



Ten Minutes of Your Time. Lasting Business Impact.

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“What you are thinking about, you are becoming.”

- Muhammad Ali, Former World Champion Boxer

What's On My Mind This Week

What Are You Becoming?

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For all the talk about growth and focusing on the customer these days, there is still more action on the cost-cutting front. Minimizing costs is a necessary activity, of course. But when employees think daily about cost-cutting and occasionally about better serving the customer, growth and customer focus get trampled in the march to greater profitability.

Consider the experience of General Electric. In the second year of GE's quality improvement program, the company had reduced internal failures and saved a tremendous amount of money, but had little impact on GE's customers. CEO Jack Welch knew a shift was required to refocus the company from its company-centered approach to one that started from the customer's viewpoint, so he changed the metrics and rewards to de-emphasize cost reduction and emphasize customer impact. In effect, Welch put the customer at the top of the corporate hierarchy and at the forefront of the organization's thinking.

Why was this change necessary? Doesn't improving quality reduce defects to customers *and* cut costs? Yes, but the amount of emphasis placed on these objectives impacts the results. Let's examine two identical companies, one with a focus on serving the customer and the other with a focus on improving profitability, to see how a different emphasis creates very different actions and results.

The Power of Zero Defects

Zero Defects, Inc. currently produces 95 percent of items correctly and because of its relentless focus on the customer, believes it must provide defect-free products and services. Each incorrect item produced costs the company \$500 in direct expenditures, and also impacts customer loyalty and repeat purchases. Since Zero Defects is focused on the customer experience, it works from the customer back into the organization, eliminating rather than improving non-value added activities. This aggressively customer-focused approach allows it to eliminate 90 percent of defects each year. The company’s performance is shown on this chart:

Performance of Zero Defects, Inc.

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Defects Shipped	50,000	5,000	500	50	5	0.5
Performance	95.0%	99.5%	99.95%	99.995%	99.9995%	99.99995%
Cost of Defects	\$25,000,000	\$2,500,000	\$250,000	\$25,000	\$2,500	\$250
Incremental Savings	\$0	\$22,500,000	\$2,250,000	\$225,000	\$22,500	\$2,250

Year after year, the zero defects mindset produces substantial benefits for Zero Defects and its customers. Cost-focused organizations would have stopped after the second year when the direct cost opportunity became small, but Zero Defects worked feverishly to reduce the poor customer experience for those remaining customers, and generated substantial customer loyalty in the process. It not only addressed internal problems, but sent its best people to work with key suppliers to solve supplier-caused issues. This rapid progress convinced the market its products and services had improved, because defects reduced by an order of magnitude each year. As a low-cost, near-zero defect producer, the company is well-positioned for growth.

The approach created other benefits as well. The deep process knowledge necessary for dramatic defect reduction allows it to introduce error-free new products and services. It continually lowers its cost base by helping its key suppliers become more efficient, and uses its common language of quality to quickly integrate acquisitions. Zero Defects can develop new products before competitors, since loyal customers freely share needs, wants, and suggestions with this trustworthy and reliable supplier.

Now consider a second company, Fewer Defects, Inc. Fewer Defects is exactly like its competitor Zero Defects, except for the corporate culture. Its managers know

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eliminating defects is a good way to save money and make customers happier in the process, but management does not believe eliminating all defects is possible, and there is disagreement about how far defect levels can be reduced. Fewer Defects does not work with suppliers on quality issues, but continuously negotiates lower supplier prices as part of its cost-cutting efforts. Since five percent annual cost reductions are typical, it aggressively targets ten percent cost reductions as part of its improvement program. The company's performance is shown on this chart:

Performance of Fewer Defects, Inc.

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Defects Shipped	50,000	45,000	40,500	36,450	32,805	29,524.5
Performance	95.0%	95.5%	95.95%	96.355%	96.7195%	97.04755%
Cost of Defects	\$25,000,000	\$22,500,000	\$20,250,000	\$18,225,000	\$16,402,500	\$14,762,250
Incremental Savings	\$0	\$2,500,000	\$2,250,000	\$2,025,000	\$1,822,500	\$1,640,250

Fewer Defects produced incremental savings by eliminating some nonconformances, but its customers did not feel the company had changed. The performance increase from 95 to 96 to 97 percent was not large enough to impact the customer experience, especially over a five-year time period. After all, the company still delivers almost 30,000 defective units in year five. At this rate, it will take Fewer Defects more than 20 years to reach the performance level that Zero Defects achieved in 12 short months.

Fewer Defects' executives are delighted with the additional \$2 million per year in direct savings, but they expected to see improvements in customer loyalty and repeat purchases as well. Perhaps, they reason, customers don't really care about quality, so they recommit their efforts to chipping away at the company's cost structure. As a lower-cost, but otherwise unchanged producer, Fewer Defects has done little to enhance its future growth prospects. Without a company-wide commitment to zero defects, its new product contains many inherent errors, but the executives launch it anyway, confident their quality improvement teams will correct the issues.

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By chasing the relative standard of ‘fewer’ rather than the absolute standard of ‘zero’ defects, Fewer Defects has given itself a false sense of security. While it may be improving in absolute terms, it has fallen far behind the competition, as shown on this chart:

Performance Gap Created Between Zero Defects, Inc. and Fewer Defects, Inc.

