

The target costing approach marketing essay



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In order for a company to develop a product that can be marketed profitably at the projected price, the target costing approach can be employed. This approach is introduced by Toyota Motor Corporation (Japan) in 1960s (Hibbets et al., 2003) which serve as a reverse form of determining the target cost by using the projected selling price deducts the required profit margin. In addition, target cost can be considered as a maximum allowable cost for a new product which the company willing to accept. Thus, company can only produce at or below the target cost, and redesign or forgo the product that above the target cost (Gopalakrishnan et al., 2007). In order to further understanding the concept of target costing and also to examine how successful this approach applied to the particular industry, we refer to the journal named Best Practices in Target Costing.

Swenson et al. (2003) state target costing can be served as a cost management tool and profit planning because it provide the cost reduction function and consider the target profit requirement during the product designing stage. Previous researchers like Gopalakrishnan et al. (2005) and Filomena et al. (2009) have used this approach for their study, typically to assign this method into product development process. Hence, our second objective is to examine how target costing applied to consumer products' company and other manufacturing companies during the new product development stage and for existing process improvement.

Drury (2008) introduced target costing as a customer-oriented technique which widely used by the Japanese companies such as Toyota and Nissan. Most of these companies take into consideration the customers' perceived value of the product when setting the target price and meet the customer

requirement when designing a new product, and also eliminate the cost that do not contribute or add value to the product. This is because they want to minimize the cost and remain competitive advantage against the competitors. In order to investigate the relationship between competitive environment and the strategy for target costing companies, we have use a journal to support our third objective.

On the other hand, it is necessary for a company to develop a powerful and useful target costing training program since this method is important to a company future product development. Company requires well-trained staffs to implement the target costing approach effectively so as to commit with the company strategy. Therefore, our last objective is to know how to develop a complete set of target costing training program by referring to a journal selected.

Summary

Journal 1

Journal Title

Best practices in target costing

Journal Reference

Management Accounting Quarterly

Volume/ Issue No.

Volume 4, Issue 2

Author/ (Year)

Swenson, D., Ansari, S. & Bell, J. (2003)

Purpose

To investigate the ways on how target costing applied in difference industry.

To measure the degree of success and improvement when target costing has been employed.

To identify the factor that affects the successfulness of this application.

Research Model

Not applicable

Data Collection/ Data Analysis

The authors use survey, telephone interviews and secondary research to collect the information and then find out the four best practices target costing companies in US (Boeing, Caterpillar, DaimlerChrysler & Continental Teves).

Caterpillar set their new product's target cost at 94. 6% of a comparable product and create the cost gap of 5. 4% (100 - 94. 6%).

Then, Caterpillar has found 4. 6% savings by considering the existing technology, and the remaining 0. 8% (5. 4 - 4. 6%) is from the analysis of the questionnaire.

Research Result/ Findings

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DaimlerChrysler use value engineering/analysis, design for manufacturing assembly, paper kaizen and lean manufacturing to improve productivity and reduce costs.

DaimlerChrysler and Continental Teves have 75% of the value of the product come from their supplier; therefore they share their cost reduction information to their supply chain so as to achieve the cost reduction goals.

Caterpillar compares the target cost with the comparable product and then creates a cost gap. Based on the gap, they use the cost savings opportunities and qualitative result analysis to fill the gap.

The best practice companies should use the cross-functional organization structure, meet customer requirement, and reduce the cost during product designing stage.

Prepared by, Lim Meng Jian (1003518)

Journal 2

Journal Title

Target costing at a consumer products company

Journal Reference

Strategies Finance

Volume/ Issue No.

Not applicable

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Author/ (Year)

Gopalakrishnan, M., Samuels, J. & Swenson, D. (2007)

Purpose

To examine how successful target costing approach applied in consumer products' company.

Research Model

Not applicable

Data Collection/ Data Analysis

Not applicable

Research Result/ Findings

The authors use liquid hand soap as an example and develop Stage Gate to explain the five steps of target costing process:

Step 1: Define the new product (understand the customer requirements and determine the features should add for new product)

Step 2: Establish a target selling price (use surveys and reviews of competitor product for pricing research)

Step 3: Calculate the target cost (target selling price deducts the profit margin)

Step 4: Break down target cost by component (assign target cost to each components of the product)

Step 5: Design costs out (seek the opportunity to reduce the cost during formulation, processing and packaging of liquid hand soaps)

Upon Step 5, the relevant management decisions when develop the liquid hand soap product:

Formulation: Select the best ingredients for the liquid soap

Processing: Develop more efficient process such as speed up the production process

Packaging: Required cross-functional team to design an attractive product

The cost of consumer products is significantly low compare to other manufacturing products (i. e. automobile).

This type of company requires its product to meet the target cost before produced. Company delay the introducing new product (cost reduction) until the target cost is achieved without change the functionality and quality of the product.

