MANAGING THROUGH COST OF QUALITY ENSURES A SERVICE COMPANY REMAINS PROFITABLE

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ABSTRACT

Is enough energy focused on cost of quality (COQ)? Many professionals confuse the definition of the COQ believing it relates to creating a quality product/service. The cost of not creating a quality product or service determines the COQ. Quality is simply meeting or exceeding customer expectations (Novack, 1989). To provide the best quality a company must employ the necessary prevention and appraisal costs and incur no failure costs. This paper conducts a thorough analysis of the method a service company uses to minimize failure costs through incurring prevention and appraisal costs and minimizing failure costs to meet customer expectations.

INTRODUCTION

Frequently, companies solely focus on profits and increasing shareholder worth, however, is enough energy focused on cost of quality (COQ)? When asked what COQ measures, many business professionals are confused believing the COQ relates to the price of creating a quality product or service. In actuality, the cost of not creating a quality product or service determines the COQ. Although quality remains an abstract concept, quality is simply achieved when a customer’s expectations are met, regardless of what those expectations might be (Novack, 1989). Further, the costs associated with poor quality are considered to be more significant than previously acknowledged (Schmahl, Dessouky, Rucker, 1997). For a company to meet a customer’s or client’s expectations, it must employ the necessary prevention and appraisal costs ensuring no failure costs are incurred in providing the best quality.

Armand Feigenbaum first introduced the COQ categorization in 1956. Feigenbaum established three categories comprising the COQ: prevention, appraisal, and failure (P-A-F) (Feigenbaum, 1956). Prevention and appraisal costs represent the COQ compliance while internal and external failure costs represent the cost of noncompliance. Over 50 years later, Feigenbaum’s P-A-F model is still relevant and readily utilized by many organizations.
THE ANTIGO GROUP

The Antigo Group (AG), denotes one company using prevention and appraisal costs to ensure customers receive the highest level of quality. (The name of the company has been changed in this paper to protect the privacy of the organization.) AG is a small privately held Healthcare IT services provider operating in a very competitive and highly technical environment. Failure costs for AG equate to large (thousands of dollars) decreases in revenue, lost clients, and ultimately a damaged reputation within the industry. This paper conducts a thorough analysis of the method AG uses to minimize failure costs through incurring prevention and appraisal costs; minimizing failure costs ensures AG regularly meets or exceeds customer expectations.

In general, as a customer’s relationship with a company strengthens, profits tend to rise. Companies can seriously boost profits nearly 100 percent by retaining just 5 percent more of its customer base (Reichheld & Sasser, 1990). In 2010, AG earned 80 percent of its revenue through existing customers. AG customers must be satisfied with the quality received for AG to experience such a high retention rate. However, the question that ultimately remains asks are all quality costs really minimized by AG to obtain this repeat business? Currently, AG does not employ a (COQ) measurement tool to demonstrate and quantify the actual COQ. While AG does utilize a COQ program, it does not actively monitor total quality costs incurred. According to a published survey, while 82 percent of companies are currently involved in quality programs, only one-third calculate the COQ and forty percent believe knowing the cost of its quality programs would be beneficial (Struебing, 1996). Most companies do not calculate the COQ due to the obvious difficulty of measuring many noncompliance costs.

PREVENTION COSTS

Many studies performed in the COQ field concur the most cost effective category for quality spending is prevention. According to a study conducted by Bohan and Horney, for every additional $1 invested in prevention, organizations could save $10 currently lost to internal failures and up to $100 lost to external failures (Gupta & Campbell, 1995). AG wholeheartedly agrees with this study and invests its resources and energy into developing prevention programs to minimize and/or eliminate future failure costs. AG has implemented numerous processes in an effort to grasp quality concerns prior to the concerns blossoming into a major issue and/or cost.

