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Developing a Compelling Business Case for CPG Quality Transformation

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A Best Practice Guide for Quality Practitioners to Achieve Executive Support

By effectively quantifying the hidden costs of maintaining the status quo, organizations can demonstrate a clear return on investment (ROI) for standardizing, streamlining, and digitizing their quality processes. Defining goals and communicating benefits that are tailored to each function is key to garnering executive and business leader support for a quality-led transformation.

Changing consumer preferences and expectations for rapid product innovation are some of the many forces transforming the consumer packaged goods (CPG) industry. To enable greater speed to market while improving compliance and the overall performance, quality management must expand beyond its traditional compliance focus and become a proactive, multifunctional effort that improves business outcomes. However, Quality principles, being an engine of performance, must also be supported by the broad organization.

Modern cloud technology powers this transformation by providing a unified and connected ecosystem that streamlines quality processes. This fosters cross-functional collaboration among internal functions, such as development and manufacturing teams, and cultivates external partnerships with suppliers, and even co-manufacturers.

Early adopters are already seeing the benefits of modern quality systems in increased revenue and reduced risk, cost, and inventory. These results are driving more enterprise CPG companies to start building a strong foundation for continuous improvement, and simplified and automated processes.

To lay a foundation for quality transformation, process standardization and simplification are key. Despite the initial investment, the returns are greater and longer-lasting, as illustrated in **Figure 1.**

Figure 1. Measuring the Value of Quality Transformation

Quality Outcomes	Metrics	Business Value (ROI)
Competitive Compliance	• Culture & Employee Engagement • Audit & Inspection Observations • Recall & Deviation Rates • Supplier Risk Profile • Total Cost of Quality	↓ Reduce Costs ↓ Reduce Regulatory Risks
Innovation	• Use of Modern Mfg. Processes & Analytical Automation • Use of Emerging Technologies (e.g.: AI, Analytics) • Adoption of Enterprise Quality Systems	↓ Reduce Costs ↓ Reduce Regulatory Risks
Speed to Market	• Time to Co-Develop with Suppliers • Production Ramp-Up • RFT (Right First Time) Rate	↑ Increase Revenue
Robust Products & Data	• Product & Process Knowledge (Data) • Brand Image • Release Cycle Time (& variability) • Yield, OOS, OOT, OEE, Cpk • Complaint Rule	↑ Increase Revenue ↓ Reduce Costs ↓ Reduce Regulatory Risks ↓ Reduce Inventory
Reliable Supply	• E2E Cycle Time (DS, DP, FG, Customer Shipment) • Manufacturing Schedule Adherence • Service Levels (on time, in full) • Shipping-Related Complaints	↑ Increase Revenue ↓ Reduce Inventory

Successful quality transformation requires support from senior leaders across business and IT. Quality leaders should build a compelling case for change by:

- **Revealing the hidden costs of traditional software**—which are overlooked in most ROI calculations—and their impact on the bottom line
- **Detailing the cost and time required to maintain the status quo** with associated risk and quantifying the benefits of modernization to business groups and users
- **Showing how integrating data to processes and connecting people** will deliver smooth continuous improvement and generate savings by reducing problems
- **Customizing the message to C-level executives** from finance, marketing, and security, based on the key objectives of each group

Articulating the Need for Change

Although you may have a vision for how modern quality systems could enhance daily operations, you need to connect organizational improvements and transformations to business benefits. Whenever possible, use concrete examples that are relevant to your company situation and position technology as an enabler of your transformation. According to the Center for Economic and Business Research, every U.S. dollar invested in a modern QMS reduces costs by $16, generating $6 in revenue and $3 in profit.

Business Value of Modern Quality Systems

Increase Revenues

- Faster new product launches
- Better product quality for consumer
- Stronger brand reputation
- Better supply chain resilience
- Enabler of operational excellence

Reduce Costs

- Fewer adverse events (and managed faster when they occur)
- Fewer deviations, CAPAs, and product recalls
- Shift from reactive to proactive quality management
- More relevant and shorter training hours
- Better yields, increased right-first-time development outcomes, reduction in number of complaints, and lower capital expenditures
- Lower total costs of ownership for QMS and documentation
- Reduce pending non conform material inventory

Better Risk Management

- More informed on risk exposure
- Optimize resource allocations against risk exposure

Determining True ROI

To calculate an accurate ROI of modern quality solutions, it's crucial to factor in the hidden costs of supporting legacy quality software. This includes hardware procurement or outsourced hosting, space, labor, and power expenses, as well as system upgrades and downtime expenses and business owners' dependence on IT teams for modifications.

