



Drive Down the Cost of Quality By Michael J. McHale, Senior Consultant, TSI-Transforming Solutions, Inc. webinfo@transforming.com.

Some pretty famous business gurus have gotten rich by claiming that "Quality Is Free". Has that been your experience? Think about the following with respect to your organization:

How much does "quality" truly cost your company?
Do you know if you are over or under spending in the area of quality?
How can you get the biggest bang for your quality buck?

Everyone knows that investing in quality to meet customer requirements and expectations makes good business sense. Sound investments in quality generate great returns. But, are you making the right kinds of investments in quality? Do you even know what your total quality investment is? How are you quantifying your returns? How have you changed your approach to quality since you've pursued the first wave of change?

When asked how much they are investing in quality, most businesspeople mention their design, engineering and quality departments and programs... and they usually can quantify much of the investment they make in those areas. But the total cost of quality goes much deeper, and it typically goes unrecognized and unchallenged.

To get a handle on the cost of quality, ask yourself this question: "What dollars would drop to my bottom line if I improved my processes so that my quality (as defined by my customers) was perfect?"

The answer might startle you.

To determine those potential profits, you'd first need to identify:

What you spend to prevent quality problems and defects from occurring and recurring
How much it costs to internally and externally evaluate, inspect and appraise the quality your products and services
The amount you spend on product or service failure: waste, scrap, returns, field failures, warranties, associated legal costs and corrective actions

Don't forget those supplier management, customer satisfaction measurement and complaint handling costs.

While you're at it, add in costs associated with losing customers or portions of their business due to quality issues, and you may want to estimate poor quality's impact on your ability to attract new customers.

Even if some of these costs appear small individually, as the late Senator Everett Dirksen observed, sooner or later they add up to real money. Many companies are shocked to find that their true cost of quality can run between 15% and 50% of sales!

Here are some simple steps that you can take to improve returns on your quality investment:

1. Put together a comprehensive estimate of your annual quality investment... this may take some digging
2. Identify process changes that can help eliminate failure costs and implement them
3. Focus your inspection and appraisal processes on critical to quality factors so they do the most good
4. Invest most heavily in preventive processes that enable quality, prevent defects, and stop problems from recurring
5. Set up a Cost of Quality scorecard to measure your success as you improve quality cost related processes
6. Recognize, reward and celebrate improvements as they occur
7. Institutionalize those improvements to establish a culture of quality cost recognition and reduction

TSI can help you change your processes to make sure that the dollars you spend on quality brings you a high rate of return on your investment. Let's drop as many quality cost dollars as we can... straight to your bottom line!

TSI can:

- Determine your total cost of quality
- Change your processes to optimize your quality investment
- Identify metrics to measure your quality cost performance
- Accelerate your quality cost progress and help you maintain your achievements

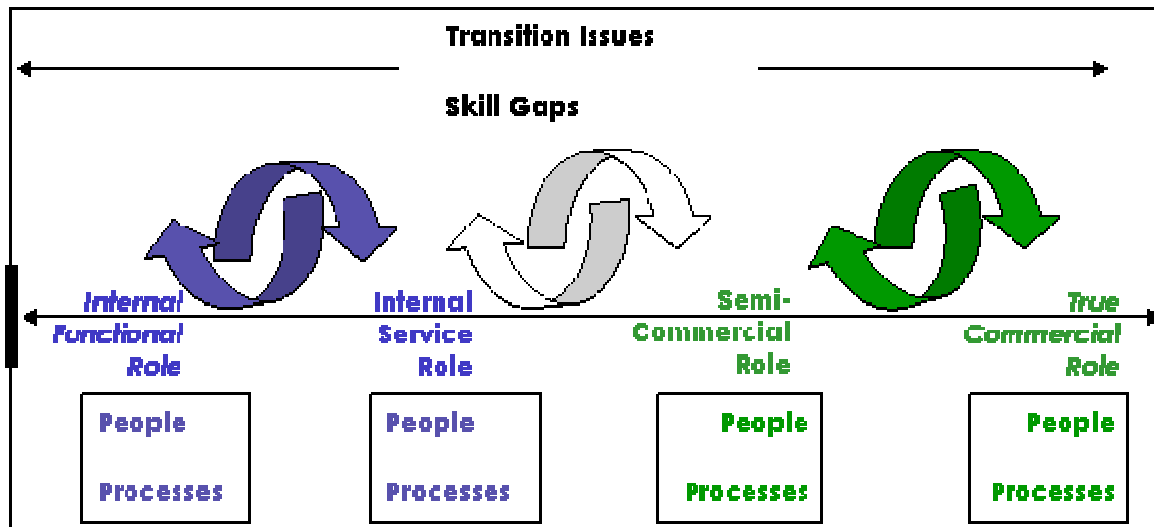
NIU Center Joins Research on Changes in Information Technology

The Center for Technology and Process Management, a part of the Department of Operations Management & Information Systems (OMIS) in the NIU College of Business, has joined the profIT Research Initiative – an ongoing research effort to study the changing role of information technology (IT) executives.

The collaborative effort includes the Illinois CIO Exchange, a Chicago-based professional association for IT executives and TSD Group, a research and consulting firm located in Bartlett, Illinois that specializes in information technology research and counsel. During preparatory phases of the initiative, researchers devised a model – The IT Contribution Continuum (see Figure 1) – to probe different patterns of IT contribution.

The Continuum was then used during in-depth interviews and focus groups with executives of 58 mid-sized and large Chicago-area enterprises. Interview discussions focused on the relationship of business needs to IT processes, priorities and personnel.

Figure 1. The IT Contribution Continuum Model



Among the findings:

IT organizations report a variety of patterns of movement along the continuum. For example, some IT functions are migrating from primarily internal roles to more external support.

In almost all cases, movements along the continuum were required to align the IT function more closely to overall business objectives.

The focus of IT functions closely mirrored financial perspectives of senior management. When viewed as a cost, IT functions tended to focus on internal activities. When seen as a potential revenue contributor, IT functions tended to increase attention on externally-related contributions.

Movement along the continuum can cause significant disruption and change within IT functions. For example, IT functions taking on more externally focused roles reported gaps in training and processes.

There is a discernible trend of IT organizations providing external services – often to company-related stakeholders such as suppliers, distributors, independent sales agents and others.

IT executives reported a growing need for “business oriented” IT employees who could apply technologies for business improvements.

Participating IT executives have given high marks to preliminary findings. According to many, networking improves because companies of differing sizes and industries may share common concerns based on their place on the Contribution Continuum.

Questions for the CIO to Consider

Where is my IT organization on the Contribution Continuum, and where should it be?

What are the costs versus benefits?

How does this fit with the organization's overall strategy?

What are the core competencies of my organization?

What market forces are driving this change?

What transition issues need to be addressed to move to a different position on the Contribution Continuum?

Do we have the necessary skills in house?

Are the appropriate processes in place?

How will the organizational structure, including costing issues, change?

What support and resources are available for a shift in focus?

Future research will continue to study impacts on changing roles and responsibilities – with a focus on IT functions reaching outside the enterprise to create value for suppliers, distributors and customers.

Want to know more about the profIT Research Initiative or need information on how your organization can get involved with the Center for Technology and Process Management? Contact Nancy Russo at 815-753-1185 or nrusso@niu.edu

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