Weekly Reporting and Prevention Costs

One prevention activity AG developed requires a weekly status report submission by all specialists, both employees and subcontractors (see Exhibit 1 for sample status report). AG employs both full time specialists and subcontractors, which adds an element of concern for controlling quality. At the end of each week, specialists and subcontractors fill out a status report, which is submitted to their direct supervisor, director, and client. (Specialists and subcontractors each work directly with AG’s clients at the client site, and are vital to the work AG completes for its clients.) Each status report contains three fields; current weekly accomplishments, upcoming tasks, and any issues or concerns encountered during the week.
From a supervisory perspective, status reports communicate weekly accomplishments and justify hours billed in comparison to noted accomplishments. From a director’s perspective, status reports communicate issues or delays with current projects. It is imperative for directors to manage the specialist and client relationship to ensure expectations of the project’s scope are being met. Clients use the status reports as a project blueprint and monitor progress closely to ensure the specialist is completing the tasks according to the contract. Since a good portion of AG’s specialists work remotely, the status report becomes even more imperative as it often serves as the only interaction between the specialist and client in a given week. In AG’s industry, the potential failure costs related to client dissatisfaction at the end of a project carries a high price tag. This issue is discussed in detail later in the paper. At AG, the prevention costs associated with status reports consist of the time required to prepare and review the reports by the specialists, supervisors, and directors. As confirmed with the studies mentioned above, AG believes in the importance of incurring prevention costs rather than risking the possibility of high failure costs. In this situation, AG contends the benefits far outweigh the costs. (See Exhibit 1 for sample status report.)

Exhibit 1:

Sample AG Status Report

Customer: Hospital Name

Specialist: Employee Name

Week Ending: xx/xx/xxxx

Hours this period: 40 (EPIC 38/McKesson 2)

EPIC:

Major Accomplishments This Week

• Attend HB Team Meeting
• Work on issues from integrated testing
• Setup changes to payer CDF files for detail statement printing
• Add logic to Medicaid CDF to suppress modifiers for psych charges
• Work on GL specs for EPIC to complete CO
• Meet with Finance to discuss changes needed to expand cost centers in EPIC, we have a future meeting scheduled to present to Finance administration
• Work with Marcia on clearing old claim runs and problems with printing reports
• Listed problems with printing UB04 claims to Marcey printer 330
• Attend call to discuss Reoccurring accounts and how to discharge with EPIC
• Attend call with Stockamp and work with Sue Koster on accessing the system and review worklist entries
• Discuss with PFS potential problems with the current setup of the IHA extract in EPIC, forward questions to Brent
• Meet with Bob Carroll regarding EPSI and discuss data in EPIC and McKesson
Activities for Next Week

• Import remit codes to payer link

Issues, Comments or Concerns

• None at this time.

Hiring Practices and Prevention Costs

Another example of AG investing in prevention costs includes hiring quality employees. The concept of hiring quality staff members appears fairly straightforward, however, hiring quality IT staff members is indeed an overwhelming task. S. Snedaker, founder of VirtualTeam Consulting, states it can cost approximately $10,000 to replace an IT position. S. Snekaker believes the time and money spent during the interview process is money well spent; finding the perfect match remains critical to a company (Hiring Quality Employees, 2010). AG has determined the cost of hiring the wrong employee is much higher than $10,000. On average AG incurs roughly $18,000 in recruiting fees per specialist; AG spends above average money and time to determine the right fit. It is essential for AG to ensure these high recruiting fees since the fees reap the appropriate rewards. Recruiting fees are a sunk cost regardless of whether an employee remains with the company or not. Recruiting fees at AG do not incorporate training, mentoring, administrative, and possible lost client costs. If a new employee does not prosper at AG, more costs are incurred than the $18,000 recruiting fee.

A solid method to ensure quality hiring relates to communicating an accurate and clear description of the type of candidate desired. A company should also assess how important each function is for success on the job (Hiring Quality Employees, 2010). Often, IT positions include a long detailed list of required current skills, however, certain skills are more important compared to others. IT jobs may involve writing code or project management. While both of these requirements may be noted in a job description, it remains imperative to stress the real importance of each skill depending on the position the candidate is being hired for. AG tries to seek candidates who perfectly fit the sought after position and uses a variety of online job search sites (CareerBuilder and Monster etc.) to post open positions and search for resumes. The Healthcare IT consulting industry is relatively small, and usually a specialist builds a reputation within the industry quite rapidly. Since AG is a virtual company, with many employees work remotely, 90 percent of AG’s specialists are hired without a face-to-face interview. AG bases its hiring upon past experiences, resume’s, references, and phone interviews. Obviously, when using these hiring methods the stakes are high and the COQ remain even higher if the candidate does not perform well.

