CMA Canada/CAM-I Summit
On Cost, Process and Performance Management

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Mississauga, Ontario
Hitting the Target
The CAM-I Target Costing Implementation Guide

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Boeing Commercial Airplanes Seattle
Agenda

- Field of Dreams Implementation Approach
- Interactive Questions with Audience
- Benefits of the Implementation Guidebook
- Target Costing: What is it? / Why is it important?
- Target Costing Process Overview
- Content Source: CAM-I Target Costing Interest Group
- Guide Book Development & Scope
- Guide Book Organization
- Key Learning's from the chapters
- How can I learn more?
Not so fast

• Implementation is no easy task

  – Sometimes when you build it, they still don’t come.

  – The reality of day-to-day operations overwhelms attempts to make the necessary changes to make the target costing process successful.

  – Target Costing requires people to change their existing practices or habits…. The experience of the new is rarely without some stirring of foreboding.
So…. Have you tried?

Audience Participation

“Who has experience implementing a new process in their environment?”

“Tell me a story, good, bad, or ugly about your change management initiative.”
Benefits of the Guidebook

This book balances the change management aspects of target costing with the technical tasks that need to be accomplished.

- Provides a road map so you can proceed logically
- Avoid false turns
- Avoid spending capital on tools you are not ready for.
- Prioritize the implementation tasks
What is Target Costing?

“The target costing process is a system of profit planning and cost management that is price led, customer focused, design centered and cross functional. Target costing initiates cost management at the earliest stages of product development and applies it throughout the product life cycle by actively involving the entire value chain.”

CAM-I Target Costing Group (1996)

Why do Target Costing?

• Improve profit, market or cost position
• Produce the right product at the right time for the right price.

*For many organizations this means reducing costs without sacrificing quality.*
Process Overview

VOICE OF THE CUSTOMER

Market research

Competitive strategy

Competitive intelligence

Product strategy and plans

Product concept and feasibility

Product design & development

Production and logistics

Target Cost establishment

Target Cost attainment

Product development cycle

EXTENDED ENTERPRISE PARTICIPATION
Process: Target Establishment

The target cost is the allowable amount of cost that can be incurred on a product and still earn the required profit from that product.
Process: Target Attainment

Compute Cost Gap
- Initial Cost Estimate
- Compare to Target Cost

Design Costs Out
- Design Products/Processes
- Perform Value Engineering
- Estimate Achievable Cost
- Perform Cost Analysis

Production
- Reluct to Production
- Actual Cost
Guidebook Content

**CAM-I Target Costing Best Practice Interest Group**

- **Mission Statement:**
  - Develop an ongoing vehicle for sharing target costing practices among the participants

- **Accomplishments:**
  - The CAM-I Target Costing Process Model
  - 8-Hour CAM-I Target Costing Training Course
  - *International Target Costing Best Practice Study 1999*
  - CAM-I Target Costing Diagnostic Tool - 2000
  - *Best Practices in Target Costing Implementation Study 2002*
Information Source

Target Costing
The Next Frontier in Strategic Cost Management
A CAM-I/CMS Model for Profit Planning and Cost Management
Shahid L. Ansari
Jan E. Bell and the CAM-I Target Cost Core Group

Core Team
Allied Signal
Arthur Andersen LLP
The Boeing Company
Chrysler Corporation
Eastman-Kodak
Texas Instruments
Cal State Northridge

Participation from:
AMP, Incorporated
Arizona State University
Caterpillar
Eastman Chemical
Emerson ElectricCo.
Fraunhofer Institute
GTE
Harris Corporation
Johnson Controls
Metropolitan State University
NUMMI
Osaka City University
Pella Corporation
Rockwell Corp./Rocketdyne
Sandia National Laboratories
San Jose State University
SMAC
University of Missouri-Columbia

www.cam-i.org
Guidebook Development

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  - IBM Systems & Technology
  - i4cast
  - Maytag Corporation
  - Northrop Grumman IT TASC
  - Rockwell Collins
  - US Coast Guard

- Project Director: Tami Capperauld – The Boeing Company
Guide Book Scope

An actionable guide for the target costing implementer who has been charged by upper management to implement target costing in a specific part or parts of the organization. This is a continuation of the group’s Book: *Target Costing, The Next Frontier in Strategic Cost Management*.

