

Sony company target costing



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Sony Company Corporation

Chapter 1 Introduction

1.1 Company Background

Sony. Like no other. That is the company's slogan. Sony Corporation is a multinational conglomerate corporation which headquartered in Minato, Tokyo, Japan. This company is one of the world's largest media conglomerates with revenue exceeding US\$88.7 billion in year 2008 (Wikipedia online). <http://en.wikipedia.org/wiki/Sony>

Masaru Ibuka & Akio Morita was the founders of Sony. In 1946, when the company was known as 'Totsuko', the two founders were doing their research and manufacture of telecommunications and measuring equipment with the start-up capital of 190,000 yen only (Wikipedia online).

After that, they had changed the company's name to Sony, which is combining "sonus" the original Latin for "sonic," meaning Greek goddess of sound, with "sonny" symbolizing small size, or youthful boy simply as the pronunciation of Sony is the same in any language (Sony Global's Website). They adopted the name 'Sony' in 1958. <http://www.sony.net/SonyInfo/CorporateInfo/History/index.html>

Sony Corporation is the electronics business unit and the parent company of the Sony Group with primarily focusing on five operating sectors. Those sectors are electronics (such as PlayStation), games, entertainment (motion pictures and music), financial services and others. Besides that, there are 6 principal business operations in Sony group which are Sony Corporation (Sony Electronics in the U. S.), Sony Pictures Entertainment, Sony Computer <https://assignbuster.com/sony-company-target-costing/>

Entertainment, Sony BMG Music Entertainment, Sony Ericsson and Sony Financial Holdings, operating those stated segments.

Nowadays, Sony has become one of the most comprehensive entertainment companies and also the leading brand for electronics, videos, communications, video game consoles and information technology products. Moreover, Sony is the Worldwide Top 20 Semiconductor Sales Leaders (Wikipedia online).

1. 2 Why Sony?

At the first discussion, we had focus on cell phone companies such as Nokia, Samsung, LG and Sony Ericson, selecting the target company for this project. After that, we had come to a conclusion that Sony Ericson is the most preferable among the companies suggested but Sony Corporation is more interesting and its information is easier to search.

Sony Corporation represents a wide range of business, meanwhile, manages to remain globally unique. Moreover, it is the parent company of the Sony Group (including Sony Ericson). Therefore, through searching about this company, we can learn more about Sony and get more knowledges about managerial techniques.

1. 3 Preview for the following Chapter

Chapter 2 – 1 article of the relationship between Sony and our selected technique, target costing and 9 articles about target costing are found and each of them are summarized.

Chapter 3 – Combination of Sony Corporation with the articles review which are done in chapter 2. Briefly discuss how Sony put target costing into their practice and show the effect of implementation on Sony.

Chapter 4 – In this chapter, facts and informations from chapter 3 will be discussed in a more comprehensive form by using our point of view as an undergraduate student. After the discussion and some analysis, a conclusion will be made.

Chapter 2 Literature Review

Managerial Accounting

Sony Corporation: The Walkman Line

(vasco. nunes. googlepages. com/C1-Group2-SonyCorporation-TheWalkmanLine. pdf)

In the year of 1945, Sony origin name is Tokyo Telecom Research Institute foundation and till the year of 1946, changed to Tokyo Telecom Engineering Corporation Foundation. This firm produced the Japan first magnetic tape recorder at 1950. At 1955, firm gets listed on over-the-counter market and at 1958 firm gets listed on Exchange market and changed name to SONY. From 1960 to 1974, Sony starts internationalization.

SONY target costing system has five stages which are target price setting, target margin setting use interactive process and try to meet division's long term profit objective, target cost setting which target cost is equal to target price minus target margin, and lastly is defined whether group target is met or not. If group target is met, it will go to the final stage which is final decision making. Yet, if group target isn't met, teams have to find out <https://assignbuster.com/sony-company-target-costing/>

alternatives to reduce production costs and increase process to increase profitability. Sony's target costing system is so simple as the price target is set based on product being replaced during the stage of target price setting. While for target margin, it has to ensure long term objectives remain stable across several product cycles.

