Workshop: Failures Typically Cost up to 30% of Revenue $$!!

Often the additional costs to a business arising from "failures" to deliver or produce the agreed products and services (failure costs) are accepted as being just part of doing business. Some consider that they are the dollar consequences of Murphy's Law – and often they are not even specifically counted! Deming, Juran and Crosby estimated over 30 years ago that, for most producer-manufacturers, typically as much as 25-40% of total revenue each year went to pay for mistakes or failures of one sort or another. These are the Costs of Poor Quality!

While these numbers might appear at first glance a little staggering, for a company that has not made any attempts to develop a quality management system, numerous measurements confirm this range. Juran referred to these avoidable costs as "gold in the mine". Unfortunately, even in today's economy, many North American companies have been slow to hear and accept the message and then do something about it!

Let's calculate very simply what lack of quality could cost your organization:

The Simple Calculation:

1. Your total annual sales = ________________
2. 30% of the above figure = ________________

What is your first reaction to that number? Is it possible that your organization is wasting that much each year?

Frequent responses from senior management are:

"At other companies, perhaps, but not here."

OR

"Surely you mean 30% of production or manufacturing costs?"

However, the 25-40% range applies to many companies who do not manage quality and it must be realized that quality is not just a problem in a production department. For example, an incorrect invoice that has to be reissued costs something. Consider the following:

- There are time/telephone costs used to deal with the initial inquiries, both outside and inside the organization.
- There is time for an invoice clerk to re-key the data.
- There is time to reprocess the information.
- There are time/costs to reissue and send the corrected invoice.
- There may be financial costs, e.g., interest when cash flow does not meet projections because the invoice is delayed.
- There is time spent dealing with the customer or supplier who was in receipt of the incorrect invoice.
- There is the intangible cost of lost opportunities, because of all the time and resources spent correcting the invoice.