

Target costing as a strategic tool to commercialize the product and service innovation

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Open Seminar of the Blue INNOship Project no. 15
Servitization: creating the market by understanding price, cost, contracts and financing

What is the issue?

Why is it important?

What can be done?

Next step

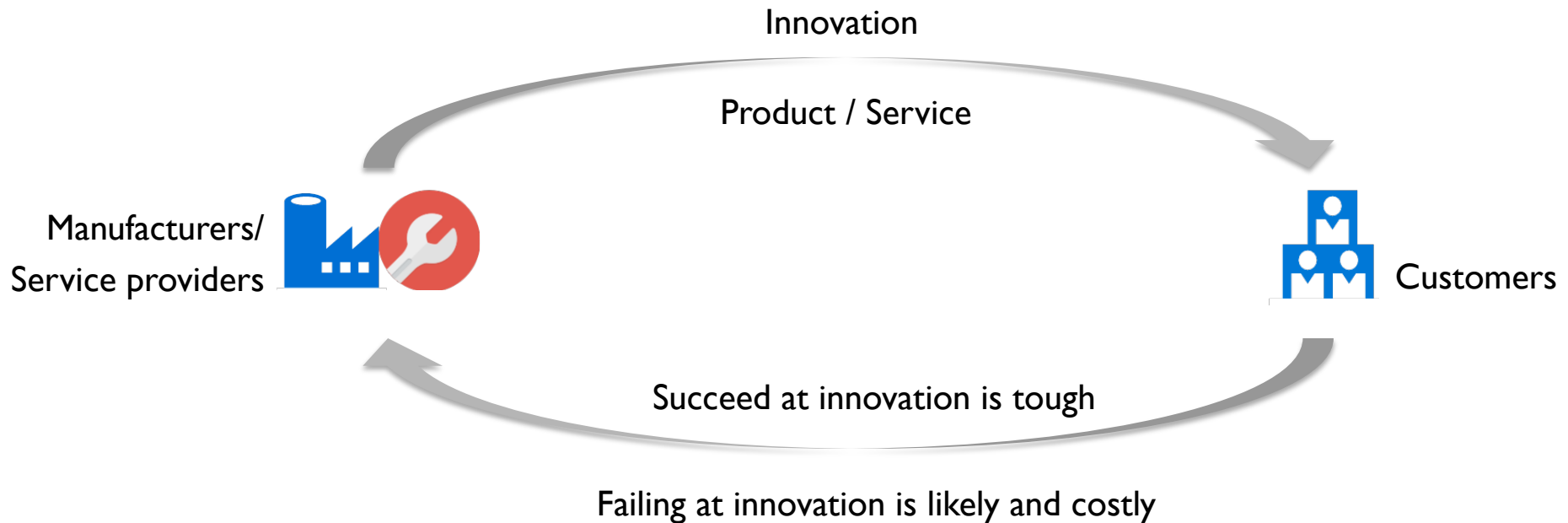
What is the issue?

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Next step

72% of
INNOVATIONS FAIL
to meet their financial targets
or fail entirely !



Why don't all innovations become successful products/services?

Why do so many fail?



Manufacturers/Service providers

Price



Profit



Cost

How much will it cost to
manufacturer/service provider?

Hope



Certainty

Product/Service design
(Functionality, Quality, Process)

How companies
design the
product/service
around the price
and cost?

Guesswork of pricing

Less market consideration

No connection from Price to Design



Bridge the design with market

Look before you leap

Go from hope to certainty



What is the issue?

Why is it important?

What can be done?

Next step

Commercial success of innovation

<Bottom up>

Price



Profit



Cost

How much will it cost to manufacturer/
service provider?



Desirable
Affordable
Profitable

<Top down>

How much will it cost to customer?