	Year 1	Year 2	Year 3	Year 4	Year 5	Cumulative
Defect Gap	40,000	40,000	36,400	32,800	29,524	178,724
Direct Cost Gap	\$20,000,000	\$20,000,000	\$18,200,000	\$16,400,000	\$14,762,000	\$89,362,000
Unit Cost Gap	\$20.00	\$20.00	\$18.20	\$16.40	\$14.76	\$17.87

Over the five-year period, Fewer Defects allowed its competitor to collect \$89 million in additional cash – money that can be used to expand, launch new products, or purchase new equipment. Fewer Defects’ approach resulted in *more* defects than its competitor – almost 200,000 more defective units– which created the perception among customers that Fewer Defects is less reliable and put downward pressure on its prices. In addition, it allowed an almost \$18 per unit direct cost gap to open, so the competition can cut prices and take market share.

With loyalty slipping, pressure on pricing due to shoddy execution, and a higher relative cost structure, Fewer Defects is in real trouble. When Zero Defects begins taking its customers, Fewer Defects does not target its sub-optimal quality effort as the deciding factor – after all, the company has improved performance and cut costs through defect reduction! It sees the lower prices Zero Defects offers, concludes suppliers must be overcharging Fewer Defects, and begins a new round of price negotiations.

Creating the Transformation

Organizations cannot become customer-focused until they realize the constant demand for cost reductions is best served through a relentless focus on improving the customer experience.

The US auto industry discovered in the 1980s that Japan’s focus on zero defects created a massive cost and performance gap in the automobile market – one the US still struggles to close 25 years later. If quality were a technology available for purchase or a skill set available for hire, this gap would have closed long ago; but the roots of quality, or lack of them, are deeply embedded in the corporate culture.

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As Muhammad Ali points out, we need to ask ourselves what we're thinking about and what we wish to become. Dreams that come to us periodically won't be fulfilled. They must dominate our daily thoughts and therefore direct our daily actions.

Take Ten Minutes

Consider your current improvement efforts and answer the following questions:

- What is your company thinking about – at the top, middle, and bottom?
- What change in thinking is needed to make quality a strategic priority in your company?
- How can an improved customer experience create strategic advantages for your company?

Take The Next Step...

Transform your organization. Come to PCA's "Creating the Reliable Organization" Management College to find out how.

The next open-enrollment colleges take place **June 15-17 and September 14-16 in Orlando, Florida**. Alternatively, PCA can conduct a dedicated college for your organization, either at your facility or at a designated location near you.

For additional information, please call 800-722-1464 or [email us](#).

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About Take Ten Minutes

Take Ten Minutes is a weekly publication of [Philip Crosby Associates](#) and [The Capability Group](#).

The premise behind *Take Ten Minutes* is simple: take ten minutes out of every week to refocus and recommit to business improvement. *Take Ten Minutes* features quotes and interviews to inspire you. We also pull articles from today's headlines as examples of the power of the preventive culture (or the deep problems caused by not having one).

As the name suggests, *Take Ten Minutes* is relentless with the editing razor and keeps each issue tight - each issue should take you no more than ten minutes to read, start to finish. You'll reap even bigger rewards if you kick in an extra ten minutes to discuss the ideas with a colleague or to take an idea found here and plan to roll it out in your organization. We hope *Take Ten Minutes* becomes the business improvement equivalent of your running partner, providing the inspiration you need to lace up and "just do it" on those weeks when the couch seems oh-so preferable.

We hope you enjoy *Take Ten Minutes*. As Philip Crosby said, improving your business "is a journey that never ends." So let the journey...*continue!*

Please send story ideas or comments to our [editor](#).

About Our Companies

In today's marketplace, only capable companies will survive and thrive. The overarching goal of [Philip Crosby Associates](#) (PCA) and [The Capability Group](#) (TCG) is to give companies the culture, tools, methodology and results-focused support to become 'Capable Organizations' - useful, reliable, adaptable, and ever-focused on achieving customer success.

PCA and TCG deliver on this goal by first working with clients to assess where they are on the maturity spectrum and where they want to go. For companies early in the process, we work hand-in-hand with management to install a culture of prevention - the culture that has been championed by the PCA side of our business since quality management guru and PCA founder Philip Crosby published *Quality is Free* in 1979. Over the past two decades, Crosby's techniques have been implemented by many of the Fortune 500, as well as small and mid-sized companies seeking excellence.

Once the foundation of the Capable Organization is present, TCG steps in to help clients take their efforts to the next level by further reducing costs, enhancing quality and promoting growth. TCG was founded by Kevin Weiss, who was a Quality Leader and Master Black Belt for General Electric when that company first implemented Six Sigma - a program CEO Jack Welch has attributed with "changing the DNA of GE". With a proprietary Cost-Quality-Growth™ Model created based on the knowledge that GE's success was due to much more than a typical Six Sigma deployment, TCG has helped shape Cost-Quality-Growth™ Programs for companies such as Shimano, American Express and Sony.

Along the journey to the Capable Organization, PCA and TCG provide a comprehensive set of training programs and materials as well as consulting and assessment services to accelerate progress. Products and services range from courses and CDs geared towards the education of hourly workers to intensive seminars for managers and executive teams.

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