Chapters are in an easy to read format covering: Key learning points, case for action, lessons from practice and check lists.
Dr. Ansari developed this model for Shell’s Learning and Transformation Services.
The “Knowing” Phase

Check Preconditions
✓ Business Case Exists?
✓ Benchmarking Done?

1. Obtain Mandate
   - Establish Legitimacy & Authority
   - Understand Degree & Scope of Change Desired
   - Integrate with Company Competitive Strategy

2. Assess Change Readiness
   - Conduct Readiness Assessment
   - Determine Current Change Capacity
   - Identify gaps between capacity and changes required to implement TC

3. Create TC Awareness
   - Focus on what TC is, who uses it, and the benefits
   - Begin with Senior Stakeholders
   - Make associations with other important initiatives

- Obtain Mandate
- Build Support
- Do Pilot Project
- Implement Plan
- Form Teams
- Provide Training
- Acquire Tools
- Institutionalize Target Costing
The “Knowing” Phase

- Obtain Mandate
- Build Support
- Do Pilot Project
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Make the Case for Action
- Remind the Organization of the larger strategic imperative driving the need for Target Costing
- Appeal to the mind and heart of the participants

Get Top Leadership Support
- Participate in training program
- Provide resources
- Actively engage in the process
- Address issues & concern of participants

Align Key Stakeholders
- Identify organizations that are likely to lose power & influence
- Lay ground work to obtain their buy-in
The “Doing” Phase

- **Obtain Mandate**
- **Build Support**
- **Do Pilot Project**
- **Implement Plan**
- **Form Teams**
- **Provide Training**
- **Acquire Tools**
- **Institutionalize Target Costing**

**Select Pilot Site**
- Part of core business
- Receptive to new ideas

**Select Project**
- Select a project that is early in its concept development when opportunities to impact costs are the greatest
- Choose a Project Manager who is motivated to succeed

**Involve Value Chain**
- Include key members of your value chain

**Create Process Milestones**
- Tie the pilot implementation steps to the project’s milestone plan

**Capture Lessons**
- After Action review
- Translate lessons into full-fledged implementation plan
- Celebrate success along the way
- Communicate Success.
The “Doing” Phase

- Obtain Mandate
- Build Support
- Do Pilot Project
- Implement Plan
- Form Teams
- Provide Training
- Acquire Tools
- Institutionalize Target Costing

Capture Pilot Lessons
- Bases of developing a full implementation plan

Assess Maturity
- Set maturity goals and assess the current environment

Identify Gaps
- The delta between the current reality & the maturity goal will identify the tasks that need to be addressed in the detail plan

Develop Detailed Plan
- Owners keep implementation moving so the efforts don’t get bogged down.
- Spell out roles & responsibilities

Identify Process Owner
- Add status to existing Meeting agendas
- Use Command media

Communicate Plan
The “Doing” Phase

- Obtain Mandate
- Build Support
- Do Pilot Project
- Implement Plan
- Form Teams
- Provide Training
- Acquire Tools
- Institutionalize Target Costing

**Identify Team Types**
- Form teams early
- Central Implementation Team
- Product Teams
- Support Teams

**Match Teams to Product & Process Development Strategy**
- Match teams to major WBS components
- Keep team size manageable
- Product Team leadership is determined by make / buy strategy
- Co-locate team members when possible

**Compose the Teams**
- Balance cross-discipline representation
- Include value chain members
- Choose team members who can meet time commitments
- Provide team building guidance
- Provide rewards & incentives