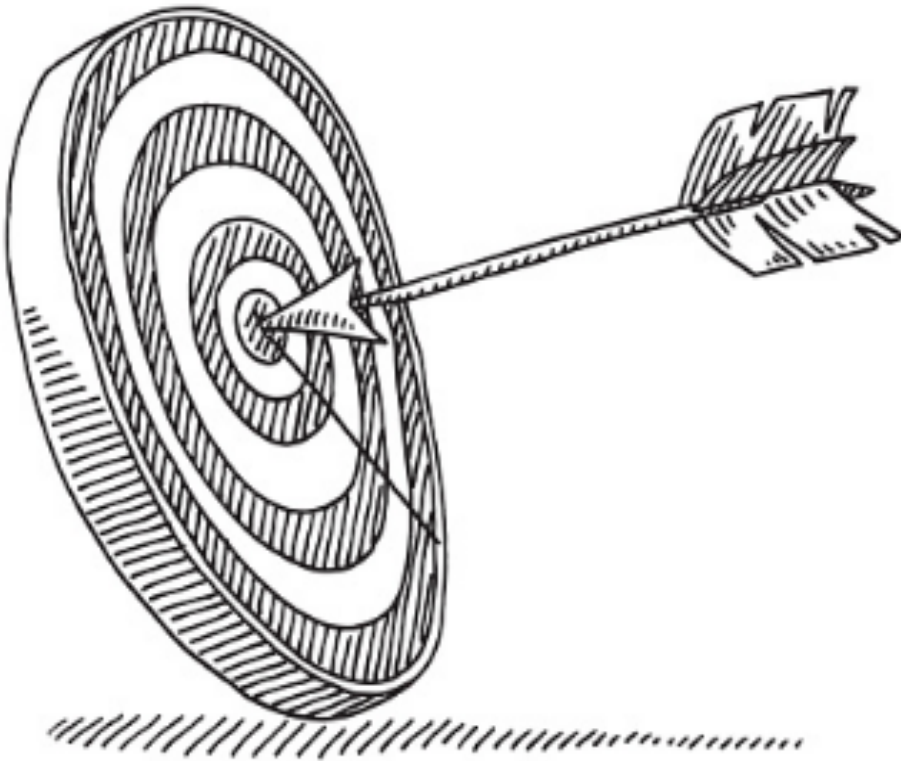
Price



Profit

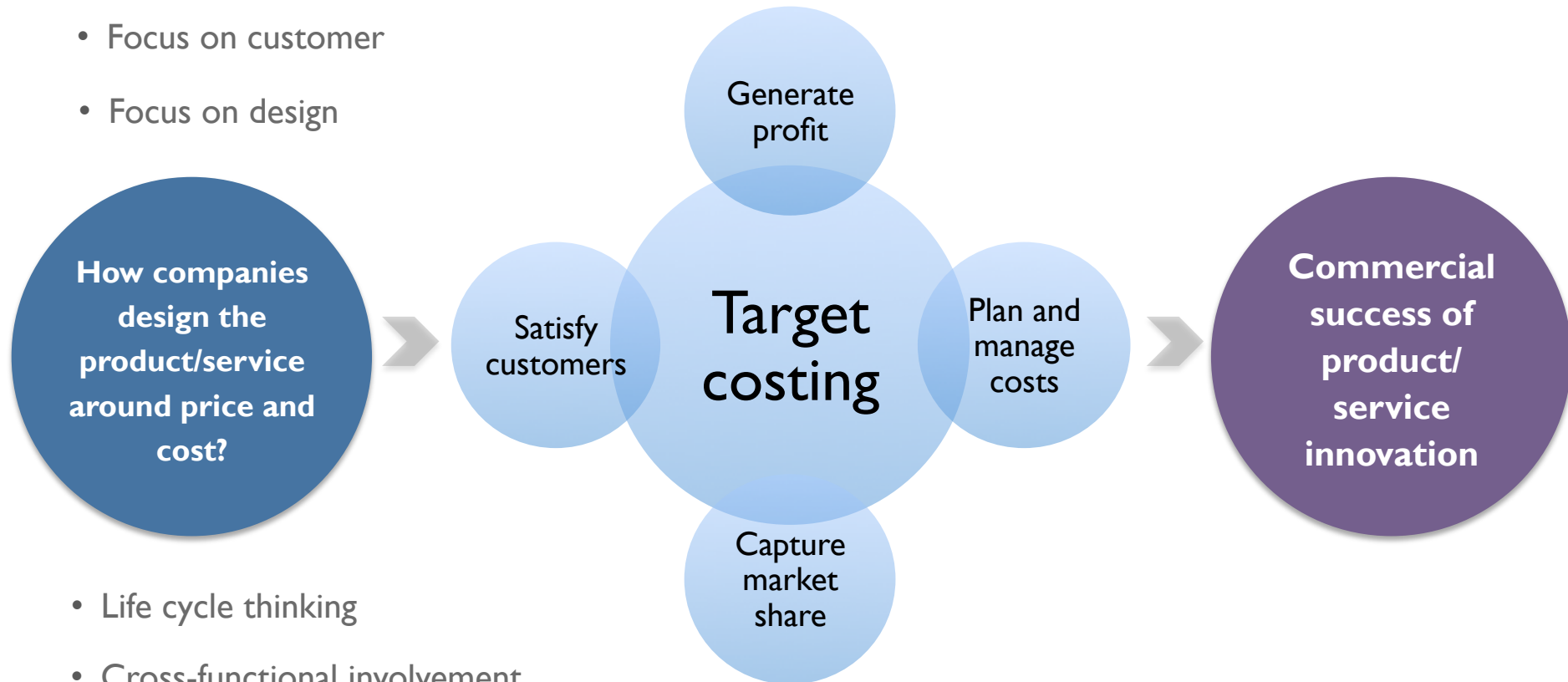


Cost

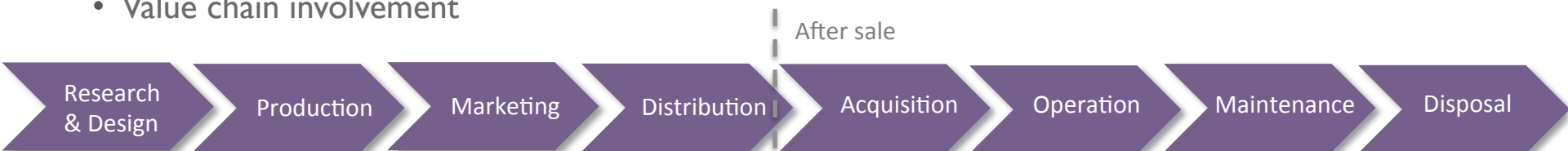


It is a system of **profit** planning and **cost** management that is **price** led, **customer** focused, **design** centered and **cross functional**.

- Price led cost
- Focus on customer
- Focus on design



- Life cycle thinking
- Cross-functional involvement
- Value chain involvement



What is the issue?

Why is it important?

What can be done?

