

Product costing - traditional methods and activity based



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Product Costing: Traditional Methods and Activity Based Over the past 26 years Dell, spearheaded by Michael Dell have believed in a one point agenda that is uniform quality products from all its manufacturing locations. They practice six-sigma as an effective statistical tool for delivering the best to their customers globally. Having a sigma level of six basically means that there are only 3.4 defects per million opportunities. This is exceptionally good in the current global scenario. Dell religiously follows a concept of “pull”, which means they start building a laptop only when the formal order is placed by a customer on their website. By doing this they maintain zero inventory of building parts or what is called as raw materials (RM). Dell enjoys a loyal customer trust globally. One of the reasons for this is that the base prices of their laptops and other products are practically the same across continents. Product pricing at Dell is a serious and well thought over process through strong market research and consumer inputs. Based on the marketing debrief the research and development (R&D) center starts developmental activities on the consumer centric product. The engineers work under the strict constraint of the product cost based on the marketing requirement. The first level of product cost brainstorming is between the marketing, sales and engineers at the R&D. All quality cost parameters namely prevention, appraisal and failure (both internal and external) are considered. In the six sigma jargon another cost is considered, cost of poor quality (Juran, 1988). Dell as an organization completely negates this hidden quality cost. The costing activity of consumer goods in my organization follows the above mentioned steps towards deciding pricing of a bathing soap. The main ingredients of a bathing bar are soap noodles, fragrance, permitted colors and fillers. The cost of a 100 g net weight of bathing bar is <https://assignbuster.com/product-costing-traditional-methods-and-activity-based/>

\$1. 5. Here the math is simple, cost of RMs is \$0. 49, marketing and publicity is \$0. 40, logistics and manufacturing is \$0. 25 and packaging \$0. 06. Hence total cost of a 100 g bar is \$1. 2 against the selling price of \$1. 5 accounting to a profit margin of 20%. If look at the larger picture on an average monthly production is 150 tons, a profit of \$45, 000 against a manufacturing cost of \$1, 80, 000, a considerable profit margin. Similarly, Dell's costing activity is also based on consumer band target. This is the class of customers the product is aimed at. The company also gives its customer the chance to configure their own products like the operating systems, software package and graphic chips and so on. Customers get the feeling of attachment for their buys. Customers shell their currencies towards the value proposition and Dell's unique and unmatched quality. Dell factories are state of art and in compliance with the best global manufacturing practices. During costing all the parameters including dell site maintenance, factory logistics, price of outsourced chips and internal circuits are taken into account in additional to the marketing cost debrief. In developing and costing a unique and best in category product, Dell always strives for excellence and is undoubtedly the giants in the laptop segment with their lions share in the market.

Undoubtedly Dell's product pricing is more consumer centric than volume oriented. References [www. dell. com](http://www.dell.com) Park. S. H. (2003). Six Sigma for Quality and Productivity Promotion (pp. 124 -134). Press. Juran, J. M. (1988). Juran on Planning for Quality, Free Press, New York.