Employee Orientation and Prevention Costs

Prevention programs continue to rank high on the scale of importance at AG due to its status as a virtual company and hiring employees across the United States prior to meeting face to face. Prevention programs require vision and difficulties often surface during implementation, however, the programs also ultimately reap the greatest savings since core causes of problems
are eliminated versus treating surface symptoms. (Gupta & Campbell, 1995). A prevention program, proven very beneficial for AG, includes new hire orientation. AG flies new employees to its headquarters prior to their first day in the field to communicate the core values of AG. Orientation topics include: superior customer service tactics, client communication, the company’s guiding principles and values, and AG’s zero tolerance for unethical behavior (see Exhibit 2 for sample new hire orientation handout).

AG understands prevention programs decrease both external failure and internal failure costs. Substantial costs of quality can be experienced if an employee misrepresents AG at a client site. One simple manner an employee can misrepresent AG at a client site includes engaging in unethical behavior, which might ultimately result in expulsion from the client site. New hire orientation confidently educates all new hires on AG values and minimizes failure costs associated with employees acting against the company’s best interest. Although prevention costs are incurred with flying new hires to AG’s headquarters, the investment minimizes the failure costs associated with employee misbehavior, or misconduct at a client site. AG’s expectations of employees are clearly communicated during the orientation to ensure all new hires are fully aware of expectations.

**EXHIBIT 2:**

AG New Employee Orientation
Key Global Company Topics/Talking Points

**AG Guiding Principles and Values**

- The intention would be for each member of the senior team to spend time discussing his/her thoughts on the importance of our core values as a company.
- We all would utilize the written document and offer our insights on the importance of aligning the workforce to these core concepts that govern all our actions. Use of examples from personal experience will enhance this discussion.

**AG Business Model**

- We are a company of experienced IT Specialists whose utilization results from integrated sales driven activity
- We deliver a competitive advantage through lower costs and superior service
- We attract and retain high quality and experienced specialists
- We guarantee customer satisfaction
- Our business ethics are beyond reproach

**People Philosophy**

- We value the contributions of our workforce
- We reward superior performance
- We strive to be a great place to work
We treat each other with dignity and respect
Open communication is a company asset
People are 100% accountable for their behaviors
We seek “win-win” solutions both externally and internally

Business Ethics

- We have a zero tolerance for unethical behavior
- We follow the golden rule in our treatment of external customers, vendors and our internal colleagues
- We will utilize good business judgment and conduct ourselves as owners of the business

Training and Prevention Costs

In the Healthcare IT industry, providing employees with the most current product training and certification seriously enhances the marketability of a specialist. Technology moves quickly and what is new today will suddenly be replaced with a newer product tomorrow. Healthcare systems continually release newer versions, which always require new training and certification. One of AG’s largest advantages relates to its talented and seasoned Healthcare IT specialists with an average industry experience of 15 years. It is safe to assume the specialist’s proficiencies have evolved over the past 15 years in efforts to remain current with new Healthcare technology. This ability to evolve and remain technically competent carries a large price tag, which AG considers a prevention cost to remain marketable. As can be imagined, the costs are quite high for AG to send specialists to certification or training courses in efforts to remain current. An average certification costs approximately $5,000 to $7,000 per specialist. AG firmly believes failure costs associated with specialists not being adequately trained far outweighs prevention costs related to specialist training. If AG fails to adequately train its specialists, it will be nearly impossible to market their competency, and it could severely cost AG in lost clients and non-productive time.

