



# TARGETING TARGET COSTING

Cost management and inter-organizational  
product development of multi-technology products

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Improving product development is a complex task for many companies. One challenge is to avoid over-engineering and only include the functionality that customers are willing to pay for. Another challenge is to reduce costs in close co-operation with suppliers. This is a complex task because suppliers often have their own goals and are rarely located at the same physical place. Handling these two challenges is the domain of target costing. Emerging first from Japanese companies such as Toyota, Nissan and Olympus, target costing has become a critical element in achieving long-term profitability.

Previous research on target costing has been paradoxical because even though it deals with product development, it has not incorporated the complexity of the product development process. More specifically, current models of target costing assume that the product development process can largely be planned and controlled by a single company. For complex multi-technology products, such as airplanes and industrial robots, this is far from true.

By drawing on product development theories, and conducting an in-depth case study at ABB Robotics, this thesis explores target costing in the development of complex multi-technology products. The result is a framework that identifies challenges and problems in target costing processes, but also shows that target costing relies on both planning and improvisation to cope with tensions and contradictions in close customer and supplier relationships.



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