Prepared by, Ng Li Ting (1003880)

Journal 3

Journal Title

Target costing operationalization during product development: Model and application

Journal Reference

International Journal of Production Economics

Volume/ Issue No.

Volume 118, Issue 2

Author/ (Year)

Filomena, T. P., Neto, F. J. K. & Duffey, M. R. (2009)

Purpose

To describe how a target costing based cost parameters developed and applied in the mid-sized Brazilian companies during the product development stage.

To establish a model that can assign target costing into product parts, features and common elements.

To examine how these cost parameters used to control the cost during product development.

Research Model

The model structures into four stages:

Stage 1: The definition of product parts, features and common elements (the decomposition of product or feature based costing enable the designer make better decision)

Stage 2: Unitary target costs (considering the project budget target cost and demand forecast)

Stage 3: Product target cost (target price deducts the profit)

Stage 4: Insertion target cost and separate it into parts and features (this deployment make the target cost more operational for the designer)

Appendix 3 shows this model in diagram form

Data Collection/ Data Analysis

The authors use Brazilian bus manufacturing company as a case study, and use simple deterministic data instead of cost or market data.

The total number of seats is estimated to be 91000 and total project budget target cost (TC) is \$145000. Thus, the unitary TC is \$1.59 ($\$145000/91000$).

The profit margin is 10% and it used to find out the TC for each configuration. There are four types of configuration in this case.

Each configuration's TC is deducted by unitary TC to obtain the insertion TC.

They estimate the cost of individual parts and features based on the difference methods, for example refer to the experience and old product to estimate the cost.

Research Result/ Findings

The authors show the integration between target and feature costing in the case study.

The decomposition of target costing provides more accurate in cost control during the product development.

Prepared by, Chew Swee Kuan (1003384)

Journal 4

Journal Title

Design and development of a target-costing system for turning operation

Journal Reference

Journal of Manufacturing Technology Management

Volume/ Issue No.

Volume 18, Issue 2

Author/ (Year)

Gopalakrishnan, B., Kokatnur, A. & Gupta, D. P. (2005)

Purpose

To increase the productivity in manufacturing operations by emphasizing the cost effective.

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Research Model

The geometric programming model and the algorithm are used to apply target costing concept into the system.

Appendix 4 shows this model in diagram form

Data Collection/ Data Analysis

The authors use Microsoft Access to develop the database that consists of the several machines and its characteristic shown in table form.

The authors use Microsoft Visual Basic to develop the user interface, and input the data for current process.

This data includes the design requirement for the product, machining parameters, constraints on machine power and surface finish.

Research Result/ Findings

The authors suggest that if the cutting-cost tool cannot provide the satisfy result or meet the target cost, the user must quickly improve that cost parameter.

Individual target costing modules required to integrate effectively in order to obtain the overall target costing.

Target costing approach can be applied in new product development and improve the existing process.

Machining is widely used by the manufacturing companies; therefore it is potential to reduce the cost by using target costing method.

The authors conclude that target costing approach is suitable to apply in manufacturing industry especially during early stage of product development.

Prepared by, Ng Boon Hai (1004350)

Journal 5

Journal Title

The competitive environment and strategy of target costing implementers:
Evidence from the field

Journal Reference

Journal of Management Issues

Volume/ Issue No.

Volume XV, Issue 1

Author/ (Year)

Hibbets, A. R., Albright, T. & Funk, W. (2003)

Purpose

To examine the relationship between competitive environment and strategy for target costing companies.

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Research Model

t-test

Classification and Regression Trees (CART)

Data Collection/ Data Analysis

The authors use interview and questionnaire to collect the data from the managers in 9 US and 3 German companies.

Then, the authors classify companies' competitive strategy into:

8 companies as product differentiators (PD)

1 company as cost leader (CL)

3 companies as confrontational strategy (CF)

Research Result/ Findings

Companies that used PD are more like to implement target costing compare with CL and CF.

The evidence suggests that overall competitive forces tend to be strong, typically because of the rivalry among existing sellers and the determinants of supplier power. Therefore, target costing is useful in this increased global competitive environment.

This study helps the company to determine whether they can achieve a balance between competitive environment, strategic choice and the use of target costing.

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This research has limited sample size. Therefore, the authors suggest having larger sample size for future research.

This research provides a foundation for further study, because this is the first study that link company strategy and competitive environment with use of target costing.

Prepared by, Lau Hai Liang (1003260)

Journal 6

Journal Title

Strategies for training in target costing

Journal Reference

Cost Management

Volume/ Issue No.

Volume 23, Issue 3

Author/ (Year)

Ansari, S., Bell, J. & Swenson, D. (2009)

Purpose

To develop an effective target costing training program and provides examples of successful strategies used by US companies.

Research Model

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Not applicable

Data Collection/ Data Analysis

Author uses target costing skills assessment questionnaire to test the level of knowledge of the selected training staff.

Research Result/ Findings

Lucent Technologies uses learning events approach to conduct workshop and share the concept and benefits of target costing to their top management and target costing teams.

