

WHAT DID THEY DO WITH THE MONEY?

By

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I've written on this question before, but it keeps coming up. People want to know what happens to the money that is saved from reducing the Cost of Quality. For some reason, they expect all of it to fall in one big lump to the bottom line.

My suspicion is that such questioners have not thought out the question very carefully.

Suppose you are used to paying \$125 a year for oil changes to your car, and you budget for it. Then you discover, through problem elimination actions, that you can buy the oil at a K-Mart. With a little spare time, and much handwashing, you reduce the cost of that effort to \$65 a year.

What do you with the \$60? Give it to your wife? Or, do you do something else that you wouldn't have been able to do before?

The main practical use of cost elimination is to be able to spread out your funds to cover more projects. To be able to do more things.

Companies must continually cost reduce if they are to maintain their margins, and if they are to continually grow. Products cannot raise their prices as fast as the cost of manufacturing them grows. Therefore, continual cost elimination actions have to take place.

Some of these actions involve tools, training, reorganization, new processes, less expensive materials, and so forth. The Cost of Quality elimination comes from a reduction in appraisal and failure cost.

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Every cent you don't have to spend on rework can be used for something useful. Some of it may even fall to the bottom line.

But the main thought is that if you don't continually cost reduce, you quickly will become unprofitable. Don't let people think of COQ as some sort of separate bundle.

Question for student: Suppose in your restaurant there is a cost of \$1,000 each week for drinking glass breakage. Suppose a quality analysis shows that the glasses are being placed in the dishwasher incorrectly. A brief training exercise eliminates the problem totally. What do you do with the \$52,000 a year?

Suppose many of your products are returned by stores to the factory each week and you are required to have four people service and return them at a cost of \$125,000 a year. Suppose a redesign cuts those returns in half and you've cut the service operation in half. What do you do with the \$62,500 a year?

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