

The Rise of Quality as a Strategic Business Initiative

Research into the State of Quality Management

April 2020

➔ Four Key Research Conclusions



Quality is a Business Driver

Quality is a strategic business initiative that helps organizations of all sizes to achieve their key business goals, while delivering a significant return on investment.

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Companies are Investing More in Quality

Organizations are making big investments in quality processes and people today, and they see a consistent investment as a required step to accomplish major quality initiatives over the next 3-to-5 years.

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Those with a QMS find recovery from a recall easier

Product recalls are occurring at an increasing rate for a large share of organizations. Recalls affect all aspects of an organization and are costly in terms of revenue, brand reputation and customer loyalty. QMS users find it easier to rebound from a recall.

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Suppliers are Being Replaced Due to Quality Issues

Although managing supplier quality is seen as being at least somewhat easy for organizations to do today, the need for replacing suppliers due to a quality issue is happening frequently to organizations on a wide-scale basis.

Page 5

The research presented here is the result of a survey ETQ completed in January 2020. At the time of this report's publication in April 2020, the world is now experiencing significant change with a global pandemic and an economic slowdown. While we expect that many companies will be changing their 2020 plans and budgets as a result, we believe that the findings in this report can inform future decisions.

In order to understand how quality processes are changing as the result of the pandemic, ETQ also conducted a brief survey of its customers and other QMS users. Those results are on page 9.

➔ Introduction

Essentially all (94%) mid-market and enterprise organizations across the life sciences, food and beverage and manufacturing industries have a dedicated quality function. Further, 97% of these organizations have quality management processes in place and 87% include quality as part of their mission statements.

Given the highly regulated nature of these industries, the commitment to quality isn't necessarily surprising. However, 2020 research has revealed that these organizations aren't just maintaining the status quo when it comes to quality management.

In the past, quality was treated largely as an operational compliance issue. Doing the bare minimum to meet regulatory requirements was acceptable as long as it enabled you to get products out the door on time. While faster product delivery is critical to maintaining competitive advantages, it can't come at the cost of operational efficiency and business health.

There's an important shift happening across mid-market and enterprise organizations—organizations are treating quality as a strategic initiative rather than just an operational compliance issue. In fact, the 2020 data shows a significant majority, 66% of organizations, are treating quality as a strategic growth investment.

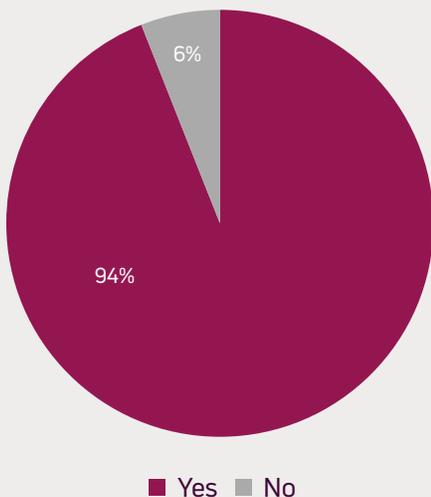
66% of organizations, are treating quality as a strategic growth investment

QUESTION

Q19. Does your organization have a dedicated quality function?

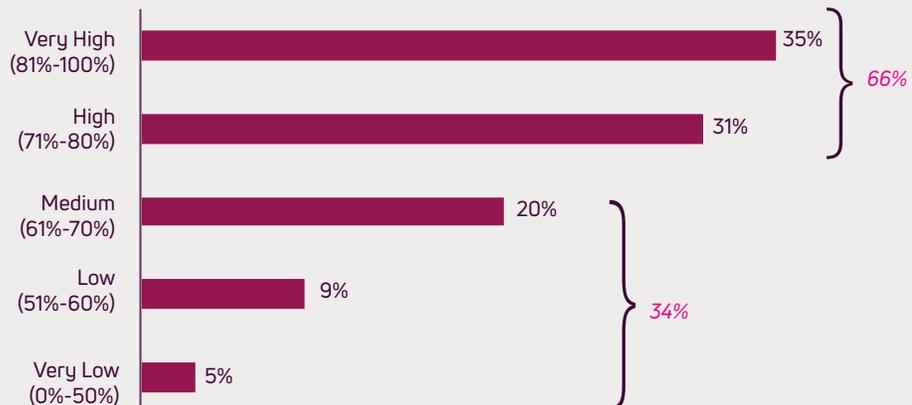
Q25. Where on the scale below does your organization fall in how it manages quality? Scale: 0% Treats quality operationally as only a compliance issue and 100% Treats quality strategically as a growth initiative.

Organizations with a Dedicated Quality Function



Organizations Treating Quality as a Strategic Growth Initiative

Average rating 75%



It's important to understand what it really means to make quality a strategic growth initiative. What's driving C-level executives and quality/supply chain managers to make this shift? What are the consequences of maintaining the status quo? And what is the financial impact of making meaningful investments into strategic quality?

These are the questions we sought to answer through research into the state of the quality management market in the life sciences, food and beverage and manufacturing industries. In this ebook, we'll use the research findings to communicate the need for and value of treating quality as a strategic initiative, highlighting several key findings, including:

- Many organizations are in the earlier stages of building quality management programs. They told us they were going into 2020 with the intention to make big investments and looking to continue making considerable investments in the next 3 to 5 years.
- Treating quality as a strategic business initiative is paying off as organizations see an average return of 23% on their investments.
- Product recalls are still widespread and occurring at an increasing rate, which costs organizations on multiple dimensions.
- Quality Management System (QMS) solutions are helping the majority of organizations recover from product recall processes.

23% average ROI on quality investment

QUESTION

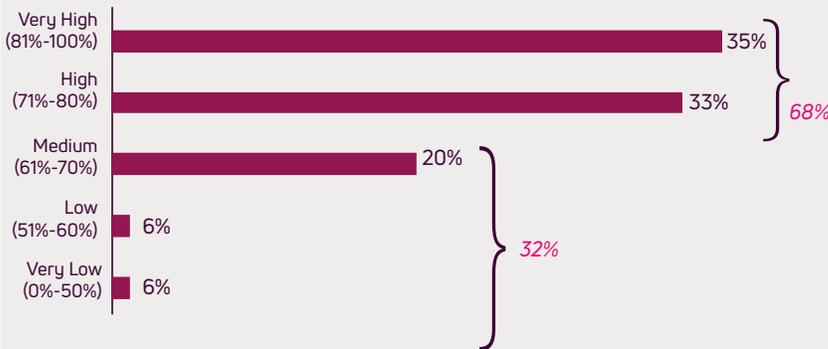
Q26. Where on the scale below does your organization fall in how it prioritizes "getting product out the door" versus achieving organization quality goals?

Scale: 0% Getting product out the door is always the deciding factor over quality and 100% Delivering high quality is of top importance; even if it means delaying product delivery.

Q22. Overall, how well do you think your organization is currently doing in managing quality?

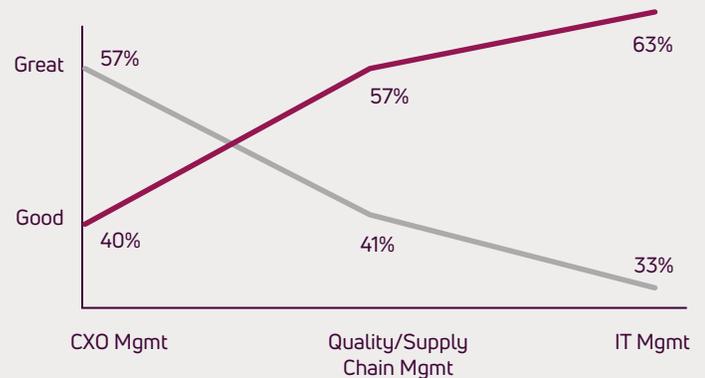
Organizations prioritizing achieving organization quality goals, even if it means delaying product delivery

Average rating 75% (0% to 100% scale)



Organizations Reporting that They are doing Good or Great in Managing Quality Today

Decision Maker Segment Results



➔ The Current State of Quality

The Impact of Supplier Quality Management

The transition from quality as a compliance requirement to a strategic initiative is an important trend, but for organizations that haven't experienced a catastrophic quality event, it may not be clear why anything has to change. The current state of supplier quality management offers the best example.

