



WHITE PAPER

Why the cost of doing nothing is a quality concern





In today's fast-paced modern society, companies that don't keep up with the latest business technology and trends are at risk of becoming the dinosaurs of the business world. For organizations that fail to act, the cost of doing nothing can be a slow descent into irrelevance — or worse, complete obsolescence. When it comes to quality management, what is the true cost of doing nothing? As motivational speaker Denis Waitley aptly says, "Life is inherently risky. There is only one big risk you should avoid at all costs and that is the risk of doing nothing." Ignoring customer feedback, continuing the practice of using paper and manual processes or allowing subpar products to reach the market can have dire consequences. Embracing a "do-nothing" mentality reflects poorly on a company's brand and undermines its credibility — not to mention driving up costs associated with scrap, rework and warranty service.

What happens if you ignore the voices of your customers, continue with paper and manual workflows or inadvertently allow poor-quality products to enter the consumer marketplace? And if "doing nothing" is your favored business practice, how does that reflect on your brand?

In this white paper, we'll look more closely at both the cost of doing nothing and the cost of quality itself. We'll also discuss the real costs associated with inaction and why doing nothing is dangerous.

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The cost of doing nothing

You don't have to be an economics expert to realize that doing nothing isn't a legitimate business strategy — if anything, it's a "going-OUT-of-business" strategy that companies should actively avoid.

Low-quality products always come with a price. And while the true cost of low quality is almost impossible to calculate, many quality pros believe that it is less related to inactivity and more in line with a company's failure to control or maintain quality in the first place.

Indeed, "doing nothing" is unlikely to be part of a company-wide quality strategy — most organizations are doing something related to quality management, even if it's just using paper and manual-based processes to maintain the status quo. But the status quo doesn't cut it in today's business world. Companies that don't invest in quality management are taking a huge risk that can ultimately lead to:

- Increased scrap, rework, complaints and warranty costs
- Reduced competitive position
- Brand damage and customer retention issues
- Risk of repeated failures
- Inability to adapt to change, anticipate, predict and prevent quality issues
- Inconsistent documentation and training
- Risk of errors from manual data entry across multiple, disconnected systems
- Lack of visibility into supplier performance
- Lost margin and revenue

But that's not all. Another cost associated with refusing to invest in quality is the loss of the potential gains only achievable by investing in good quality. As investors and finance professionals know, the "opportunity cost" of selecting one investment over another — even if one of those alternatives is "doing nothing" — must be included in any calculation. For quality management, if a company decides not to manage quality comprehensively, it's giving up the potential cost efficiencies and revenue gains that it could achieve with tighter quality management and process control.

When a quality issue arises, the cost of doing nothing can impact everything from the brand's reputation and ability to compete to the company's production downtime — and the bottom line.

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The cost of quality

According to knowledge-based quality community ASQ, the cost of quality (COQ) is a methodology that companies can use to identify resources that are being used for activities that prevent poor quality, the quality of an organization's products or services and the pain points that result from internal and external failures. Using this information allows decision-makers to calculate the savings they may gain by integrating quality process improvements.

COQ is often mentioned alongside the cost of poor quality (COPQ). And although these two concepts might seem similar, COPQ relates more to the actual costs of delivering poor-quality products to an end user or consumer.

Companies that integrate both COQ and COPQ into their quality management processes are more likely to understand the long-term effect of doing nothing — the key is to accept that organizations will pay for poor quality.

ASQ states, "Many organizations will have true quality-related costs as high as 15-20% of sales revenue, some going as high as 40% of total operations. A general rule of thumb is that costs of poor quality in a thriving company will be about 10-15% of operations. Effective quality improvement programs can reduce this substantially, thus making a direct contribution to profits."

ASQ's definition splits COPQ into four distinct categories: prevention, appraisal, and internal and external failure costs. Each of these quality metrics has a place in the quality management process:



Prevention costs

Incurred to prevent or avoid quality problems — this category also includes the design, implementation and maintenance of the actual quality management system (QMS).



Internal failure costs

Allocated to remedy product defects before delivering the item or service to an end-user or consumer.



Appraisal costs

The measuring and monitoring of activities directly linked to quality.



External failure costs

Incurred by a company to fix defects discovered by customers.

Striking the right balance

Multi-million dollar recalls. Viral posts that wipe out billions in stock value. Delays that damage consumer trust and cost business relationships. When you consider how often the local, national and global media (including social media) headline quality missteps and product recalls, it's easy to understand the true scope of the cost of poor quality. The reputation your business worked over decades to create can be decimated in a moment, especially if you are calculating the cost of inaction instead of fixing the problem.

In the packaged goods industry, the cost of a potential product recall varies dramatically depending on the size of the identified issue. For example, imagine a company that produces a nut-free breakfast bar found that some of its distributed products contained traces of nuts. If we assume that the issue is only identified after the product hits the shelves, then the company must factor in the ratio of manufacturing costs (raw ingredients, production, labor) to the sale price. Provided that the company responds promptly, workers must identify where the spoiled batch(es) ended up, the logistics of returning the product and the cost of replacing the bars with a new product.

Doing nothing in the food and beverage sector is not an option — consumers' health and lives are on the line. Even a minor quality issue can cause consumers to lose trust, damaging the company's brand, negatively impacting future sales and even preventing retailers from wanting to carry the company's products in the future. The initial monetary value assigned to the quality issue may be the least of the company's problems.