Non-productive time or bench time relates to AG paying a specialist partial salary and not having a current client placement for the specialist. Non-productive time is simply pure cash outflow and can cost AG an average of $800 per week in wages with no incoming cash from a client. Non-productive time for AG is the equivalent to down time at a manufacturing plant, which results in internal failure costs. AG’s emphasis on training specialists allows the company to place specialists at a wider array of clients, which reduces potential bench time. The two failure costs associated with inadequately trained specialists are bench time resulting from a specialist being unmarketable, and specialists not possessing the proper knowledge to complete a project while on a client engagement. While training costs are a major expenditure for AG, the possible failure costs are simply too high to not justify the investment.

Technology and Prevention Costs

Another prevention cost AG incurs relates the technology provided to every specialist. Just as a factory worker depends on a machine reliability to complete their work, an AG specialist depends on laptops and software. AG’s number one asset remains its employees; therefore, an
employee must possess the proper equipment necessary to highly perform their job. The cost of a laptop is not a prevention cost, however, the processes AG implements to ensure the reliability of its laptops portrays the prevention costs. AG standardized the laptops it issues and only issues one model. Prior to standardizing laptops, employees used different models and brands, which was problematic for troubleshooting and repair. All specialists would ship their laptops to AG’s headquarters for service, since troubleshooting via phone was not usually an option with everyone using a different model. Employees would be without a laptop until a loaner was received or their laptop was repaired. This process was far too costly; and it contained failure costs since the specialist suffered down time. In conjunction with standardizing laptops, AG implemented bi-yearly mandatory laptop remote tune-ups. AG’s Technology Coordinator remotes into employee’s laptops two times each year performing software updates in an effort to proactively prevent computer issues from arising (see Exhibit 3 for sample remote updates performed). The prevention costs to standardize laptops and perform bi-yearly remote maintenance do not constitute large dollar amounts, however, it definitely minimizes the potential failure costs.

**APPRAISAL COSTS**

In concurrence with prevention costs; appraisal costs signify another component of conformance costs. Appraisal costs represent costs associated with activities to measure, evaluate, or audit products, processes, or services to ensure conformance to either internal or external customer requirements (Ball, 2006).

**Directors and Appraisal Costs**

AG’s investment in appraisal costs directly relates to the role of its four directors. Currently, AG comprises four service lines each with its own director. Each practice requires a completely different skill set, which explains the reason why AG developed four different director positions, versus one to manage all of the service lines. The directors manage the relationship between the client and the specialist within each respective practice. While specialists do not report to directors, directors manage their performance and handle client concerns. Before AG developed the four director positions; it employed sales directors to manage the client/specialist relationship. This practice incurred high costs of quality since sales directors did not possess the technical in-depth knowledge each of the directors now have regarding their own area practice. Directors competently evaluate client needs and manage the specialist role to ensure the project scope is met. Appraisal costs, such as directors, are proactive costs associated with building quality into AG’s service lines. Coupled with managing the client/specialist relationship, directors’ work identifies quality issues as soon as each occurs. Failure costs rise proportionately with the time required to find a specialist’s quality issue. If a client is dissatisfied with AG’s service at the end of a project, the failure costs at this point are extremely high. If a director is able to catch a quality problem prior to end of an engagement, then the failure costs are minimized substantially.
Exhibit 3:

**System**

Disc cleanup
If you want to reduce the number of unnecessary files on your hard disk to free up disk space and help your computer run faster, use Disk Cleanup. It removes temporary files, empties the Recycle Bin, and removes a variety of system files and other items that you no longer need.

Disc defrag
It is designed to increase access speed (and sometimes increase the amount of usable space) by rearranging files stored on a disk to occupy contiguous storage locations. The purpose is to optimize the time it takes to read and write files to/from the disk.

**Windows updates**

Microsoft Office SP 1
The 2010 Microsoft Office suite Service Pack 1 delivers important customer-requested stability and performance improvements, while incorporating further enhancements to user security.

I.E. Update
This will update your current version of internet explorer up to Internet Explorer 7.0.

Windows XP SP 3
Windows® XP Service Pack 3 (SP3) includes all previously released updates for the operating system. This update also includes a small number of new functionalities.

**Lenovo updates**

Software updates
Updates all preloaded Lenovo software including but not limited to: Access Connections, PC Doctor, ThinkVantage, and DiscKeeper.