Streamlined processes also improve collaboration with external business partners by speeding secure access to vital information. Be sure to estimate all the time, costs, and potential noncompliance risks that are involved in the way that your company currently finds and shares information with its suppliers and manufacturing partners.

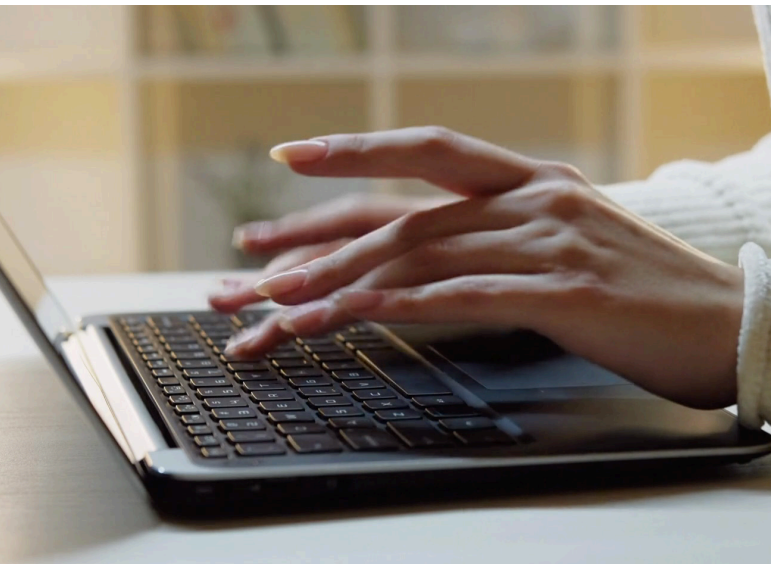
TIP:

Understand your company's specific key performance indicators (KPIs) based on your business model and their impact on revenues, costs, inventory, and regulatory risk, to make more accurate assessments of ROI. Consider and assess all potential business outcomes as you begin to build a business case for quality modernization. Acquisition cost may be dwarfed by the savings that would result from lower inventories and cost reductions in documentation, CAPA, risk analysis and training **(Figure 2).**

Figure 2. Cost Savings of a Modern QMS – Example Framework[1]

Reduction in QA and Operations Costs

Key Challenge	Modern QMS Benefit	Potential Annual Cost Savings
Inferior user experience and poor search capability	Fast search and procedure identification	$$$
Siloed, disparate document storage	Unified, agile, and secure knowledge management	$$
No easy collaboration with external partners	Native external document collaboration	$$
External manufacturer controlled copy handling, distribution and recall	Avoidance of controlled copy efforts	$
Forms and checklist completion	Electronic forms completion and checklist management	$



Consider the analysis conducted by PwC of a $10-billion company that estimated significant savings by improving quality management, boosting overall revenues by a full percentage point **(Figure 3).**

Even a 25% reduction in the cost of quality would allow it to achieve $75 –$125 million in savings, freeing $2 billion in capital, as determined by applying savings to the maximum capitalization rate at a price-earnings ratio of 10. A 10% improvement in inventory turns would free up $90 million in cash.

Figure 3. The ROI of Improved Quality Management

Quality Outcomes

- Competitive Compliance
- Innovation
- Speed to Market
- Products & Data
- Reliable Supply

Business Value (ROI)

- ↑ Increase Revenue
- ↓ Reduce Costs
- ↓ Reduce Regulatory Risks
- ↓ Reduce Inventory

Potential ROI for a $10B Company:

* Cost of quality is typically 3-5% of revenue, a 25% reduction equals 1-2% of revenue
** Increasing turns 2 to 2.2 on COGS of 20% of revenue for a 1 time free cash flow
*** PWC Estimates (including cost of remediation, cost of QMS transformation, lost revenue)

1% increase in revenue	$100 M
25% reduction in cost of quality*	$75 - 125 M
Total Annual Benefit	**$175 - 225 M**
Market Capitalization @ 10x PE ratio	*$1.75 - 2.25 B*
10% improvement in inventory turns**	**$90 M**
Cost avoidance of warning letter***	$5 - 50 M
Cost avoidance of Consent Decree	$.2 - 2 B

Quantifying the Cost Savings of Quality Process Improvements

Strengthen your business case by digging deeper and evaluating the yearly expenses of a crucial quality-management process in your organization. A prime example is change management. It's pivotal, no doubt, but also expensive and time-consuming and risk prone when not well managed. It's a critical process to protect product quality and company output while introducing any kind of changes.

