

## Quantifying the Soft Stuff

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So, we know as business leaders, that this process is a priority for improvement – no question. The process output, let's say quality improvement, is clearly aligned to our business goals and quite frankly demands improvement from a competitive standpoint. The pain of the cost of poor quality is clear and the "defect" must be minimized, better yet eliminated. OK, let's charter the project, assign to a project leader and team and oh yes, determine the anticipated financial benefit to the organization.

This is where things could get interesting. Are the benefits "hard savings"? Well, not exactly as we don't expect to free up any personnel - today's strategy - and we also can't count on other benefits, such as increased sales due to improved quality, with a high level of probability. So, we determine the benefits will be labeled as "soft savings", yet we still desire to quantify the financial benefit. We also would very much like to minimize the time associated with calculating the soft savings post project closure, be it monthly or quarterly. Where do we go from here?

Here is one approach that has been proven effective, particularly in organizations in a controlled industry such as the Life Sciences (Pharmaceutical, Clinical Research Organizations, etc.). The end game is to determine, based on analysis and data, the financial value of a "defect" in the organization. Typically, this analysis is a one time, upfront analysis that will create the financial value of the defect for the entire organization. It is our "Defects to Dollars Translator".

The approach will vary by company, but in many cases will include an internal component and an external component. Both cause pain to our organization due to quality problems – defects.

Internal: Imagine we are documenting defects via internal mechanisms such as Internal Quality Findings (IQF) or Study Notification Requests (SNR's).

- Determine, on average how much time is spent to document, route, respond to, approve and finalize these documents - lots.
- Scale the defects as Low, Medium and High and weight according to associated time for IQFs and SNRs
- Multiply the times by the average loaded cost of involved personnel
- Arrive at an internal value of a defect. We have seen typical values in the range of \$500 – 800 per defect !

External: We may have data indicating we have lost clients or have had work cancelled, had to reduce prices or redo work – all due to poor quality. How will quantify this?

- Over a period of 1 – 2 years, quantify the financial pain to the business due to the lost business, price reductions, redos, etc.
- Because each of these quality issues is documented on a document such as an SNR, divide this financial value by the number of SNR's in that period and you will arrive at the external value of a defect. We have seen typical values in the \$500 - \$700 range.

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Now, we simply add the two, for example, \$600 internal and \$650 external yields a value of a defect (rather financial pain to the business) of \$1250. Every defect we produce costs the organization \$1250! That should get some attention and strengthen our attack on quality issues.

Finally, applying the Defect to Dollars Translator is simple. Example: Our baseline performance for 2008 was 750 defects for Defect X. The project achieved a 70% improvement, resulting in a defect level of 225, or a savings of 525 defects per year. Multiplying this by our Translator equals a soft savings benefit of \$ \$656,250 annualized.