The perception that a company is doing nothing to solve an identified quality problem is driven by consumer concerns, regulatory oversight or mandated inspection processes and, ultimately, the threat of legal action — all of which lead to a damaged brand and reduced corporate value.

Inaction is not the answer

Quality issues and product recalls are in the news every day. And the list of companies calculating the actual cost of poor quality is not an exclusive club.

The cost of doing nothing can lead to a tarnished brand reputation or even a spectacular fall from grace. And while regaining consumer trust is always important, the internal need to patch holes in quality processes can supersede external public perception.

Type "product recalls" into a search engine and you get around 481,000,000 results in approximately .50 seconds. Filter that in terms of news stories and it takes less than a second to bring up over 18,000 tales of quality-centric woe. The food and beverage industry will likely generate most of these hits, but the fallout from the cost of doing nothing is not confined to any one industry sector.

The electronics industry is constantly battling quality issues. You probably remember Samsung's Galaxy Note 7 phones which caught fire when the battery overheated. The phone's launch, recall and discontinuation happened within months. Issues with the Note 7 generated global media attention, costing the company more than \$17 billion in recalls and lost sales revenue.

But that wasn't Samsung's only quality issue. In 2019, its groundbreaking folding phone — the Galaxy Fold — had its proposed release date pushed back several times after review copies of the mobile device broke. And when the phone finally made it into the market, it was greeted with mixed reviews, with one reviewer recommending buyers "wait for the next generation," saying that their "worries about durability haven't been assuaged." Overall, phone sales only hit 500,000 worldwide and the delays caused partner T-Mobile to reconsider; the company decided that they wouldn't carry the Fold when it finally launched.

Avoiding the cost of doing nothing

The cost of doing nothing is more than just a hit to your balance sheet. The damage to your brand's reputation and the loss of consumer trust can have far-reaching implications — and can get even worse if an identified issue is later found to have been preventable.

Calculating the cost of doing nothing is an inexact science. ASQ's oft-cited rule-of-thumb — that COPQ is between 15%-20% of sales revenue and as much as 40% of total operations — is likely spot on. And let's not forget that quality doesn't discriminate between small-to-midsize companies and enterprises with billions of dollars in revenue.

For example, your company could receive a warning letter from a regulatory authority like the FDA detailing violations you must fix. This correspondence may require your organization to spend 15% to 20% of its sales revenue to identify and correct the quality issue in its products, practices, processes or other activities.

If your company decides not to comply with the warning letter, the issuing authority could raise the stakes by issuing a consent decree. This document escalates the costs quite considerably — and if there's one thing quality professionals agree on, it's that a consent decree could be financially devastating.

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QMS alleviates the cost of doing nothing

So how do we solve the problem? And if the cost of doing nothing negatively impacts product quality and the company, how do we effectively address it? It may be time to initiate the first steps in digitalizing your foundational quality management programs and processes.

The simple answer to these questions and taking that first step is electronic quality management software (eQMS). eQMS software fills the gaps that lead to quality issues, providing companies with a transparent record of the product lifecycle. That's why today's leading companies rely on eQMS software to help them act — long before the cost of doing nothing becomes an insurmountable problem.

Companies that regularly ignore problems that can be resolved before they reach the end user, making mistakes repeatedly, are destined to fail. Doing nothing may be tempting in the short term, but it's a recipe for long-term disaster.

At the same time, companies need to follow best practices in terms of quality management, with the basic elements of the process — quality planning, quality assurance, quality control and continuous improvement — all negating the cost of doing nothing.

The benefits of investing in eQMS software include:

- Having a single source of truth for all quality processes, documentation and data
- Going beyond digitizing to connecting workflows across the organization and providing visibility into the status of workflows
- Enabling fundamental changes, beginning the process of moving away from manual, disconnected systems toward automation
- Ensuring brand protection
- Lowering the cost of poor quality
- Increasing revenue and margins due to producing higher-quality products

Gaining the ability to create automated workflows, staying compliant with industry standards and regulations, offering consistent and quick training to employees, managing audits and being able to communicate quickly and effectively with vendors are capabilities that are only found within a QMS.

The procedures, tools and techniques underpinning a company's commitment to quality are also tied to the customer experience. Customer expectations have evolved in the last decade. Companies prioritizing excellence in all aspects of their business processes will have a defined quality journey as their ongoing goal. In other words, success is generated by the constant need to improve, with those who prefer to do nothing at risk of becoming irrelevant.

A wise investment in your future

Doing nothing is not an option for companies that want to survive and grow in today's marketplace; the "do nothing" mindset has a proven history of failure, with companies quickly falling behind their more proactive competitors focused on innovating, changing and expanding.

That's where a quality management system can help. Adopting an advanced quality management system allows companies to achieve and sustain excellence by providing a mechanism for continuous improvement. By adding a QMS to your company's operations, you'll be making a wise investment in your company's future, customers' happiness, brand reputation and bottom line.

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About Octave

Octave is a leader in enterprise software, turning data into decisive action and intelligence into your edge. Our software solves for and simplifies complexity, from the design and build to operations and protection of people, property and assets – for any scope, at any scale. For decades, we've partnered with customers to sharpen performance, elevate efficiency and amplify results. From factory floors to entire cities, our solutions are tuned to scale up what's possible from day one onward.

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