Driver updates
Updates the drivers for all Lenovo hardware to help increase stability and functionality of the computer.

Bios updates
Updates the computer bios which helps to increase stability and functionality.  
Wifi power management
Tweaks settings to fix issue where wireless card turns off after computer hibernates.

These are the services to be performed on your computer; please check the applicable ones if you wish to NOT have these updated due to possible problems on client site.  The rest will be mandatory.

Tech initials:
Date completed:
FAILURE COSTS

Hewlett-Packard (HP) provides an excellent example of how failure costs increase the longer it takes to identify poor quality. Richard Anderson, the general manager of the Computer Systems Division of HP, describes the damage an inexpensive faulty 2-cent resistor can incur. “If you catch the resistor before it is used and throw it away, you lose 2 cents. If you don’t find it until it has been soldered into a computer component, it may cost $10 to repair the part. If you don’t catch the component until it is in a computer user’s hands, the repair will cost hundreds of dollars. Indeed, if a $5,000 computer has to be repaired in the field, the expenses may exceed the manufacturing cost.” (Roth & Morse, 1983)

Billing Clients and Failure Costs

AG experiences similar rising failure costs the longer the time increases before identifying poor quality. The average bill rate for an AG specialist is approximately $130 per hour. The average AG specialist works 40 hours per week, which equates to an average of 1,850 hours per year. Consider a specialist working at a client site on a three-month project with a bill rate of $130 per hour. When AG receives notification it was awarded the business, a director is responsible for informing the specialist performing the work what the project scope and terms include. The project scope, if clearly defined, provides the specialist an idea of what is expected to succeed on the project in the client’s eyes. If a problem occurs at the project’s scope phase, failure costs remain minimal due no billable work completed. The only cost incurred includes the time required by the director and specialist to review the project scope. Further, if there is an issue the first week, the specialist travels to the client site and lists the issues on a status report. The director catches the error at the end of the week due to the submission of the status report. Depending on the issue, the failure cost may be 40 hours of billable time and the client may refuse to pay for the hours. Lastly, if the specialist experiences issues throughout the project and does not report any or the director does not uncover any issues, then the failure costs could represent the entire billable engagement. If the issue is caught at the end of the project when the work is turned over to the client, then failure costs are extremely high and may result in a complete bad debt write off for AG depending on the severity. As mentioned, if problems are identified at the onset of an engagement, an issue may not result in too much failure cost in comparison to the longer a project progresses with issues unresolved.

The HP and AG examples depict an example of quality costs representing a substantial savings to be achieved in addition to exemplifying how costs of quality can be a major cost item for a company. Studies indicate the typical COQ for United States companies average from 10 to 20 percent of total sales. Philip Crosby and others suggest COQ sum to approximately 2.5 percent of total sales (Roth & Morse, 1983). Although AG does not track total COQ, we believe based upon the prevention and appraisal costs mentioned earlier, the COQ for AG is less than 5 percent of total sales.

NONCOMPLIANCE COSTS

Prevention and appraisal costs represent compliance costs, which illustrate costs of control since the money and time spent on these activities might be spent elsewhere if the alternative
investment yielded a higher return than satisfying customer expectations. Since even the best laid plans sometimes fail, next we explore the two noncompliance costs of quality, internal and external failure costs. Internal failure costs represent a failure occurring within the organization prior to the client receiving a product or service. External failure costs are incurred when a failure occurs after the product is delivered to the consumer (Novack, 1989).

**Internal Failure Costs**

Examples of internal failure costs include: scrap, rework, bottlenecking, and downtime (Gupta & Campbell, 1995). AG is a service company; downtime and rework are two applicable internal costs. Downtime occurs when a specialist is on bench time. As mentioned above, bench time occurs when AG’s sales team does not produce an engagement for a specialist. AG’s policy includes paying a specialist half of the billable rate while benched; this rate averages out to approximately $800 per week per specialist benched. In 2010, AG experienced a specialist utilization of 92 percent with a total bench cost of $189,000. While the bench time expenditure appears rather high, for the Healthcare IT industry, 92 percent utilization is very aggressive and respectable. Bench costs represent a cash outflow and lost revenue since AG is unable to bill clients while specialists are benched. If AG hires the highest quality specialists, then the sales team easily places the specialist. As noted previously, AG must invest in prevention costs to ensure specialists are adequately trained to minimize internal failure costs related to bench time. AG does not prepare any service or product for a client prior to a specialist entering a client facility. By the time a specialist is on site, if an error occurs, an external failure occurred versus an internal failure.

