

COST OF POOR QUALITY

When someone says, "That's going to cost you!" I am sure it's a warning to be careful moving forward. Having to go back and fix something we did not get right the first time is when "That's going to cost you!" rings true. What I find interesting is that I have never met a business owner who knows the exact cost of poor quality in his or her company.

I always want to produce a quality product that is priced right, delivered on time, and what my customer wants and needs. I also want to work as efficiently and effectively as possible, while receiving the highest rate of return on my investment. The day I found out that I could add to my bottom line by doing just that, I got excited! Here's how this can begin to happen for you.

It all starts with understanding the cost of poor quality. Let me give you my simple definition for quality. Quality is meeting agreed upon requirements and standards. There is no high quality and no low quality. Either we did or did not meet the agreed upon requirements and standards.

The trick is finding the least cost that does not compromise quality. It's always wise to avoid short-term profit at the cost of long-term gain. Least cost should never allow waste. For me, waste is anything that consumes resources and does not fulfill our customer's wants and needs. The costs of poor quality are vast in number, as can be seen in the picture to the right. Here are a few more:

- Re-inspections
- To little or too much inventory
- Idle time waiting on people or materials
- Assessor/auditor misses details at the home
- No process, a poor process, or too many processes
- Running for materials or delivering them to the work site when the materials should have already been there
- Unnecessary motion (e.g. returning to the vehicle looking for tools or materials)
- Not using the intellectual capabilities of employees

These costs are at the root of all loss of profit, and each takes away money that could have been earned or not wasted. Not knowing what poor quality costs leads to failure to act. Comments such as, "It's a lot" do not move us to change. Once we know exactly what poor quality and inefficiency cost, we can take action to turn it around. Let me share a the steps to help calculate the Cost of Poor Quality (COPQ).

Visible costs of poor quality are a small portion of the overall cost

Delays/Re-inspection
Increased Cycle Time
Rework
Waste
Testing



High risk

Variation

Late paperwork

Safety issues

Employee unhappiness

Lost market share

Customer dissatisfaction

Excessive overtime

Employee turnover

Pricing or billing errors

Lack of follow-up

The majority of the costs are not easily identified and measured

