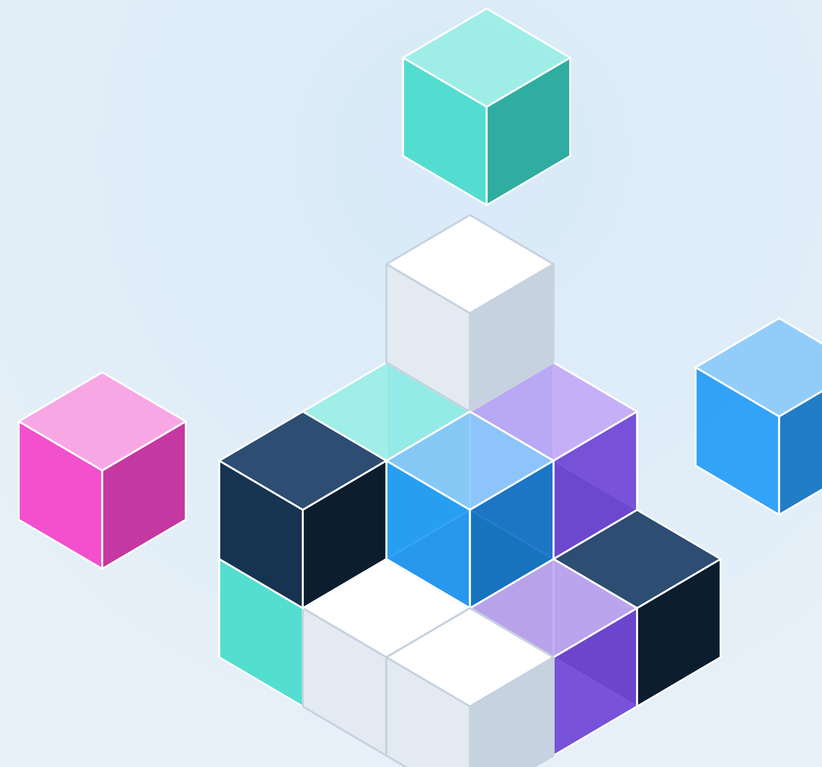
OPERATIONAL EXCELLENCE

Cost of Poor Quality



The cost of poor quality (COPQ) is everything an organization spends because work was not done right the first time, from scrap and rework to warranty claims and lost customers.

01 THE CORE MODEL

ICEBERG · MUCH FAILURE COST IS NOT BOOKED

VISIBLE **Internal failure** Scrap, rework, re-inspection, downtime

VISIBLE **External failure** Warranty, returns, complaint handling

What accounting sees

HIDDEN **Hidden failure** Expediting, overtime, extra inventory, lost capacity

HIDDEN **Lost business** Lost orders and reputation, rarely booked as quality cost

Prevention

Spending to stop defects: training, FMEA, robust design.

Appraisal

Spending to find defects: inspection, testing, audits.

Failure

Internal before shipment, external after it. Together these form COPQ.

02 SHIFTING THE SPEND

Money spent on prevention reduces failure cost further down the line.

INSPECT — PREVENT

FAILURE-DRIVEN

- Firefighting and sorting
- Customers find the defects
- Costs scattered across budgets

PREVENTION-DRIVEN

+ Defects stopped in design and process
+ Less inspection needed over time
+ Lower total cost of quality

03 WORKED EXAMPLE

SUPPLIER OF BRAKE COMPONENTS · MAKING FAILURE COST VISIBLE

BOOKED
Scrap and rework
already in the report

+

FOUND
Sorting and overtime
hidden in cost centers

+

FOUND
Expedited freight
caused by late rework

=

RESULT
True COPQ
reported monthly

04 MANAGEMENT TAKEAWAYS

01
Price the hidden part
Collect expediting, overtime and sorting costs alongside scrap.

02
Track all four categories
Prevention, appraisal, internal and external failure, every month.

03
Invest upstream
Fund prevention projects from the failure cost they remove.

05 COMMON MISTAKE

LIMITATION
Counting only scrap
Reporting just scrap and warranty understates COPQ and weakens the case for prevention.