About two-thirds of organizations say they have a high or very high level of control over their supply chain's quality. Given that 87% use formal quality management processes to manage suppliers, it makes sense that so many leaders are confident in their capabilities.

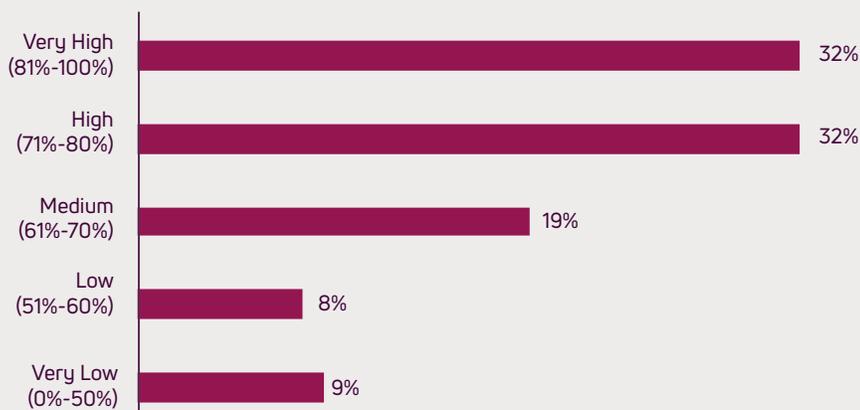
But there's a disconnect between the commitment to quality and the results organizations are seeing.

QUESTION

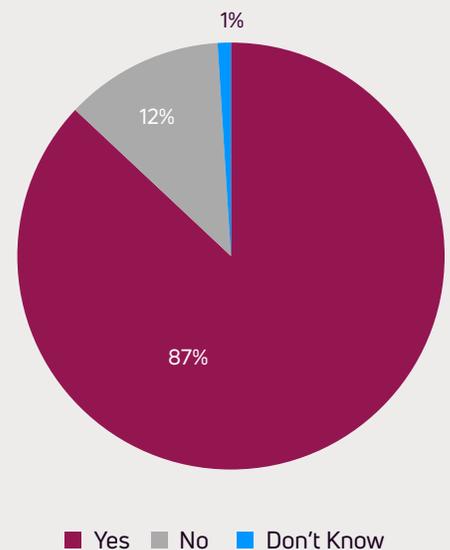
Q37. What level of control on the scale below does your organization currently have over the quality of your supply chain? Scale: 0% No Control at All and 100% Complete Control

Q38. Does your organization have a quality management process for managing suppliers?

How Much Organizations Control Their Supply Chain Quality
Average 74% Control



Using Quality Management Process to Manage Suppliers



Survey results show that the vast majority (79%) of C-level executives and quality/supply chain leaders see managing their supplier’s quality as being very or somewhat easy to do.

However, 72% say that their organizations need to replace a supplier at least some of the time due to a quality issue. Although supply chain quality management is seen as an easy task, the risks associated with high rates of supplier turnover are significant.

The most widely used processes for managing supplier quality are having suppliers adhere to the organization’s quality metrics (53%) or have suppliers use their own quality metrics and audit them regularly (61%).

However, 36% of respondents say that suppliers use their own quality metrics and that their organizations do not regularly audit them. Among these organizations, 52% are below-average spenders on quality and 51% have had an increase in product recalls recently.

This is why quality investments are so critical. The companies that spend below industry averages on quality see supply chain quality management as more difficult than those that have average to above-average spending. The other factor is the breadth of the QMS processes that organizations are using to manage supplier quality; if the quality management processes for managing suppliers are not integrated with the QMS overall, then visibility and insights can be limited.

72% need to replace a supplier due to a quality issue

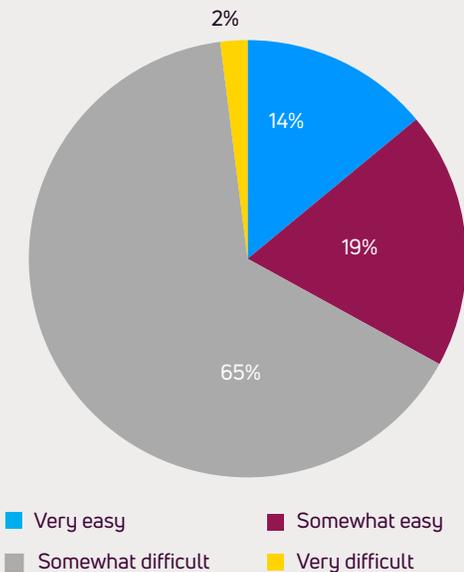
QUESTION

Q40. How easy or difficult is it for your organization to manage supplier quality?

Q39. What is the process your organization uses for ensuring your suppliers are meeting your organization’s quality metrics?.

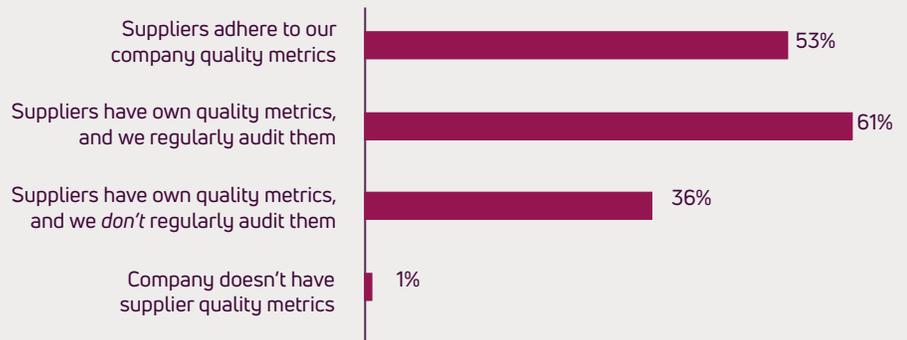
Ease/Difficulty in Managing Supplier Quality

Total Sample Results



Processes Used for Ensuring Suppliers Meet Organization Quality Metrics

Multiple responses accepted



Investment in quality is on the rise

Our research found that organizations are taking steps to mitigate quality concerns by increasing their investments.

Today, midmarket and enterprise organizations spend an average of \$78 million on quality programs and people. In 2020, almost no company plans to decrease its spending. Rather, the average increase in quality spending across people, programs and systems for 2020 is 21% with leaders looking to increase headcount by an average of 23%.

QUESTION

Q31. Approximately, how much does your organization currently spend in total per year on quality programs and people?