Next, there is always a good baseline for target costs because new products have incremental changes. Besides, Sony has short product life cycle which is one year and short time-to-market needs. Sony has a very accurate sales volume estimates which are based on sales of predecessor product, degree of improvement of the new product over its predecessor, overall market trends and feedback from retailers.

At the end of each product life-cycle, Sony's inventory is nearly equal to zero as absorption costs and variable costs would approximately give the same results. Furthermore, even Sony using Absorption costing, fixed costs wouldn't be in the inventory more than one year.

Managerial Implications of Target Costing

by *Marilyn M. Helms, Lawrence P. Ettkin, Joe T. Baxter, and Matthew W.*

Gordon

(www.emeraldinsight.com/Insight/ViewContentServlet?

[Filename=/published/emeraldfulltextarticle/pdf/3470150104.pdf](http://www.emeraldinsight.com/Insight/ViewContentServlet?Filename=/published/emeraldfulltextarticle/pdf/3470150104.pdf))

Target costing is one of the techniques used in managerial accounting nowadays. This method is different from traditional cost-plus method. It begins with a targeted sales price for a product. The price is set based on the

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willingness of customer to pay, considering not only the preferred current selling price but also the later life cycle pattern of the prices.

Target costing is originated in Japan and used in over 80 percent of Japanese assembly companies and by 100 percent of Japanese car manufacturers. The dilemma for manufacturers is to match the lower prices of the global competition with the highest quality products customer demand. Besides, target costing may serve as a solution when developing new products.

It minimizes costs through the optimal use of all resources along the entire supply chain, involving suppliers and manufacturers as contributors to the design process. In price-based target costing, a company sets a target cost through comparison of competitive products. They have to collect data on the market price and subtract their desired profit margin. This desired profit margin will almost always greater than the cost of capital.

However, it will influence by macro environmental forces and also shareholder goals. There are many companies and industries becoming successful after adopting target costing like Sony, Toyota, Nissan, and Olympus Optical and later added non-Japanese companies such as Mercedes, Goodyear and others.

Product Development And Cost Management Using Target Costing: A Discussion And Case Analysis

by *Mehmet C. Kocakülâh, University of Southern Indiana & A. David Austill, Union University* ([www. cluteinstitute-onlinejournals. com/PDFs/2006322. pdf](http://www.cluteinstitute-onlinejournals.com/PDFs/2006322.pdf))

For decades, traditional cost management, cost accumulation and allocation methods are used in the manufacturing and services sectors, yet they are failed as methods for product development, planning, and cost management. This is because they focus on the product's cost rather than on the expectations of customers and the product design itself.

Moreover, traditional cost systems are always overstate the cost of high-volume, standardized products and understate the costs of low-volume and customized products. They do not consider the need for the cost, what drives the cost, or even the process or product's characteristic or function which are all necessary.

Consortium for Advanced Manufacturing - International had defined target costing as a set of management tools that is designed to direct design and planning activities for new products, providing a basis for controlling subsequent operational phases, and ensure that products achieve given profitability targets throughout their life cycle (Cf. Shank, 1999). Actually, target costing is focuses more on customer requirements.

The question suppose is “ How much can the product cost?” but not " How much will the product cost?”. Target costing is a complete cost-reduction program and strategic profit management system. The process is made up of discrete activities and decisions. It starts with a determination of the product, its characteristics and qualities, and its optimal selling price.

Then, the product itself will ultimately determine the costs necessary to produce and sell that product. Butscher and Laker describe this first step as including definition of the target segments, identification of the competitive

advantages and disadvantages, positioning of the new product within the target segments, fine-tuning the product design and pricing, and market simulations (Butscher et al, 2000).