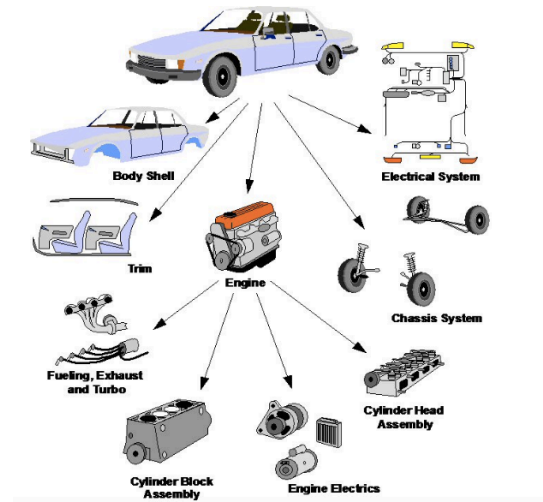
Next step

Emerged from Japanese automobile industry in 1960s, eg. Toyota and Nissan

Received global attention from late 1980s

The basic idea is fairly simple and straightforward

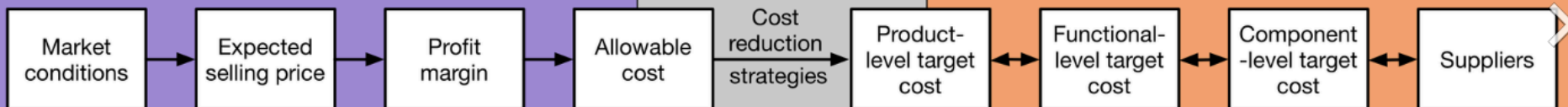
Process is complex and challenging



Market-Driving Costing