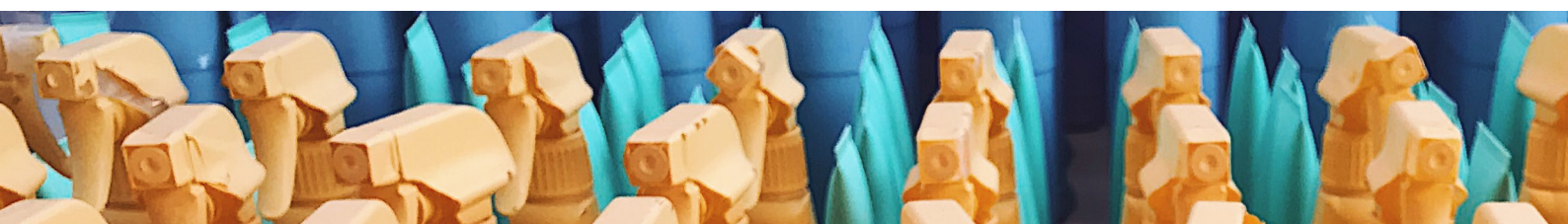
Some CPG companies can renew their product portfolio by up to 30% each year which has undoubtedly impacts across the whole supply chain, and over the full product lifecycle, involving dozens of people within but also outside the 4 walls of the company. In addition to product related activities, supply chains also need to manage changes to processes and infrastructure to improve employee safety or adapt sourcing strategies to mitigate supply risks.

For example, if a product formula or a packaging has changed to be more green, many entities will be impacted: the supplier has to be qualified for this new material, manufacturing process and equipment have to be updated and validated to maintain performance and safety, production documentation has to be updated and people trained accordingly. As all of those functions are mutually dependent, synchronization of all those activities and external entities such as regulatory affairs is crucial. If it's easy to understand that the probability of a mistake is huge, and how it can impact the output, it is also clear that better managing the change can quickly become a competitive advantage.

Traditional quality software and paper-based processes involve separate and disconnected systems for each step; a significant risk that can lead to a quality or compliance failure. This approach not only increases hidden quality management costs but can also delay new product releases by causing unnecessary delays in ensuring things are done right.

In contrast, adopting a modern approach connects different quality applications, QMS, documentation, and training so that they are on a single platform, eliminating silos to streamline change control and other processes. Quality teams can react to impact assessments and track progress directly from QMS. Document change control then automatically drives the development of new training programs so that users receive relevant change-related training assignments without having to leave the application.

Companies that have already adopted unified and cloud-based approaches have reduced overall change control costs by 30%, and variation management costs by 40%.[2] Quantifying the cost and time required for each of these individual steps at your company can provide an estimate of the savings from a modernization program.



Convincing the C-Suite

Discussing change in terms of savings is not enough. Today, the conversation around transforming quality management must emphasize its potential benefit to the overall business.

Remember that most top executives don't speak the language of quality. They often won't understand the true cost of a deviation, complaint, or recall. Tailor your message to the appropriate executive level to demonstrate the value of improved quality management. **Figure 4** presents the fundamental messages that must come across most clearly to each C-level executive.

Figure 4. Aligning Quality Transformation Outcomes to C-Level Priorities

"Investments in quality management will…"

CEO-

"...improve brand image and mitigate risk"

CFO-

"...reduce the cost of poor quality and the total cost of ownership for eQMS and/or quality DMS"

CQO-

"...improve competitive compliance and reduce cost of better compliance"

COO-

"...make better products and more robust predictable and agile processes while improving yields and cycle times"

CSCO-

"...improve speed-to-market and supply agility and reliability"

Summary

As business models and manufacturing in the CPG industry become more complex, companies need to optimize quality processes and consider them as embedded within the product lifecycle to stay competitive. Applying more robust digital systems and simplifying and harmonizing processes with industry best practices can significantly improve business outcomes.

Senior management and stakeholder support will be needed for this transformation, which will deliver greater speed and agility across the value chain, increasing the overall business value. By identifying metrics that matter and connecting them to the key objectives of each business leader or group, quality leaders can build a strong business case for investment in quality transformation.

Justifications should focus on how modern approaches eliminate the burden of traditional systems, improve scalability and agility, and enable companies to innovate, reduce costs, and increase revenues. It's important to emphasize that CPG market leaders have already taken these steps and are realizing significant improvements in efficiency. Gathering the necessary information requires effort, but will pay off in streamlined operations and better business results, enabling increased consumer focus.

Ready to explore modernizing quality management in your organization? Get in touch with one of our industry experts to discuss how to get started.

Selected Sources:

1. "Calculate the Hidden Costs of Quality Management Software: On-Premises vs. Cloud," Quality Magazine, Infinity QS Quality Info Center, May 14, 2020.

2. Veeva Systems, "Streamlining Change Control and Variation Management."