Target costing in the NHS

Reforming the NHS from within CIMA NHS Working Group

([www.cimaglobal.com/cps/rde/xbcr/SID-0AE7C4D1-65518BE4/live/tech_dispap_target_Costing_i](http://www.cimaglobal.com/cps/rde/xbcr/SID-0AE7C4D1-65518BE4/live/tech_dispap_target_Costing_in_the_NHS_2005.pdf)

[n_the_NHS_2005.pdf](http://www.cimaglobal.com/cps/rde/xbcr/SID-0AE7C4D1-65518BE4/live/tech_dispap_target_Costing_in_the_NHS_2005.pdf))

As mention by CIMA Official Terminology, target costing is a product cost estimate derived by subtracting a desired profit margin from a competitive market place (CIMA, 2005). Target costing was developed by Japan's manufacturing in the early 1970s for the purpose increased automation and decreased their operation cost, especially labor cost. In target costing, there are some important point should be memorized by manager to arrive their target costs.

Firstly, managers should determined the estimate costs, there is manager should be identifying the gap between the target cost and the estimate of the cost of production because this gap gives an estimate of the excess cost which must be taken out of the new product. After that, managers should identify alternative ways to close the gap. However, manager should consider how much costs can be removed from each product based on the value of customers. Managers also can close the gap with negotiation between different production departments and also with their supplier to arrive at final target costs.

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Thirdly, managers should monitor and managed against the target costs by using the usual budgeting and costing method after target costs have been determined. Besides, target costing is giving the company some advantages and it become a primary reason why companies were choose target costing as a tool to plan for the costs of products before they produced it.

Target costing become an analysis which highlights other problems that can reveal more general managerial problems. Target costing also is a driver for cost improvement as a way to integrate the use of other tools, for instance JIT. Lastly, target costing may help companies to encourage a focus on the customers.

The Competitive Environment and Strategy of Target Costing Implementers: Evidence from the Field by Hibbets, Aleecia R. Albright, Tom Funk, Wilfried (2003)

(<http://www.entrepreneur.com/tradejournals/article/101938343.html>)

Target costing have linked with an organization's competitive strategy. This competitive environment influences the ability of an organization to carry out a chosen strategy. This competitive strategy is corporation choosers to pursue identify the manner with which management intends to compete successfully in their market. Therefore, target costing able to help an organization to achieve their company's goals by satisfying the market demands at an acceptable level of profitable because target costing can reduce the cost of production when the production is being process.

Most of the Japanese companies (over 80% of all assembly-type industries), such as Nissan, Canon, Sony, Toyota and so on are using target costing (Hibbets, Aleecia, Tom, Wilfried, 2003). The main purpose of target costing is reducing the life-cycle costs of new products while ensuring customer requirement of quality of the product. Several researchers were found that in current market, a market-oriented cost management system is needed causes by the increasing of competitors, globalization, price competition, and shorter product life cycles (Hibbets, Aleecia, Tom, Wilfried, 2003).

Thus, production process must be effective, and produce high quality products in the lower costs. According to the authors, organization which is choosing low-strategy prefers to implement target costing. These organizations may pursue opportunities or cost reductions and adopt new programs as managers become aware of them (Hibbets, Aleecia, Tom, Wilfried, 2003). Besides, differentiators also tend to adopt target costing because their able to operate from a customer perspective.

Factors Influencing the Target Costing Process: Lessons from Japanese Practice

by *Robin Cooper* ([www. feb. ugent. be/fac/research/WP/Papers/wp_97_30.pdf](http://www.feb.ugent.be/fac/research/WP/Papers/wp_97_30.pdf))

This article discusses about five factors that influence target costing process by analyzing six Japanese manufacturing firms that are using this method in their company. Target costing process can be divided into three major steps, which are market-driven costing, product-level target costing and component-level costing. Firstly, factor that influence market-driven costing is intensity of competition and nature of the customer. In order to survive

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among the aggressive rivals, the firm has to compete head on in terms of product price, quality and functionality.

