

# Relationship between costs and quality

Business



Company N is a producer and distributor of television sets of different price categories. Television sets of Company N due to their wide assortment are intended for all strata of the population.

Nowadays, the television sets are widely spread, so every house has at least one TV. This memo is going to examine three types of costs for television sets proceeding from quality considerations. The first recommendation concerns the prevention costs, which mean establishing a quality system. A quality system includes such process as personnel training and quality planning. Training provides the company with competitive personnel.

Quality planning coordinates the production process with design specifications. The second recommendation concerns the appraisal costs; they include the testing of final product, assembly details and equipment. A firm must test its product before it goes to a customer. Failure costs divides into the internal failure costs and external failure costs. Reducing the external failure costs by improving after-sales service is the third recommendation. Company N, as any electronic devices manufacturer, uses high-technology equipment.

Prevention costs include expenses for establishing quality standards and appropriate quality control system. Prevention costs are expenses for avoiding defects and imperfections initially; therefore, standards of process engineering, personnel trainings and quality planning are necessary parts of quality control system. Quality program depends on correspondence production process to engineering specification, standards and procedures in relation to product, equipment and labor force. Training programs for

employees give the company skilful and qualified specialists to manage high-technology equipment effectively and without mistakes (Foster, 2001). The tradeoffs are, on the one hand, the high quality product and minimum waste, and, on the other hand, costs of constant personnel training and increasing wage fund for retaining qualified specialists.

Appraisal costs have a direct relation to the expertise of product quality. The expertise is necessary to determine that the quality of the product meets the customer expectations. The company should test all components of the production process, in particular, assembly details, equipment, personnel qualification and the final product to be sure in high quality of the final product (Foster, 2001). Audit, acceptance inspection and test sampling are usual procedures that used to verify the product quality. The tradeoff of such thorough inspection system is a rise of wages fund due to the expansion of quality control department, as well as extra costs of buying special testing equipment.

The positive sides of a strict inspection are low level of product returns, favorable reports about the product and, as a consequence, rise in demand. Although, there is no serious technical malfunctioning in the television sets, customers have difficulties with tuning of the channels and installing of the compatible devices. Customers are compelled to read instruction for hours to understand how handle their new TV; therefore they are not satisfied with purchase. Some customers think that something wrong with TV, they carry it to the service center, and require guarantee service. Moreover, some customers returned the TV of N-company production in order to exchange it

to another brand. Therefore, N-company loses not only its potential customers but current ones either.

Such failure costs can be successfully solved by organizing the round-the-clock service of technical support, and all telephone calls to this service should be free for customers. The tradeoff costs will be hiring new technical personnel, training and controlling the quality of their work. The benefits are obvious: the clients will be satisfied; service centers will be relieved from such repairs, as well as there will not be new returns, and there will be no negative reports about product.