**External Failure Costs**

Examples of external failure costs include: complaint handling, warranty replacement and repairs, customer loss, product recalls, and lawsuits (Gupta & Campbell, 1995). The biggest difference between internal and external failure costs relates to external failure costs including cost of lost sales. One example of an external failure cost occurred at AG three years ago. In 2010, AG’s client contacted AG requesting a specialist to perform an extensive six-month project. The first five months of the project passed without any issues or complaints from the client. At the beginning of month six, the client contacted AG’s director to inquire why the AG specialist was not onsite on a regular basis and why some of the tasks were falling behind. AG’s specialist completed status reports on a weekly basis, however, the client did not feel the billable hours submitted matched the output the client was receiving. Rather than pulling the AG specialist from the client site, the director decided to monitor the situation more closely during the final weeks of the engagement. At the project’s completion the client felt it had not received enough output from the specialist for the last month of the project. AG quickly decided this client was worth salvaging and learned a hard lesson in the world of failure costs. AG offered to rescind the final month’s billable hours to maintain a standing relationship with hopes of future business. The client expressed satisfaction with the compromise and two years later AG still works with this client. This situation cost AG $27,000 in lost revenue and illustrates just how much real failure costs can impact a company.
Another prime example of external failure costs occurred at AG in 2008. Another AG client contracted with an AG subcontractor to perform a six-month assignment. During the course of the engagement, the client incurred internal staff turnover and supplied AG with a new project manager two times during the assignment. The problem with AG receiving a new project manager related largely to the final project manager not adequately managing AG’s resources. AG’s subcontractor tried multiple times to receive project direction from the client’s new project manager, however, was unsuccessful with all attempts. AG’s director received multiple emails from the client stating its satisfaction with the work being accomplished, however, the client continued to not provide direction to AG’s onsite subcontractor. The client finally stopped paying its invoices toward the end of the engagement, and AG understood it had a serious problem. Finally, AG opened a lawsuit against the client to receive payment for the final month of service. AG was reimbursed for all billable time; however, in the end an AG client was lost.

AG’s failure costs represent anything from lost client/sales and lawsuits to specialist bench time. On a positive note, over the last seven years of AG’s existence the two external failures mentioned above denote the only major external failure costs AG encountered. In a 2010 client survey, 98 percent of clients noted they would recommend AG specialists. While the survey results speak measures regarding client satisfaction, the magnitude of failure costs ensure the focus is placed on cost incurred when clients are not satisfied. AG’s success with client satisfaction begins with the culture of the organization. Since AG is a small privately owned company; each employee believes their efforts actually make a difference in the organization and with clients. AG’s culture focuses on and encourages employees to realize AG’s commitment to 100 percent client satisfaction. Sustaining a COQ requires ample energy and senior management support. COQ should not be used as an individual or department performance measure since quality concerns should be company-wide. The single most important factor in a company’s ability to sustain quality is strong senior management support (Carr, 1995). AG’s senior management plays an ultra important role in designing COQ programs to ensure a companywide quality focus. Further, unless every level in an organization actively pursues quality and responsibility to meet customer requirements, quality will always suffer (Salm, 1991).

**Opportunity Costs**

Xerox is known as a pioneer in the world of COQ. In a four-year period of time, Xerox saved more than $200 million when it applied COQ principles to its United States Sales and Marketing Group (Carr, 1995). Xerox, along with AG, defines quality as 100 percent customer satisfaction. To identify processes, which don’t fit into its quality program, Xerox uses a problem solving process similar to AG.