Hence, the value of target costing to the firm increases when the intensity of competition increases. Secondly, product strategy is the factor that influences product-level target costing. Less number of product lines, high rate of new product introduction and low degree of innovation will increase the benefits of target costing. Besides that, characteristic of the product is also the factor influencing product-level target costing.

Target costing becomes more beneficial when product complexity, up-front investments and the period of product development cycles increases. Last but not least, factor that influences component-level target costing is supplier-base strategy. The higher reliance that lean enterprises place upon external suppliers increases the importance of supplier management and hence, component-level target costing. Then, the more power the firm has over its suppliers, the more benefits it can derive from target costing. Moreover, target costing process will be more beneficial when supplier relations become more cooperative.

Design and Development of a Target-Costing System for Turning Operation
by *B. Gopalakrishnan, A. Kokatnur and D. P. Gupta*

([http://www.emeraldinsight.com/Insight/viewContentItem.do?
contentType= Article&contentId= 1593395](http://www.emeraldinsight.com/Insight/viewContentItem.do?contentType= Article&contentId= 1593395))

The field of target costing is emerging fast as the solution to future product development and cost reduction. Target costing, value chain analysis, value

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chain improvement, and quality function deployment are different approaches that try to achieve the same objective: to produce a product at the lowest cost with all the required features with adherence to quality conformance and aesthetics. Target costing can be applied in the design of new product as well as improvement of an existing process.

The first step in determining the target cost of a product is to establish the selling price and the company's desired profit margin for a product.

Machining is one of the most widely used manufacturing operations and hence there is a huge potential for cost reduction using the target costing technique. In this research, a target costing model was developed for turning operation, which uses a structured approach to reduce the machining costs.

The model was tested using real time data and the results obtained were comparable to the actual values. This model can be utilized as a starting point in the development of an integrated target costing system for all machining operations. Machine routing, product design parameters and the type of manufacturing flow will assume importance as overall costs will have to be considered.

Target Costing

by *Margaret L. Gagne and Richard Discenza*

(www.emeraldinsight.com/Insight/ViewContentServlet?Filename=Published/EmeraldFullTextArticle/Articles/0800100102.html)

There are 6 stages in target costing system. Target costing process start by establish a target profit for new product based on market research. Almost

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certainly, this target is below the company's current manufacturing cost. After target selling price set, the desired (target) profit is subtracted to determine the target cost.

Next, teams from many departments start to perform functional cost analysis. They will aim at proposing alternatives for reducing overall product cost in an effort to achieve the target cost. If the cost estimate is at the target, final decision whether or not to introduce the new product has to be made.

Yet, if the cost estimate is above the target, functional cost analysis is used again to make changes and prepare another cost estimate. Once the cost estimates are on target, management makes the final decision to introduce the product based on manufacturing feasibility, market needs and consumer acceptability. After the final decision taken, new product design has to be sent to manufacturing.

From the journal, there are 6 types of companies that seem benefit most from target costing. The companies are which are in assembly-oriented industry (produce homogeneous products); companies which are heavily involved with the diversification of their product lines; companies which use the technologies of factory automation, including computer-aided design, flexible manufacturing systems, office automation, and computer-aided manufacturing; companies which have experienced shorter product life cycles where the payback for factory automation typically must be achieved in less than eight years; companies which must develop systems for reducing costs during the planning, design and development stages of a

products life cycle; and companies which are implementing management methods such as just-in-time, value engineering, and total quality control.

Executive Summary – Implementing Target Costing

by *Robert A. Howell*

For a company to remain profitable and grow by offsetting cost increases with price increasing, there must be strong demand and few competitors. But unfortunately, the cost-based pricing does not foster strong cost management. Thus, target costing is the best solution to solve the problem where it looks at the relationship of prices and costs differently.

The basic target equation of " Price Profit Margin = Cost" bring the meaning of prices are driven and set either by competitive market forces or by the firm as it aggressively lowers its prices to increase market penetration.

