun program, each associate will visit at least one customer site to discuss service performance.

These and other initiatives have paid numerous dividends. Since 1987, Wallace's market share has increased from 10.4 percent to 18 percent. Its record of on-time deliveries has jumped from 75 percent in 1987 to 92 percent in 1990. By July 1991, the distributor has committed to guarantee all customers an on-time delivery rate of 98 percent. Its customer base has grown, while existing clients have increased their business. As a result, sales volume has grown 69 percent and, because of greater efficiency, operating profits through 1989 have increased 7.4 times. Wallace has earned numerous awards from customers in recent years, verifying its high and improving status as a quality supplier.

**Baldrige Website comments:**

[baldrige@nist.gov](mailto:baldrige@nist.gov)

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