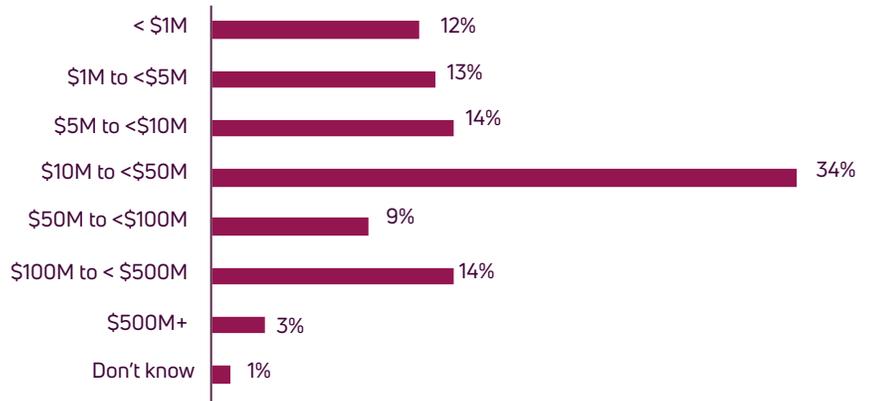
Q32. How will your organization's total spending on quality programs and people change in 2020?

Q33. By what percent do you think your organization's total spending on quality programs and people change in 2020?

Q34. Approximately, how many total people (employees and contractors) currently are working on quality management across all divisions and locations within your organization?

Current Quality Spending

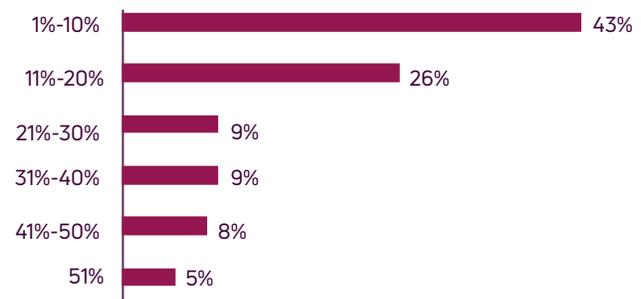
Average Current Spending: \$78 Million



Percent Increase in 2020 Quality Spending

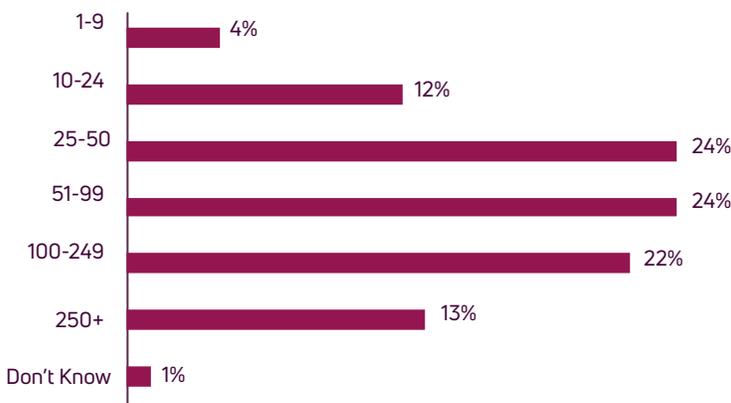
Base: Organizations Planning to Increase 2020 Quality Spending

Average Spending Increase 21%



Current Organizational Quality Headcount

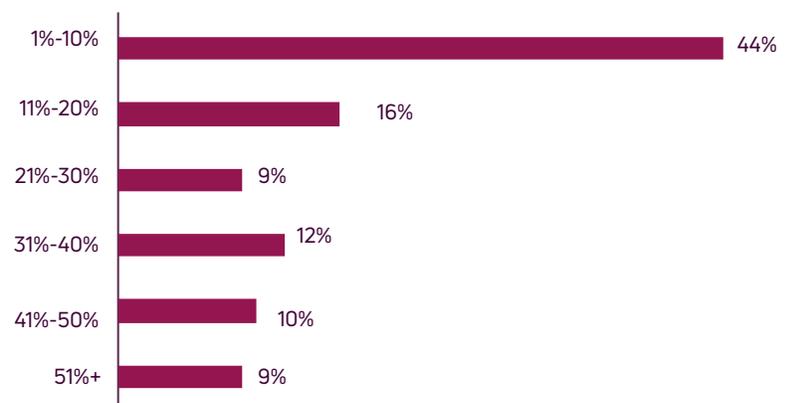
Average Headcount: 108



Percent Increase in 2020 Quality Headcount

Base: Organizations planning to increase 2020 quality headcount

Average Increase 2020 Headcount: 23%



There's a disconnect between C-level leaders and Quality/Supply Chain and IT Management that could complicate how increasing quality investments are allocated.

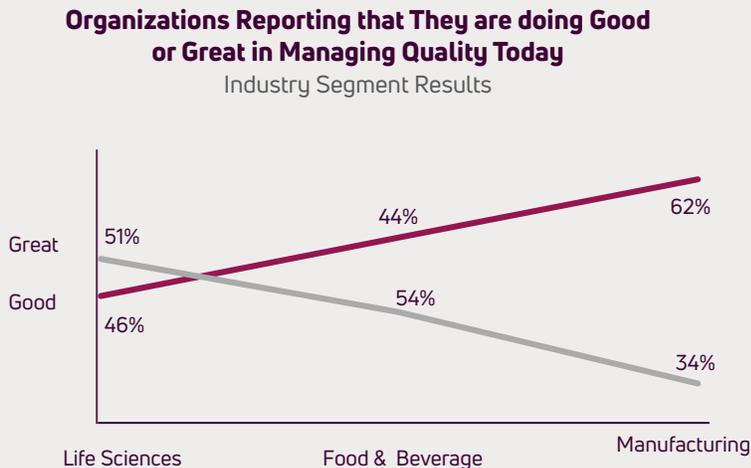
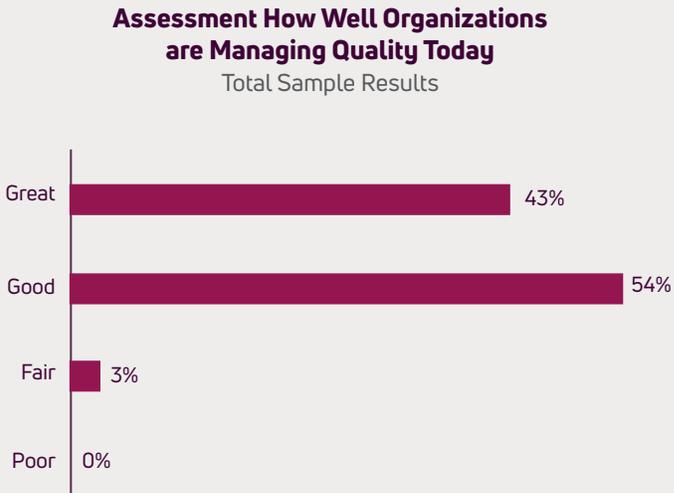
Our survey found that more CXOs see their organizations as doing a great job in managing quality today whereas more Quality/Supply Chain and IT Management staff see their organizations as doing a good job. See Chart on Page 4.

If all levels of leadership aren't aligned on strategic quality initiatives, growing investments may not deliver the expected returns. This can be especially problematic as organizations try to solve an ever-growing and costly challenge in the life sciences, food and beverage and manufacturing industries—product recalls. See Chart on Page 4.

How **well** is your organization managing quality?

QUESTION

Q22. Overall, how well do you think your organization is currently doing in managing quality?

