



Workshop: Direct vs Hidden Cost

From the following list of 20 quality costs, identify which are indirect/hidden and which are direct:

	INDIRECT/HIDDEN	DIRECT
Reprocessing	_____	_____
Paperwork Errors	_____	_____
Warranty Expense	_____	_____
Extra Inventory	_____	_____
Downgrading of Product	_____	_____
Extra Process Capacity	_____	_____
Premium Freight Costs	_____	_____
Customer Allowances	_____	_____
Sorting/Inspection	_____	_____
Overtime to Correct Errors	_____	_____
Loss of Goodwill	_____	_____
Obsolete Inventory	_____	_____
Delays	_____	_____
Customer Returns	_____	_____
Process Downtime	_____	_____
Lost Sales	_____	_____
Rejects	_____	_____
Lost Discounts	_____	_____
Incorrect Orders Shipped	_____	_____
Damaged Goods	_____	_____

Now calculate the ratio or percentage of hidden to direct costs _____



Facilitator’s Notes:

The terms Direct and Indirect relate to the manufacturing process.

	INDIRECT/HIDDEN	DIRECT
Reprocessing	_____	<u>3</u> _____
Paperwork Errors	<u>3</u> _____	_____
Warranty Expense	_____	<u>3</u> _____
Extra Inventory	<u>3</u> _____	_____
Downgrading of Product	_____	<u>3</u> _____
Extra Process Capacity	<u>3</u> _____	_____
Premium Freight Costs	<u>3</u> _____	_____
Customer Allowances	<u>3</u> _____	_____
Sorting/Inspection	_____	<u>3</u> _____
Overtime to Correct Errors	<u>3</u> _____	_____
Loss of Goodwill	<u>3</u> _____	_____
Obsolete Inventory	<u>3</u> _____	_____
Delays	<u>3</u> _____	_____
Customer Returns	_____	<u>3</u> _____
Process Downtime	<u>3</u> _____	_____
Lost Sales	<u>3</u> _____	_____
Rejects	_____	<u>3</u> _____
Lost Discounts	<u>3</u> _____	_____
Incorrect Orders Shipped	<u>3</u> _____	_____
Damaged Goods	<u>3</u> _____	_____

Of the 20 costs, only 6 are direct. The remaining 70% are hidden or indirect. Therefore, if an effort is made to target and reduce these costs, then improvement will result.

A review of the Action Plan budget in Module 1 will help to reinforce the categories and their impact on the organization.