

DO YOU KNOW THE 'COST OF POOR QUALITY' IN YOUR ORGANISATION?

Prof. Rajesh Bheda



A lot has been written and talked about quality. However, I still believe, it is one of the least understood subjects in the apparel industry. Most of the apparel manufacturers in India still equate quality function with inspection. In fact, I remember a leading exporter saying that his organisation was very quality conscious and as a proof of this statement he very proudly said that he had one of the biggest quality control departments in the industry. What could I have said than just smile? The problem is that most of the apparel manufacturers, barring exceptions, do not realize the real cost they pay for ignoring quality. As shown in the illustration from my book 'Managing Productivity in the Apparel Industry', the amount of money going down the drain could be as high as 20 to 25% of the total manufacturing costs. This cost incurred due to poor quality is called Cost of Quality. A greater understanding of cost of quality can surely help reduce these costs and improve profitability of the operations.

The Classification of Cost of Quality

For the purpose of better understanding and control, the cost of quality is classified in four categories as given below:

- Prevention costs- The costs associated with personnel engaged in designing, implementing and maintaining quality system. This also includes auditing the system.
- Appraisal costs-The costs associated with measuring, evaluating, or auditing, of products, components and purchased materials to assure conformance with quality standards and performance requirements.
- Internal failure costs- The costs associated with defective products, components and materials that fail to meet quality requirements and result in manufacturing losses.
- External failure costs-The costs generated when defective products are shipped to customers.

In many cases prevention cost and appraisal costs are clubbed together and called as 'Cost of Conformance', where as internal failure and external failure costs together are called 'Cost of Non Conformance' or 'Price of Non- Conformance'. The objective of any organisation should be to totally eliminate the 'cost of failure' by investing in Cost of Prevention and rationalized Appraisal Cost.

It is important that apparel manufacturers understand the true cost of ignoring quality. If the factories could use the large workforce employed to inspect and repair the garments for actually producing the right quality garments in the first place itself, not only the rejection and repairs will go down but the productivity will also be improved substantially.

Though quality and management gurus have been discussing Cost of Quality for decades, there has been very little research on this subject in apparel industry internationally. This is mainly due to the fact that the data needed for the Cost of Quality study is generally not maintained in the apparel industry or if the data is available it is considered too confidential to share. My research 'Cost of Quality in the Indian Apparel Industry' is probably one of the only national level studies on the subject.

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Quality has an important role to play in the competitiveness of the apparel exporting industry. As per a study by the US Importers of Textile and Apparel (US ITA), **Consistent Quality** was the 'top most' criterion used to decide where to place import orders. This was followed by Speed to market, low cost, product development capabilities and social compliance.

The efforts of the industry currently are focused towards '**defect identification through inspection**'. We need to understand that '**Quality can't be 'inspected in to the product' it has to be produced right first time**'. In the days when other industries are measuring quality in terms of 'defects per million pieces or opportunities' and are adopting Six Sigma methodologies for breakthrough improvements, the apparel industry still struggles to achieve the quality performance to meet AQL2.5 based inspections (Bheda, 2005).

It is important for the Apparel manufacturers to know that higher proportion of Right First Time Quality can help the manufacturers improve their profitability by almost 50%. My research 'Cost of Quality in the Indian Apparel Manufacturing Industry' (Bheda, 2005) has proved this. The study showed that an average apparel factory in India covered under the study lost 14.05% of its annual sales on account of poor quality. The study further established that if Cost of Quality of the average apparel manufacturer covered by the study goes down from 14% to about 6% of sales, the firm could improve its profitability by almost 50%. This could also mean an additional profit of 1.6 million dollars for a firm that has sales turnover of 20 million dollars.

In the current environment when there is a high pressure for reducing the selling price of export apparel, reduction in COQ could play a significant role in retaining price competitiveness while maintaining profitability of the organization. **There is an urgent need for the apparel industry to initiate Cost of Quality Assessment in its member factories and develop strategy for reduction of this unjustified waste.**