



# Target costing

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This 'tool' involves the application of a suite of techniques aimed at product development. Target costing is one of several techniques being explored by firms as a means of reducing overall costs, both of product and process, since some 80-90% of a product's final cost is determined in the design stage. TCM is not new; using as it does principles in cost engineering that go back 35 years, but is being stretched and developed further in a number of companies. Much of the effort is going into designing a suitably robust system to operationalise some of the principles known to represent good practice in linking cost considerations into design activity.

## How does it work

TCM in operation involves five major stages: planning, concept design, basic design, detailed design and manufacturing preparation. TCM aims to provide structured inputs to each of these stages to facilitate exploration and elaboration of solutions involving the various relevant perspectives from different functions of the business. These include working with key suppliers as part of the value creation stream.

Target costing sets a target based on what the market will bear and what can be achieved; finding ways to realise this cost poses a challenge in various parts of the business and can be used to drive improvement activity.

This link provides a detailed overview.

<http://www.npd-solutions.com/target.html>