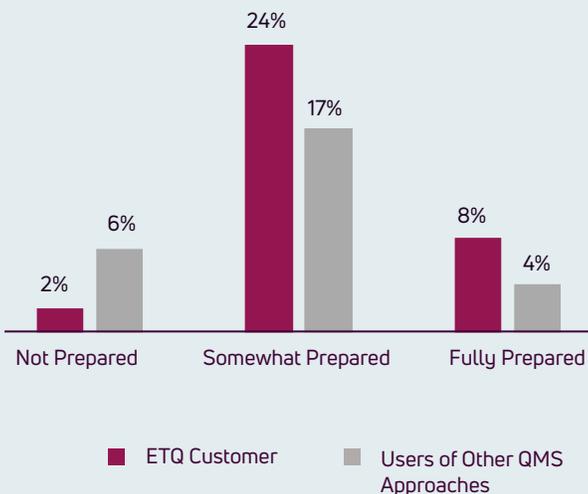


➔ Preparing to Maintain Quality Under Any Circumstances

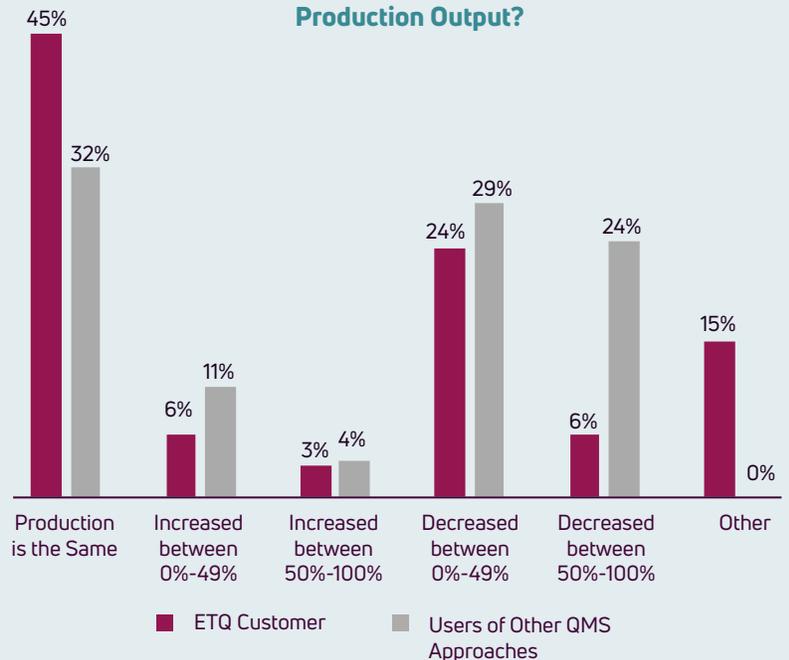
At the time of writing this ebook, the world is experiencing a pandemic the likes of which people have never seen in their lifetimes. In late March 2020, ETQ undertook a second, smaller and more focused survey of its customers and others to see how they were adapting to the rampant disruptions caused by the current crisis. And while the economic impact of COVID-19 has been devastating thus far, the reality is that technology is enabling a wide array of job functions to continue remotely. For life sciences, food and beverage and manufacturing companies, operations must continue despite the disruption.

Organizational commitment to quality before the pandemic has had a real impact on the effectiveness of quality management processes. While 95% of our own customers feel their teams were fully prepared or somewhat prepared for the disruption caused by COVID-19, only 75% of our “Users of Other QMS Approaches” sample felt the same way (note: for purposes of this survey “Users of Other QMS Approaches” includes other QMS software, non-QMS legacy systems and manual, paper-based processes). Not only that, but 24% of the “Users of Other QMS Approaches” sample reported significantly decreased production compared to just 6% of ETQ customers.

Do You Feel Your Quality and Safety Team was Adequately Prepared for Any Disruption Caused By Covid-19?



How Is Covid-19 Affecting Your Location's Production Output?



One of the problems quality management teams are having is adapting to the shift to remote work. In the ETQ customer sample, 71% are working remotely or in new locations. In the other group, only 55% are working remotely or in new locations. Without proper preparation for and investment in quality management technology in the cloud, quality teams are left without the necessary collaboration systems to maintain effective operations.

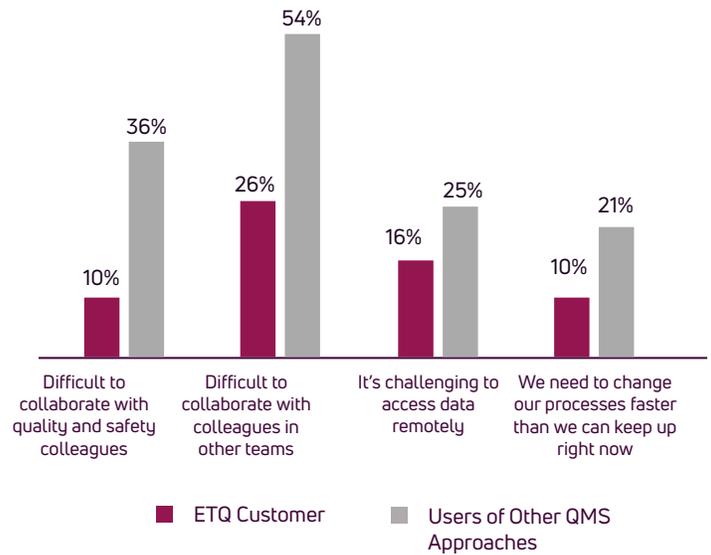
Among ETQ customers working remotely, the biggest challenge is overall uncertainty in the business. This is a prevailing challenge for employees at all levels and across all industries as the world continues to try to find a way through the pandemic. But for our "Other QMS" sample, quality stakeholders are also having difficulties collaborating with colleagues, both in the quality and safety departments, as well as other teams across their organizations.

In times of disruption, it is important for a quality organization to be agile and have the ability to change processes and procedures easily. In the wake of COVID-19, our customers are making significant changes to Audit Management, Employee Training, Document Control, Corrective Actions and Change Management. Survey respondents who were also ETQ customers reported an easier ability to change their processes than did their "Other QMS" peers.

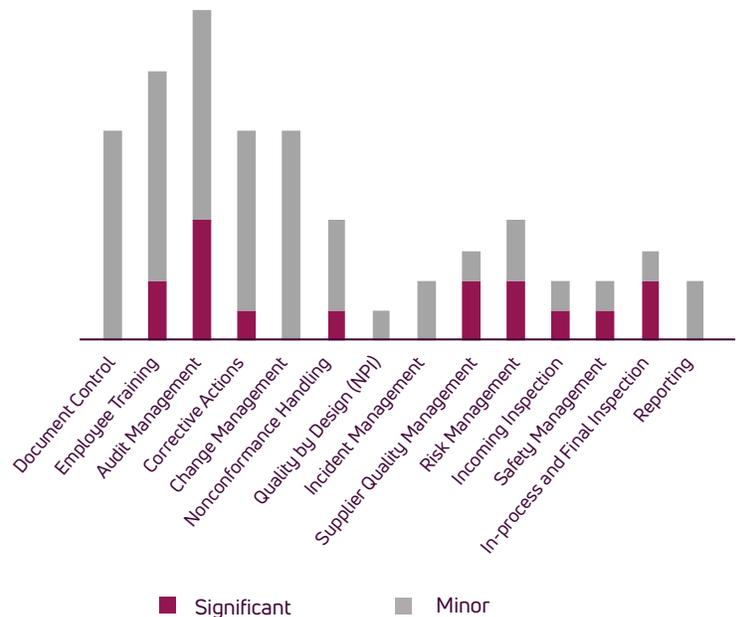
Survey Methodology

ETQ surveyed its customers and prospects to find out how COVID-19 is affecting their quality management and safety management work. Through the COVID-19 QMS Work Survey, we learned that the pandemic is changing how quality teams are working. To complete this survey, we emailed questions to two groups on March 26 and March 27, 2020. 39 "Other QMS Customers" responded to the survey and 46 "ETQ Customers" also participated. Our sample provided responses from a range of organization sizes, industries and employee titles.

If your local quality and safety team is working remotely, what are your challenges?



What workflows and processes are changing due to Covid-19?



