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Beware Product Death Cycles

by Art Kleiner

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Beware Product Death Cycles

The quality wars were allegedly won in the 1980s. Why, then, are we again overwhelmed by junk?

by Art Kleiner

How's your "idiot light"? That's the light on your car dashboard that indicates a malfunction with the vehicle's electronic sensors. It may also be a signal of the decline of product quality — not just in any particular car, but in manufacturing in general.

The light on my family car, a five-year-old European-made station wagon, flickered on for no apparent reason about a year ago — and stayed on. We kept bringing it to our dealer for repair. Each time, the car's computer was checked, its switch was reset, and the light went off…before going back on again.

Finally I exploded in frustration: "I've brought this car back four times!"

"Four times?" said the dealer's repair shop manager. "We've had customers bring theirs in *ten* times."

Clearly, it takes a lot of fortitude to be a consumer these days. No doubt many consumers gained an expectation that product quality would naturally improve, year after year, during the late 1980s and early 1990s. This was the heyday of quality management, when Japanese-inspired continuous quality improvement was seen as essential to a manufactured product's identity. But for the past decade or so, many corporations seem to have reverted to a more purely cost-based strategy, emphasizing short-term gains from the production of cheaply made, junky products. Kitchen appliances, power tools, cell phones, computer printers, DVD players, toys, and many other consumer goods are increasingly conceived and sold as disposable commodities. Although these products are constantly sugar-coated with more features and capabilities, their durability and longevity are rapidly dwindling.

As in the 1970s, this strategy poses serious dangers — from the erosion of well-established brands to the ultimate financial failure of companies. But it may be harder now to reverse the tide, because several trends in manufacturing and marketing subtly reinforce one another. Instead of facing competition from high-quality Japanese manufacturers, companies in industrialized countries face tough competition from low-wage countries and high price-cutting pressure from global retailers. Even when producers do promote quality, far fewer consumers seem to care. In this environment, many firms now seem to perceive the production of inferior products as an effective bottom-line strategy. But giving in to this increasingly irresistible temptation can put a company's future market share and profits at risk.

Is product quality getting worse? It's better than it was 30 years ago, by far — but it has been slipping backward ever since, say,

1993 (which happened to be the year that the preeminent quality advocate of American and Japanese business circles, W. Edwards Deming, passed away). The best empirical evidence of decline comes from the annual American Customer Satisfaction Index (ACSI), which is based on customer surveys and cosponsored by American Society for Quality and the University of Michigan. ACSI ratings of manufactured goods have basically held steady over time, but exceptional companies (notably Dell and Apple, with satisfaction increases of 9.7 percent since 1997 and 5.2 percent since 1994, respectively) skew the results. Other big-name companies show deterioration, including those that have invested millions of dollars in associating their brands with reliability and quality: Hewlett-Packard has dropped 9 percent in customer satisfaction since 1994, and several appliance manufacturers are down more than 4.5 percent. Even Six Sigma mainstay GE has slipped 2.5 percent. (A full table of this company data can be found at www.theacsi.org.)

Part of the reason for this serious dip in quality among American manufacturers lies in where they offshore factory operations and purchase components and parts. Chinese and other low-cost manufacturers have shown that you don't have to offer quality to compete if you can slash prices enough. "I see no evidence of the managers and workers at these facilities having the slightest concept of quality," says John Dowd, an American quality expert who has visited dozens of Chinese factories. "They will comply with customer requirements when they are monitored closely, but left alone, it's strictly 'Get it out the door.'"

At the same time, consumers' tolerance for poor product quality and short-lived products is higher because it costs less today to replace a broken toy, cordless drill, or VCR. In the early 1990s, people wouldn't bother to fix defective products costing $30 or less, according to *Consumer Reports*, but that price point has steadily risen, to about $100 now. These trends combine with the advancing microchip and with insistent price pressure from retailers, in a way that may have permanently changed attitudes about product quality and the competitive environment in many industries. Rather than retooling for continual upgradeability, manufacturers may simply assume unending consumer tolerance, and slide down the slope of cost reductions and quality erosion. If this attitude continues to take hold, then former major brand producers will move to a new strategy of survival as commodity makers of retail house brands, with devices engineered for replacement every year or so.

That may be an effective strategy in the short run — maybe even for years. But companies that test the patience of consumers could pay a high price for thinking that quality is low on people's list of priorities when they make a purchase. Greg Brue, president of Albuquerque-based Six Sigma Consultants and author of *Design for Six Sigma* (McGraw-Hill, 2003), has extensively studied warranty data, such as the number of units returned each year to retailers (and hence to manufacturers) for

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repair or replacement, and is convinced that the decline of product quality is a cultural Rubicon for companies — a potential point of no return on the road to eroded market share. He claims he can predict whether marketers will lose customer loyalty five years from now on the basis of their profile of warranty costs today.

To Mr. Brue, there are two categories of products that retailers sell, each with its own pattern of deterioration — its own "product death cycle." According to his research, companies that produce products with lower warranty return rates have far stronger bottom lines five years later than those whose product quality erodes more rapidly. In other words, consumers stop buying products and brands they think are likely to break down. Although many top executives may decide that product failures and loyalty erosion aren't that important in the larger scheme of business, Mr. Brue says "that's not a responsible fiduciary attitude."

"A product failure leaves a scar in a company's reputation," he says. "It makes the consumer wonder: Will the company get the next one right?"

Several experts argue that a solution to our latest quality crisis will emerge from competition and innovation. Jack West, past president of the American Society for Quality, says that even some Chinese companies are choosing to adopt Six Sigma techniques. New technologies like radio frequency identification (RFID) chips also offer hope. If your DVD player needs a new loading tray, the RFID chip will detect the problem, notify the factory, and arrange delivery of the proper replacement part, ready to snap into place.

But it's not certain that manufacturing companies will want to make this kind of shift. Having evolved into suppliers of retail brands, they may not be in a position to innovate or to invest in quality, as they did in the mid-1980s. And in a world of cheap, disposable products, who will care? Maybe only the last few managers, of the last few quality brands, who, like monks in the Dark Ages, keep alive an ideal that others have forgotten — and derive premium profits from a premium audience that nobody else understands. ✚

Resources

Art Kleiner, "Beware the Product Death Cycle," *s+b,* Spring 2005; www.strategy-business.com/article/05101

David Neely and Kevin Dehoff, "Innovation's New Performance Standard," *s+b Resilience Report*, 03/15/04; www.strategy-business.com/resilience/rr00005

Arthur M. Schneiderman, "Are There Limits to Total Quality Management?" *s+b*, Second Quarter 1998; www.strategy-business.com/article/16188

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