This article provides some guidelines for the implementer to develop an effective target costing training program:

The training objective must developed for target costing implementation.

The training program must consider the awareness, acceptance, competency and communication goals to the group of people selected to receive the training.

The program should start with the senior leadership because they are important in decision making process.

The content and teaching methods of training program must match with the objectives and suitable to the audience.

The budget request for training program must specify the costs and benefits.

The tools must develop to determine the effectiveness of the training program.

Prepared by, Wong Lik Kit (1005367)

Findings and Implication

Target costing is widely used in Japan, US and Europe companies. Many companies found useful of this approach especially when they applied in the new product development process. Swenson et al. (2003) provide the four best practices target costing companies in US, namely Boeing, Caterpillar, DaimlerChrysler and Continental Teves. Boeing Company tries to meet whatever customer requirement so as to maintain the loyalty of the customer. DaimlerChrysler use value engineering/analysis, design for manufacturing assembly, paper kaizen and lean manufacturing to improve productivity and reduce costs. DaimlerChrysler and Continental Teves share their cost information to the supply chain in order to achieve cost reduction goals. Caterpillar compares the target cost with the comparable product and uses the cost savings opportunities and analysis result to fill the gap.

Target costing not only applied in manufacturing industries but also for consumer products' company. Gopalakrishnan et al. (2007) use liquid hand soap as an example and develop Stage Gate to explain how this approach being applied. The manager must define the requirement for the new product, then determine the selling price and calculate the target cost for the product. After that, break down and assign target cost into each product component, and find the ways to reduce these cost. Furthermore, the manager needs to consider the process of formulation, processing and

packaging when develop the liquid hand soap product. This type of company requires its product to meet the target cost before produced. Company delay the introducing new product (cost reduction) until the target cost is achieved without change the functionality and quality of the product.

Some studies such as Filomena et al. (2009) advice that target costing approach should applied to individual part of the product. They use Brazilian bus manufacturing company as a case study. They first clarify the parts, features and common elements of the product, and then calculate the unitary target cost by using project budget target cost divides the demand forecast. After that they use desired profit margin to find out the target cost, and use unitary target cost to obtain the insertion target cost for each configuration. Besides, they estimate the cost of individual parts and features based on difference methods, for example refer to the experience and old product to estimate the cost. In short, this journal concludes that the decomposition of target costing provides more accurate in cost control during the product development.

Target costing not only used in the new product development, but also for improving existing process. Gopalakrishnan et al. (2005) apply this approach into machining process by using geometric programming model, and set several cost parameters to determine the cost of machining process.

Meanwhile, they suggest that if the cutting-cost tool cannot provide the satisfy result or meet the target cost, the user must quickly improve that cost parameter. The authors also mention that since machine is widely used by the manufacturing companies, therefore, it is potential to reduce the cost by using target costing approach.

They are few researchers investigate the relationship between competitive environment and strategy for target costing companies. Here, Hibbets et al. (2003) use Classification and Regression Trees (CART) to categorize the data and examine the relationship. The researchers found that overall competitive forces tend to be strong, typically because of the rivalry among existing sellers and the determinants of supplier power. Therefore, target costing is useful in this increased global competitive environment. This study also help the company to determine whether they can achieve a balance between competitive environment, strategic choice and the use of target costing.

On the other hand, in order to ensure companies can practice well the target costing approach, Ansari et al. (2009) share the strategies for develop an effective target costing training program. The program must state the objective and identify which group of people should receive the training especially the senior leadership, and take into consideration the costs and benefits for the budget request. The implementer should consider the awareness, acceptance, competency and communication goals in the program, and ensure the content and teaching methods must match with the objective and suitable to the audience. Meanwhile, the tools must develop to determine the effectiveness of the training program.

Target costing approach required the participant from difference functional background in a company. For example to set the target selling price for a new product required the R&D to determine the market demand and customer perceived value, and marketing required to design a creative and attractive advertisement to promote and sale to the customer at desired target price. Therefore, we suggest that company strategy in implement the <https://assignbuster.com/the-target-costing-approach-marketing-essay/>

target costing should communicate well to all the parties involved. Through the opinion sharing and discussion may provide better decision and create good corporate culture. Moreover, the development speed and new technologies employed to bring product first to the market is very important. As consider the timely manner and reduce the time-to-market may gain the advantages from the market because less competitive product in the market.

These journals provide the detail of target costing by using case studies to justify the useful of this approach. However, some of the studies such as Filomena et al. (2009) do not use the cost data or market data in their research. A research requires collecting the data from the market, then running the tests and providing the reliable and realistic result. Therefore, we suggest that the future researcher should use the market data in their research so as to provide a high accuracy result. On the other hand, most of the studies use manufacturing companies in their research. From our points of view, this approach may also suitable to applied in other industries such as service industry, because they also need to provide better service to their customer based on market demand and perceive value. Therefore, in order to maximize their profit, reduce their cost and provide better services, target cost approach may apply.