➔ Product Recalls: A Consequence of Poor Quality

Poor quality can negatively impact businesses in many ways. From lost revenue to customer dissatisfaction, diminished brand reputation and increased compliance costs, not taking steps to improve organizational quality has consequences.

But the consequences of poor quality ultimately culminate in one significant problem for highly regulated organizations—product recalls.

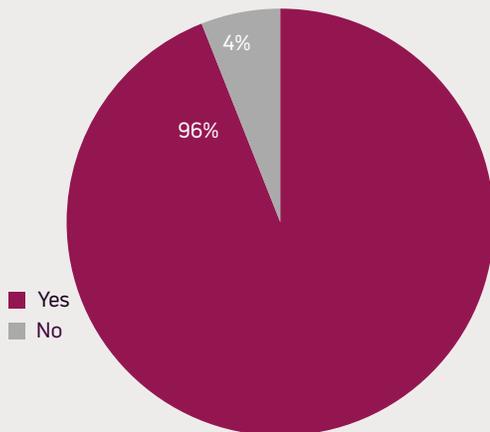
Most organizations, certainly all 300 participating in the survey, have experienced at least one product recall in the last 5 years. Worse yet, twice as many organizations have seen an increase in product recalls than organizations that have seen a decrease over this time period. So, whether due to increased regulatory burden, the rise of social media which can make any product or service problem a global story quickly, or some other explanation, the pace of recalls seems to be increasing. And organizations must be prepared to minimize the impact of a recall by pushing quality management as far upstream in the product lifecycle as possible.

QUESTION

Q29. Did your organization experience a product recall in the last 5 years when using a QMS solution?

Q28. How has the total number of organization product recalls changed over the last 5 years?

Experienced Product Recalls Last 5 Years



Change in # Product Recalls Last 5 Years
Total Sample Results



In a perfect world, you could eliminate product recalls by maintaining perfect quality at every stage of your manufacturing process and throughout your supply chain. But, staking your business performance only on the ability to prevent product recalls rather than having plans and processes in place to recover efficiently and effectively would be a mistake.

Our survey found that companies with a quality management system (QMS) in place when they had a recall were able to recover more effectively than those that didn't. In our pool of respondents, 68% of organizations had a QMS in place during a recall over the last 5 years compared to 29% that didn't. Of those that had a QMS in place at the time of a recall, the survey found that 83% of C-level executives and quality/supply chain leaders felt the QMS helped at least somewhat when recovering from the recall.

83% of C-level executives felt a QMS helped recover from a recall

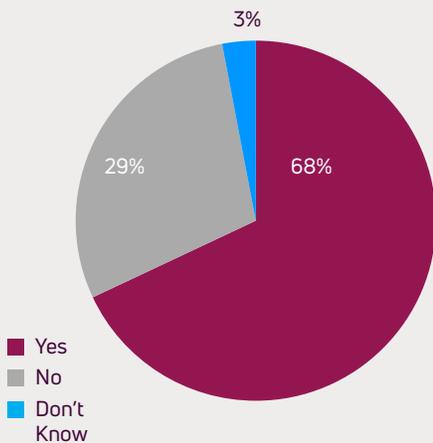
QUESTION

Q29. Did your organization experience a product recall in the last 5 years when using a QMS solution?

Q30. How much on the scale below did the QMS solution help your organization to recover from a product recall? Scale: 0% QMS Solution did not help at all and 100% QMS Solution helped enormously.

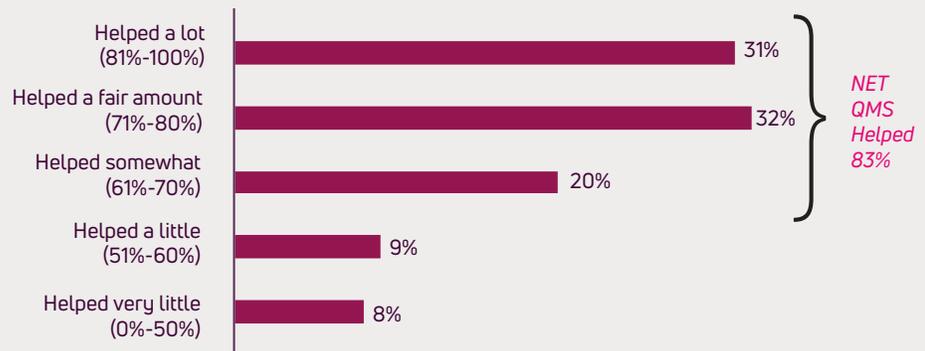
Using QMS When Had Recall

Used QMS when had a recall in last 5 years



QMS Solutions in Helping to Recover from Product Recall

Based on helped somewhat, fair amount or a lot responses



➔ Making the Switch to Quality as a Strategic Business Initiative

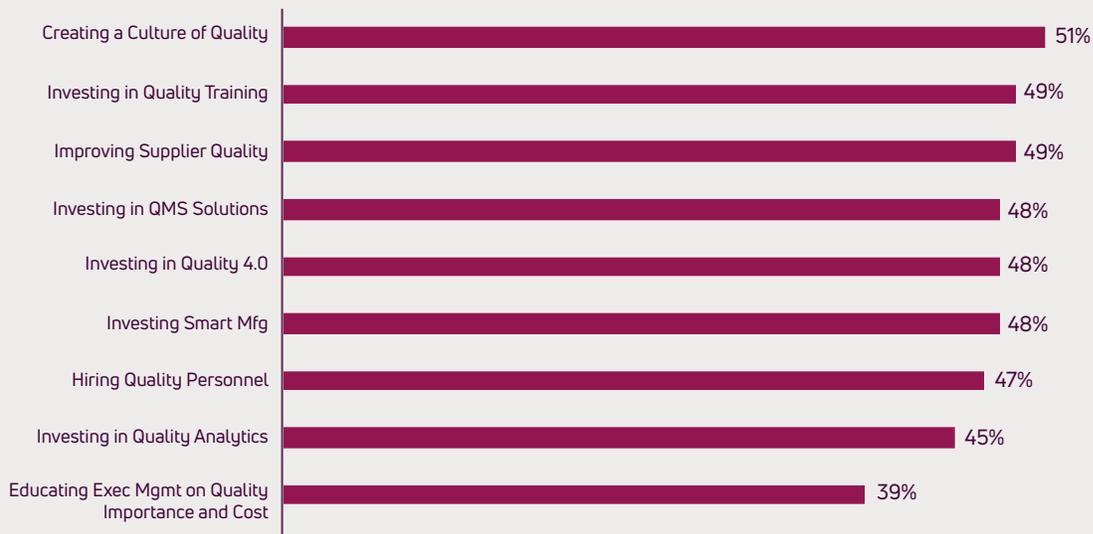
Because product recalls are costly and can impact a company’s brand and supplier quality management is more difficult than expected, enterprise and mid-market organizations in the life sciences, food and beverage, and manufacturing industries aren’t just committing to quality—they’re investing in it.

In addition to increasing quality spending and headcount, there are a variety of steps being taken to make organizational improvements. While no single step is being taken on a widescale basis, it’s clear that companies are in the process of finding ways to make quality a strategic growth initiative.

QUESTION

Q24. What steps is your organization currently taking to improve quality?

Steps Organizations are Taking to Improve Quality
Multiple Response Question



The next 3 to 5 years will prove how committed enterprise and mid-market organizations are to making quality a strategic initiative. Virtually all organizations see a need to make substantial or moderate investments in quality over this time span, with almost none saying they will make little to no investments.