Xerox’s six-problem process consists of:
1. Identifying and selecting the problem
2. Analyzing the problem
3. Generating potential solutions
4. Selecting and planning solutions
5. Implementing the solutions
6. Evaluating the solutions (Carr, 1995)
AG utilizes a similar problem solving process to identify a quality concern in its new hire orientation program. Prior to AG implementing a new hire orientation in 2010, AG provided no guidance to assist new hires in adapting. Prior to 2010, AG employees were mailed a new hire packet and emailed all instructions for their first client assignment. AG’s survey results prior to 2010 depicted a serious issue with employees not understanding AG’s vision, goals, and culture. AG’s senior management recognized the problem and decided to implement a new hire orientation in 2010, which flies all new employees to AG’s company headquarters to receive a thorough orientation. While evaluating the results of a 2010 survey to employees, AG’s senior management determined the new hire orientation program ensures employees are aware of the culture, goals, and mission of AG.

Xerox also breaks away from the typical P-A-F model and includes lost opportunity costs as part of its quality definition. Conformance and nonconformance costs directly influence lost opportunity costs and are defined as profit not earned due to lost customers and a reduction in revenue due to nonconformance (Carr, 1992). AG also uses lost opportunity cost in calculating the outcome of not meeting client satisfaction or nonconformance. Bench time portrays a major lost opportunity cost for AG since benched specialists are not working at a client site, which equates to lost revenue. If a potential client chooses a competitor versus AG, it could possibly be due to AG specialists lacking the right credentials for the job. A lost opportunity cost may appear if AG did not hire the appropriate specialist and ultimately lost the client “opportunity” to a competitor. Although the Healthcare IT industry is quite small, it is also very competitive. AG must constantly monitor industry bill rates and demand the skill sets needed from specialists to keep pace with the rapidly changing environment in all industries.

PRESENT ECONOMIC CONDITIONS

In the present economy, it is imperative AG focuses precisely on the COQ since clients have become increasingly sensitive to rates and competition has been increasing steadily. Currently, clients have fewer resources and expect to receive top quality services at a discounted price. Surveys and interviews conclude buyers insist a reduction in the “COQ” is necessary in the coming years. Buyers plan to intensify reviews of quality performance for their suppliers in an attempt to reduce the COQ, in addition, they plan to seek lower prices and renegotiate existing contracts (Stundza, 2010). This study is completely relevant to what AG is experiencing with its clients. AG notices clients expecting top-tier experienced specialists while only wanting to pay fees associated with entry-level experience. Prospectively, AG will rely on prevention and appraisal programs implemented to ensure minimal failure costs to provide clients with competitive rates and top quality specialists.

CONCLUSION

We believe the COQ programs AG has implemented positively impacted the reduction in all failure costs. Prior to establishing directors, AG experienced issues related to lack of communication between AG’s specialists and the client. Directors, an appraisal cost, bridge the communication gap between the specialist and client. Status reports assisted AG by showcasing accomplishments as well as issues, which aids in averting many disasters in the field. First and foremost, the process appropriately begins with hiring high quality employees who basically
market themselves with impressive skill sets and abilities. AG has high COQ programs implemented, however, if it does not hire the best resources, then prevention and appraisal costs are much harder to control and manage. Senior management and AG’s culture can also inhibit quality awareness. Quality awareness truly initiates from the hiring process and extends to managing employees where employees learn the importance of minimizing failure costs. When reflecting on AG’s prevention and appraisal costs, consideration is given to more than simply minimizing potential failure costs. Prevention and appraisal costs truly differentiate AG from the rest of the market since not all AG competitors employ directors, or maintain the quality processes mentioned in this paper. In the current economically challenged and highly competitive environment, AG will weather the storm by differentiating itself from the other Healthcare IT consulting companies via initiating quality programs.

AG cannot compete by simply discounting the rate it charges to clients. Once the economy fully recovers clients will remain reluctant to pay higher rates and AG cannot survive on thin margins. To remain viable and healthy AG must assure clients receive industry experienced specialists at a quality price, and AG understands the prevention and appraisal costs incurred allow it to minimize failure costs leading to the path of profitability and future expansion in the marketplace.

REFERENCES