**Formalize Team Charter & RAA**
- Define team objectives & goals
- Define Responsibility, Accountability & Authority for team members
The “Doing” Phase

- **Establish Training Objectives**
  - Build awareness/acceptance
  - Facilitate communication
  - Increase technical capability

- **Identify Audience & Messages**
  - Identify intended audience
  - Document knowledge gaps
  - Tailor messages to target audience

- **Design Curriculum**
  - Develop course content
  - Select teaching method
  - Get approval for training budget

- **Deliver Training**
  - Align training schedule with project milestones
  - Get Leaders agreement on attendance
  - Select location

- **Assess Training Effectiveness**
  - Perform training assessment
  - Evolve training through feedback
The “Doing” Phase

Obtain Mandate
Build Support
Do Pilot Project
Implement Plan
Form Teams
Provide Training
Acquire Tools
Institutionalize Target Costing

Acquire Core Tools
Acquire tools that support the following applications:
• Customer Needs Analysis
• Target Decomposition
• Cost Estimation
• Value Engineering
• Target Cost Status Tracking

Identify Support Tools
• Identify general business support tools
• Identify the TC tools that align with the product and process development strategy

Conduct a Tool Inventory & Gap Analysis
• Identify data, process & tool gaps
• Conduct a company wide search

Develop a Tool Acquisition Plan to Close Gap
• Find a source for missing tools
• Match tool acquisition with Implementation Plan
• Evolve tool requirements
• Don’t let the lack of tools be a show stopper
# Core Tools

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<tr>
<th>TC Applications / Tool Name</th>
<th>Tool Type</th>
<th>Typical Home for Tool</th>
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<td>Computerized</td>
<td>Target-Costing Product Team</td>
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<td>Paper Based</td>
<td>Marketing</td>
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<td>Custom</td>
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- **Customer Requirements Analysis**
  - Conjoint Analysis
  - Surveys
  - Quality Function Deployment - House of Quality
  - Technology Roadmaps

- **Target Cost Decomposition**
  - Value Index
  - Product Feature Roadmapping

- **Cost Estimation Tools**
  - Analogy Models
  - Parametric Cost Estimation Database Models
  - Engineering / Bottom Up Cost Models

- **Cost Trade-off Analysis**
  - Value Engineering
  - Functional Analysis System Technique (FAST Diagrams)
  - Competitive Benchmarking (Teardowns, Reverse Engineering)

- **Target Cost Tracking**
  - Cost Target to Estimate/Forecast Performance Reporting
  - Cost Roll-ups by Development Stage
General Business Support Tools

### GENERAL BUSINESS MANAGEMENT

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<th>Budget Planning &amp; Management</th>
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### DEPENDENT ON PRODUCT & PROCESS DEVELOPMENT STRATEGY

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The “Being” Phase

Obtain Mandate → Build Support → Do Pilot Project → Implement Plan → Form Teams → Provide Training → Acquire Tools → Institutionalize Target Costing

Link to Plans and Budgets
- Link to competitive strategy
- Tie TC results to the Business Plan

Tie to Routines
- Include process steps in company operating policies & procedures
- Include TC performance metrics in Program Reviews and evaluation systems

Find Home For Target Costing
- Choose the organization that has the most leverage on cost

Identify Performance Measures
- Financial metrics
- Customer Satisfaction
- Internal business processes

Link to Rewards
- Make working in the TC office a career enhancing assignment
- Tie TC performance to compensation

Incorporate In Culture
- Continuously retrain and resell new people
- Kiss Principle
How can I Learn More?

Books:

“Target Costing The Next Frontier in Strategic Cost Management”
Available Now

“Hitting the Target: The CAM-I Target Costing Implementation Guide”
Available Now

Order from the CAM-I Website:  www.CAM-I.org

Join the CAM-I Target Costing Interest Group!

Next Meeting September 11 – 13th in Seattle

For more information contact Tami Capperauld at:

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Thank you!

Questions and Answers?