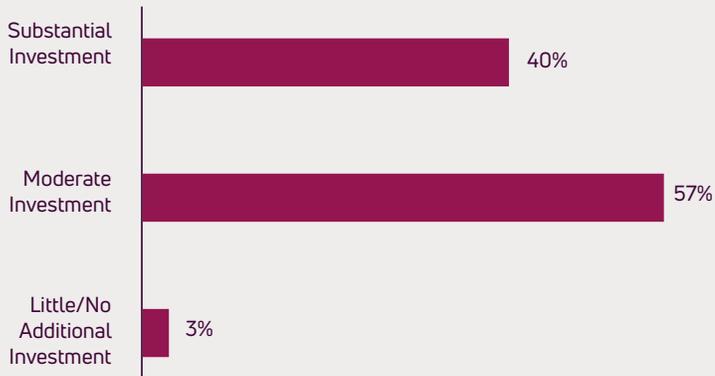
This push is coming mainly from the executive level as 59% of C-level leaders see the need for substantial investment. However, there is alignment with quality/supply chain and IT management as around two-thirds see a need for moderate investments in quality.

QUESTION

Q27. What level of investment do you see your organization needing to invest in quality over the next 3 to 5 years?

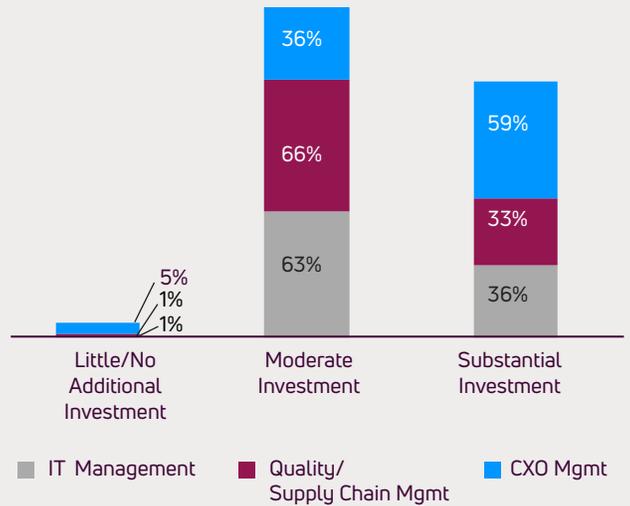
Quality Investments Level Needed Next 3 to 5 Years

All Organizations with Quality Management Process



Quality Investments Level Needed Next 3 to 5 Years

Decision Maker Segments with Quality Management Processes



How exactly are new investments in quality being spent? Simply increasing headcount isn't enough to make the transition from quality as a compliance issue to a strategic growth initiative. The technologies in which an organization invests make a significant difference in the organization's ability to meet and exceed quality expectations.

The primary tool that organizations are using to make quality a growth initiative is a QMS. However, with just 58% of survey respondents listing a QMS system as a current quality tool, there's still plenty of room to improve. In fact, 36% of mid-market and 26% of enterprise firms are still using paper files to manage quality processes.

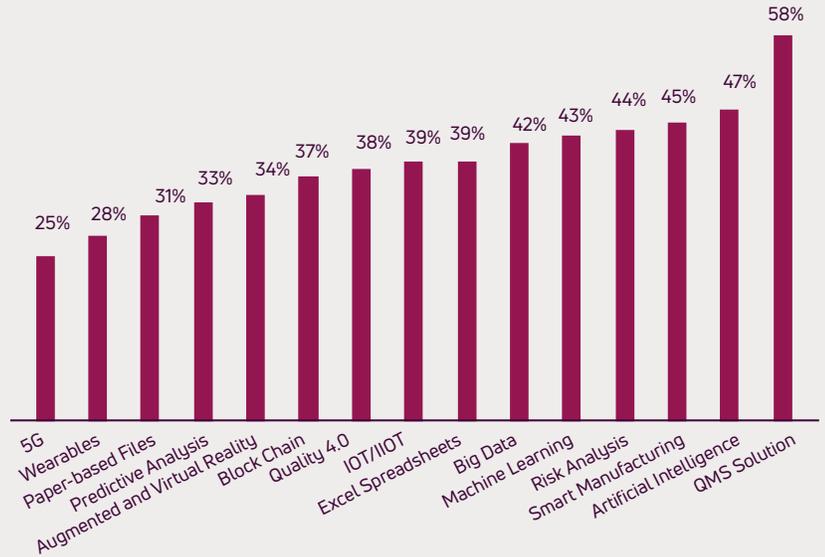
Despite there being room for improvement, the returns on quality spending are already clear.

QUESTION

Q17. Which of the tools below is your organization currently using to manage its quality management process?

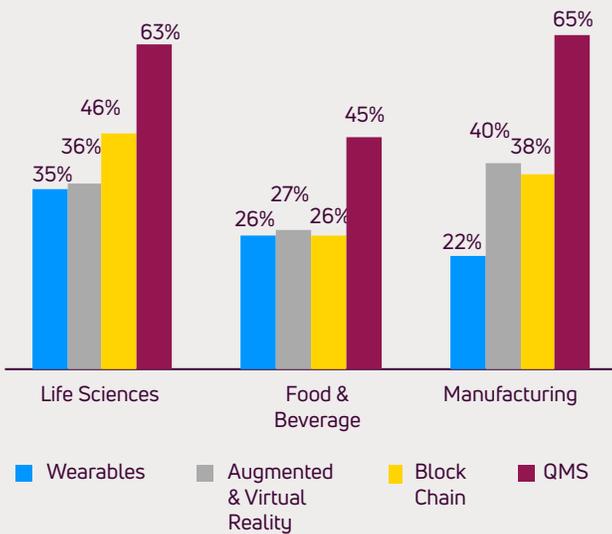
Current Tool Usage

Industry Segment Results
(Multiple Response Question)



Current Tool Usage

Industry Segment Results
(Multiple Response Question)



Current Tool Usage

Organizational Size Segment Results
(Multiple Response Question)



Investing in quality delivers returns for organizations in highly regulated industries. The average contribution to midsize and enterprise organization revenues from good quality is \$156 million (surveyed mid-market companies had revenue \$100M to less than \$500M and enterprise level had revenue greater than \$500M). When you offset these contributions with the average costs of poor quality (\$49 million), you're left with a net increase of \$107 million in organization revenues by investing in quality.

But it's not just about increasing revenue. More than two-thirds of respondents say that investing in organizational quality helps

them achieve a wide array of key business goals, including avoiding failed audits, reducing rates of nonconformance, creating consistent and documented decision making and increasing standardization of processes across teams, all of which can maximize efficiency, visibility and collaboration, while also contributing to both top- and bottom-line performance.

By increasing investments in QMS technology and focusing on implementing more advanced functionality and automation, you can start to execute strategic growth initiatives around quality.

Quality's Impact in Helping to Achieve Key Business Goals

Total Sample Results

(Based on 'some' and 'huge' responses combined)



QUESTION

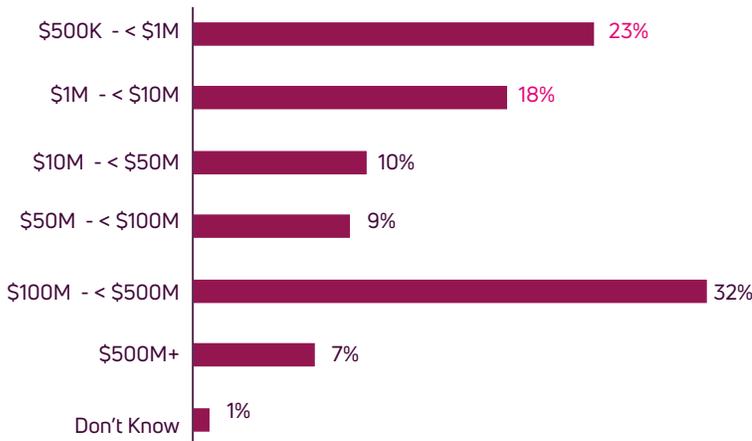
Q44. How much of an impact has your organization's quality investments in people, processes and systems had in helping to achieve each of the business goals listed below? Scale: huge, some, little, or no impact at all.