One of the objectives of target costing is to enable management to use proactive cost planning, cost management and cost reduction practices where a product's costs are planned and managed out early in the design and development cycle. It is necessary to balance the tradeoffs across the organization and start establishing teams to address them early in the development cycle which is the fundamental objective to make money, to be able to reinvest, grow and increase value.

The process of calculating the target costing starts when we establish the target price in the context of market needs and competition which we have to establish the target profit margin. Then, the allowable cost must be determined and achieved. After that, the probable cost of current products

and processes must be calculated and finally, the amount of the target cost is established by which the current costs must be reduced.

Companies must establish a cross functional team which is involved in the implementation process from the earliest design stages, using the tools such as value engineering in the design process and pursuing cost reductions using the “ kaizen costing” when the production process has started.

Three Routes for Target Costing

by Mohamed E. Bayou, Alan Reinstein

(www.emeraldinsight.com/Insight/viewContentItem.do?contentType=Article&hdAction=Inkhtml&contentId=865552&history=false)

This article explains about the three alternative routes that target costing projects pursue to reach their goals, which are total cost management (TCM) which consist of target costing and Kaizen costing, cost cutting (CC) and cost shifting (CS). Monden and Hamada define target costing as the system to support cost reduction in the development and designing phase of an entirely new model, a full model change or minor model change.

Cost improvement can be divided into two types that are qualitative and quantitative. Under cost improvement, target costing is not an actual costing system but rather is a comprehensive system to reduce costs. While under the flexibility strategy, it is divided into two types which are derived from the flexibility of manufacturing system and also built-in flexibility. The tendency of cost improvement is more towards suggestive because a large scale cost and the improvement through TCM involves many experts.

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Nevertheless, it has its weaknesses too. It correlates positively with complexity but negatively with measurement precision. Thus, the system becomes more difficult to understand as its structure incorporates more variables and measurements. The second way of accomplishing the target costing is by using cost cutting which will reduce the avoidable inefficiencies by the reality. It is not based on these strategic changes.

The movement of this cost cutting method is down the same cost line and cost cutting is using assertive strategy that is imported from top-down in order to reduce losses or to increase profits. Last but not least, the third way of implementing target costing is through cost shifting which switches to different types or qualities of resources in the manufacturing process.

It is not implemented on the basis of total cost management (TCM) like the cost improvement but it leaps from one cost line to another. Cost shifting is called the evasive strategy which it switches from the current cost line to a completely different line without going through a program of strategic improvement.

Chapter 3 Sony and Target Costing

3. 1 Relationship between Sony and Target Costing

There are several factors that encourage companies to use target costing. Firstly, it is because that by using target costing, it may help the companies identify the production costs, which are fixed during the designing stage to maximize the potential of cost reduction. Moreover, target costing also is an analysis that highlights other problems which can lead to revealing more general managerial problems.

Cooper (1995) described the cost management that is practiced by twenty Japanese manufacturing firms, including the detailed descriptions of target costing that has been implemented by six firms where Sony Corporation is one of them. Sony Corporation is one of the world's largest electronic companies that is identified by a Japanese executive of that firm who attended an executive program as having well designed target costing. Robin Cooper and Regine Slagmuler (1997) suggest that all of the target costing processes documented contain three major steps, which are market-driven costing, product-level target costing and component-level target costing.

The intensity of the competition is one of the factors that influence market-driven costing, in which they are directly-related. The value of target costing in a firm increases as the intensity of competitors increases. Sony has managed to differentiate its product based on their superior functionality over their competitors. Therefore, Sony has a less well-developed target costing process than other firms due to the lower intensity of competition.

Besides that, if target costing is implemented in Sony Corporation, it is less beneficial to them as compared to other firms such as Nissan and Toyota because the level of innovation in each new generation of the products of Sony is higher. In addition, Sony does not use life-cycle analysis for up-front investment products. When up-front investments are small, the benefits of target costing are lower (Robin Cooper and Regine Slagmuler, 1997).