Q42. Approximately how much value do you think good quality is adding to your organization's revenues today?

Q43. Approximately how much do you think poor quality is costing your organization today?

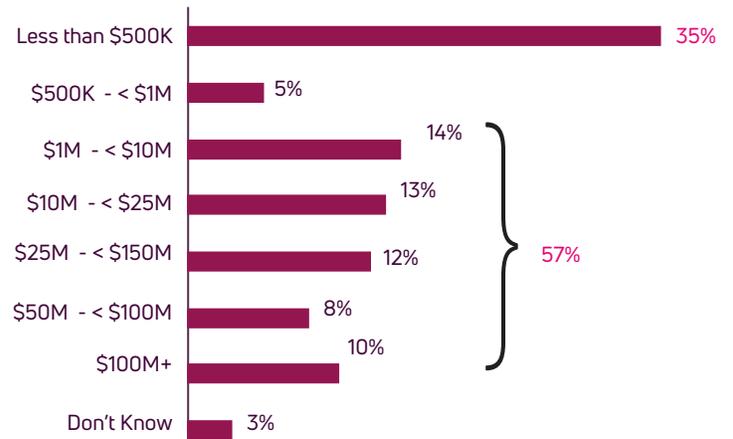
Current Contribution to Revenues from Good Quality

Average Contribution to Revenue from Good Quality : \$156 Million



Current Contribution to Costs from Poor Quality

Average Contribution to Costs from Poor Quality : \$49 Million



➔ The Real Impact of Quality on Business Performance Results

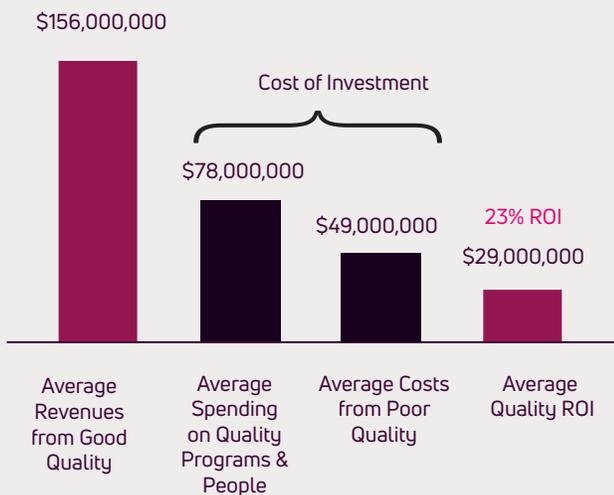
The push to make quality a strategic initiative isn't just based on qualitative insights and anecdotal evidence. Rather, the survey results show that quality is having a large impact in all performance levels when organizations make it a strategic priority.

Increasing quality levels tends to have widespread benefits, improving performance across an entire organization. Survey results show that, on average, good quality contributes 11% to an organization's total revenues. And with 6% of total organization revenues going toward Quality People, Programs and Systems, the ROI is clear.

Investing in quality across your entire organization will lead to measurable returns on investment and quantitative benefits. Now is the time to start taking steps to make the most of the opportunity.

Good quality contributes **11%** to an organization's total revenues

Quality's Return on Investment
Total Sample



$$ROI = \frac{\text{Revenues} - \text{Cost of Investment}}{\text{Cost of Investment}}$$

$$23\% = \frac{\$156M - \$127M}{\$127M}$$

→ Survey Methodology

This research was conducted by Salloway & Associates on behalf of ETQ. To obtain these results, the company completed a total of 300 online surveys between November 2019 and January 2020 among a cross-section of US decision-making stakeholders for quality management programs, including CXOs, management within Quality or Supply Chain and IT management that supports quality/supply chain functions.

There was an equal mix of surveys distributed to Life Sciences, Food & Beverage and Manufacturing organizations at the mid-market (revenue \$100M to less than \$500M) and enterprise level (revenue greater than \$500M). Almost all surveys were completed using targeted, market representative B2B research panels (98%) and the balance using ETQ's database of market purchase decision makers (2%). *

*Margin of error for the total sample of 300 is +/-4%

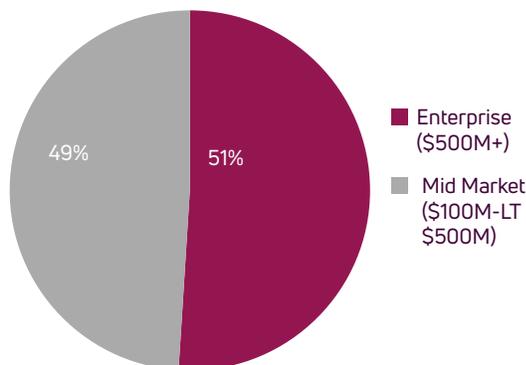
Industry Segments Surveyed	Sample Size	Margin of Error **
Life Sciences	100	±9%
Food & Beverage	100	±9%
Manufacturing ¹	100	±9%

Purchase Decision Maker Segments Surveyed	Sample Size	Margin of Error **
CXO Management	75	±10%
Management in Quality/Supply Chain	150	±7%
IT Management	75	±10%

**The Margin of error at the 80% confidence level with a 50% response

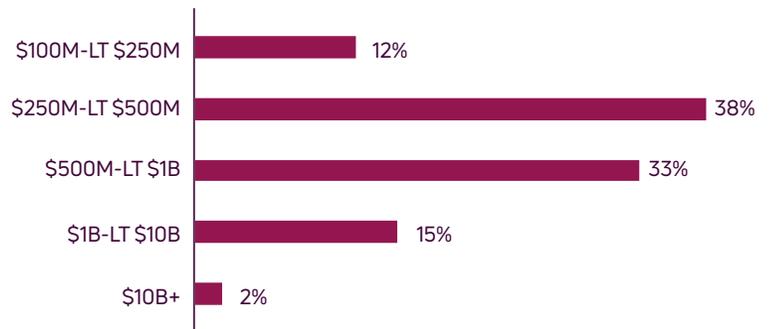
We completed an equal number of surveys among studied industries and organization size segments.

Company Size

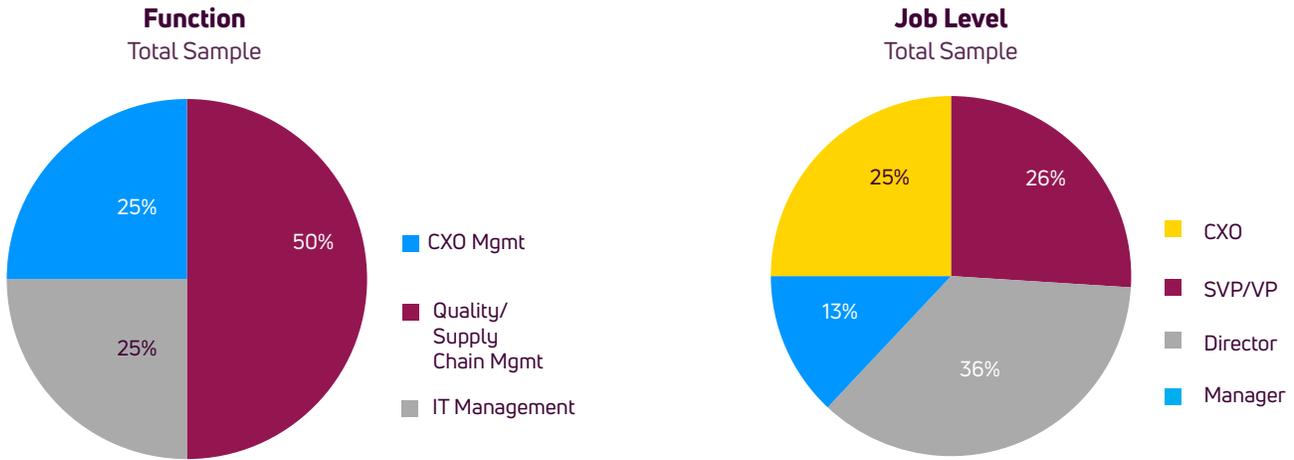


Company Size by Annual Company Revenue

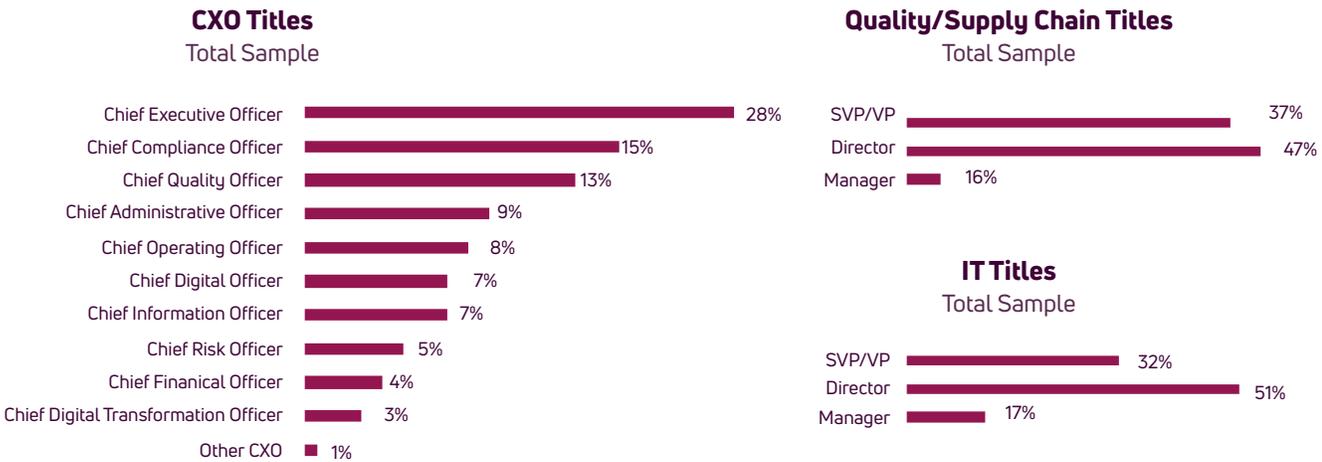
Average Revenue: \$1.4 Billion



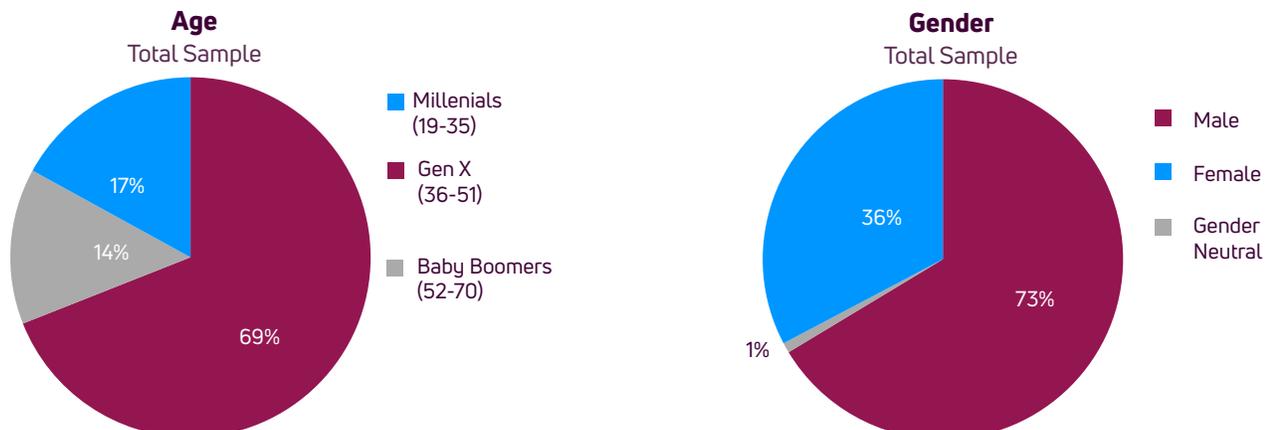
Respondent job functions represent the different decision-making stakeholders for quality management purchases. However, most respondents were in an executive or senior-level management position.



Among decision makers, there was a variety of job titles included in the survey pool. About one-quarter of CXO respondents are CEOs and another one quarter are either a Chief Compliance or Chief Quality Officer. About half of Quality/Supply Chain and IT management respondents are director level and another one-third are SVP/VP level.



Most survey respondents are male Gen Xers (aged 36-51) and a sizable minority are female.



➔ Execute Strategic Quality Initiatives with ETQ Reliance

ETQ Reliance is the only automated quality management system designed for comprehensive quality excellence across all quality processes and all stages of the Quality Journey—from document management to business transformation.

ETQ Reliance is comprised of eight solutions on one integrated, cloud-based platform. Built on a foundation of more than 25 years of quality best practices and best-in-class flexibility, Reliance is the most comprehensive and capable QMS on the market designed solely to support an organization's shift to quality as a strategic business initiative. Most importantly, it comes with an instinctive UI that drives employee adoption, harmonizing quality processes across an organization and ensuring customers get the most from their strategic projects.

ETQ is the quality management solution leader trusted by the world's strongest brands. We have over 500 customers ranging in size from startups to Fortune Global 500. With a 96% customer retention rate and strong customer satisfaction figures as measured by G2 Crowd, ETQ provides deep quality management expertise that can help organizations achieve their quality goals—no matter where they are in the Quality Journey.

ETQ Reliance maximizes organization's quality ROI by enabling:

- Reduced costs of poor quality
- Accelerated time to market for quality products
- Improved process harmonization
- Ensured security for brand reputation
- Maximized performance and profitability

The core of ETQ Reliance is a consistent focus on five key "genetic" characteristics.

- **Connectivity:** Linking and data inheritance ensures common data across all applications in the software.
- **Integration:** Industry standard and advanced integration options provide bi-directional data exchange.
- **External Collaboration:** Internal and external parties seamlessly and securely contribute to common workflows.
- **Contextual Awareness:** Location, role and product-based filtering and security deliver the right information to specific users.
- **Adaptability:** Unlimited flexibility to modify or create new applications with drag-and-drop ease and powerful scripting.

➔ About ETQ

ETQ is the leading provider of quality, EHS and compliance management software, trusted by the world's strongest brands, like Kimberly-Clark, Herman Miller and Chobani. More than 500 global companies, spanning industries including automotive, biotech, food and beverage, manufacturing and medical devices, use ETQ to secure positive brand reputations, deliver higher levels of customer loyalty and enhance profitability. ETQ Reliance offers built-in best practices and powerful flexibility to drive business excellence through quality. Only ETQ lets customers configure industry-proven quality processes to their unique needs and business vision. ETQ was founded in 1992 and has main offices located in the U.S. and Europe.

Learn more at www.etq.com