Generally, most factors that influence target costing processes are non-favorable for Sony as the company has developed a competitive advantage

of being different due to its sustainable technology, in which they develop their products from time to time as well as the technologies where they focus on creating products with the latest technologies. The company is said to be a technology leader rather than price leader.

Last but not least, as mention by Robin and Regine (1997), implementation of SONY on target costing is less efficient if compare with other organization which is also implement same approach, such as Toyota and Nissan.

However, SONY still experienced some benefit when they implement this target costing in their production processes because they enable to reduce their cost of production and allow them to focus on how to fulfill customer's satisfaction.

3. 2 Effect of Implementation

Table 3. 0: *Financial performance of SONY*

	2006	2007	2008*
Sales and operating revenue (Yen in billions)	7500.0	8295.7	8871.4
Net Income (Yen in billions)	123.6	126.3	369.4
R & D Investment (Yen in billions)	531.	543.	520.

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*At the end of 31 March 2008.

Source: Adapter from [www. sony. net](http://www.sony.net), 2008

Chapter 4 Discussion and Analysis

Nowadays, product innovation becomes one of the keys that helps a company to survive and compete as a result of today's rapidly changing business environment. There has been a shift towards unstable, rapidly changing markets and technologies. Hence, market-driven management and cost control systems are crucial in an organization to motivate the desired consumer-oriented behavior.

As mentioned in Chapter 3, target costing is a market-driven management method and acts as a response to the problem of controlling and reducing costs over the product life cycle. It also focuses on meeting the customer's requirement and gives a company a great opportunity to increase their market sales and revenue.

After discussion, we had come to a final agreement that target costing system is an effective tool that enables managers to make decision immediately besides meeting customers' needs. Sony is a firm that implements market-driven management. Through target costing system, Sony can shorten the product life cycle while ensuring customers' requirement of quality of the product. As Sony is mainly producing technology products, short product life cycle is very crucial to Sony which is about one year and also they have to satisfy the short time-to-market needs.

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At the end of each product life-cycle, Sony's inventory is nearly equal to zero as absorption costs and variable costs would approximately give the same results. Besides, Sony needs to diversify their product which has encouraged them to implement target costing.

Moreover, target costing is an area that overlaps marketing and accounting. Marketing and design functions use target costing to identify a product's features and its selling price. Under this system, Sony can control all the activities by using the target cost. All organization members work together to design and manufacture the product at the target cost.

Under this approach, the marketing department is able to make product decisions without accepting costs as given. Hence, it will increase pressure on the sales force to operate within the parameters of the current market environment. Target costing helps to manage costs effectively in both the design and production stage.

Overall, in order to survive among the aggressive rivals, SONY has to compete head on in terms of product price, quality and functionality. Hence, the value of target costing to the firm increases when the intensity of the competition increases. Besides, target costing will be more beneficial when customers are highly sophisticated, preferences change rapidly and understand their future product requirements. Target costing is the best solution for Sony to solve the problem where it looks at the relationship of prices and costs differently.

Although the technique is merely a model – target price minus profit margin = target cost, nowadays the highly competitive market place and external

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environment can make the technique as a strategic management tool. It can be incorporated into our management accounting portfolio and provide the company with economic value added and strategic benefits. It will allow firm to focus on the use of limited resources to maximise opportunity to achieve target return on investment.

Target costing can be defined as one of the tools and methods that are used by the management to plan activities and direct design for new products, to provide a basis for controlling subsequent operational phases and to ensure that the products produced achieve the targeted profitability throughout their life cycle.

Target costing is much more related to marketing research in which it is done to determine the price that customers are willing to pay for a particular product, given its functionality, quality and substitute products offered by their competitors. Thus, the information obtained can be used by the product designers to focus on the desired qualities and features of a product despite incorporating new features and the product must be forward-looking to make sure the product differentiation and a reasonab