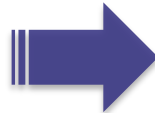
Product-Level Target Costing

Component-Level Target Costing

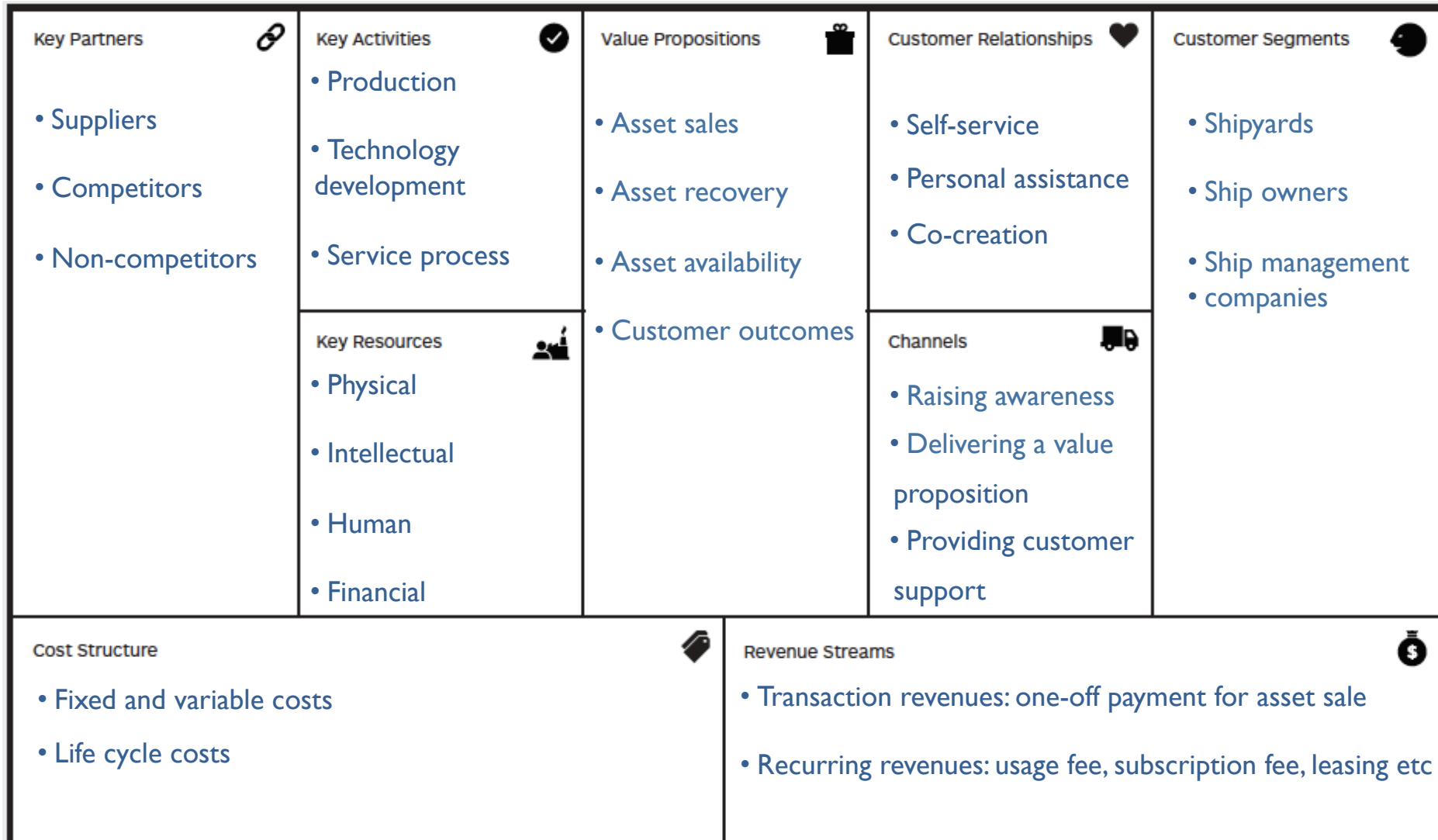


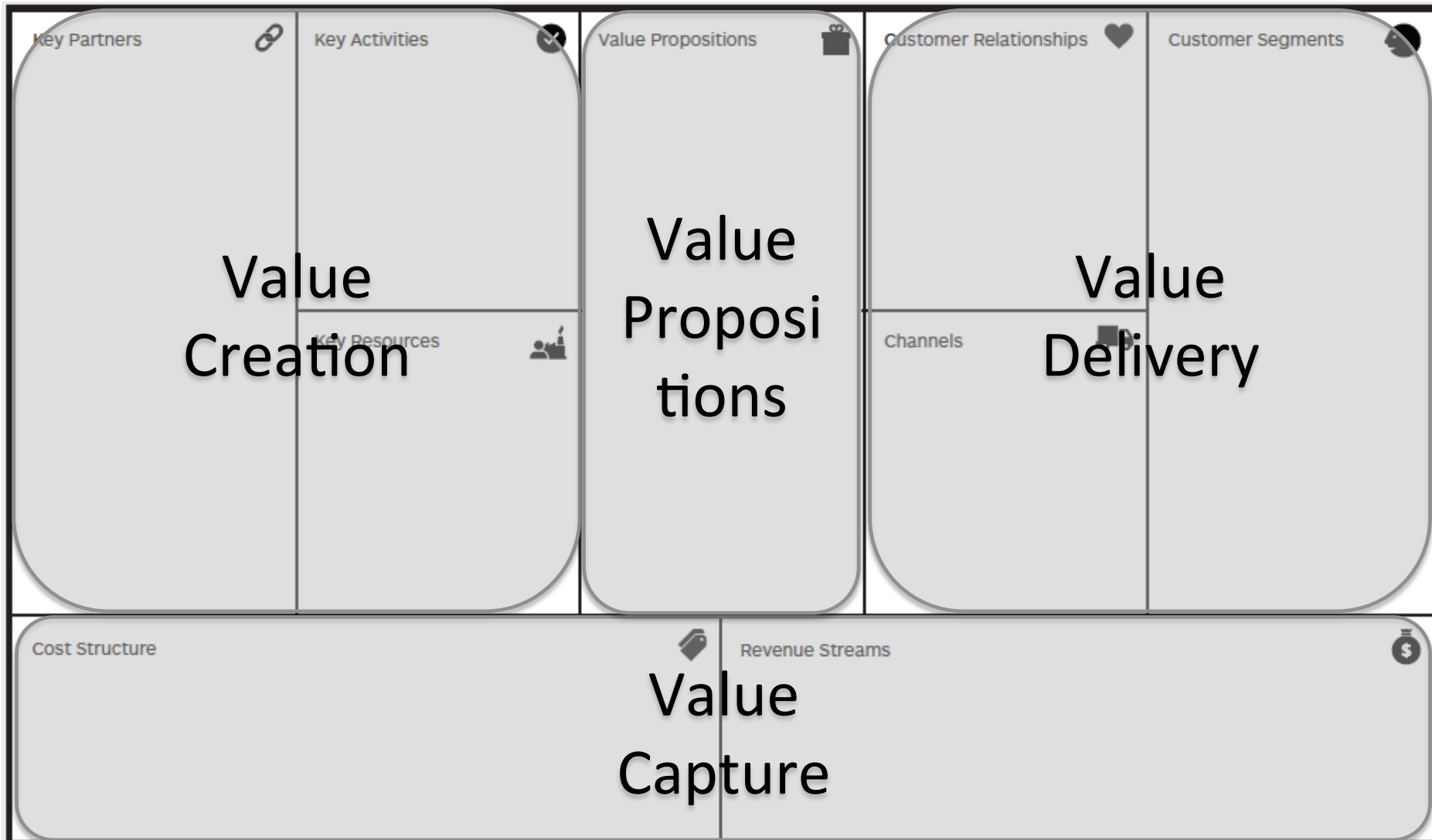
How might we build on this foundation and transit to a target costing model for marine equipment manufacturers and service providers?

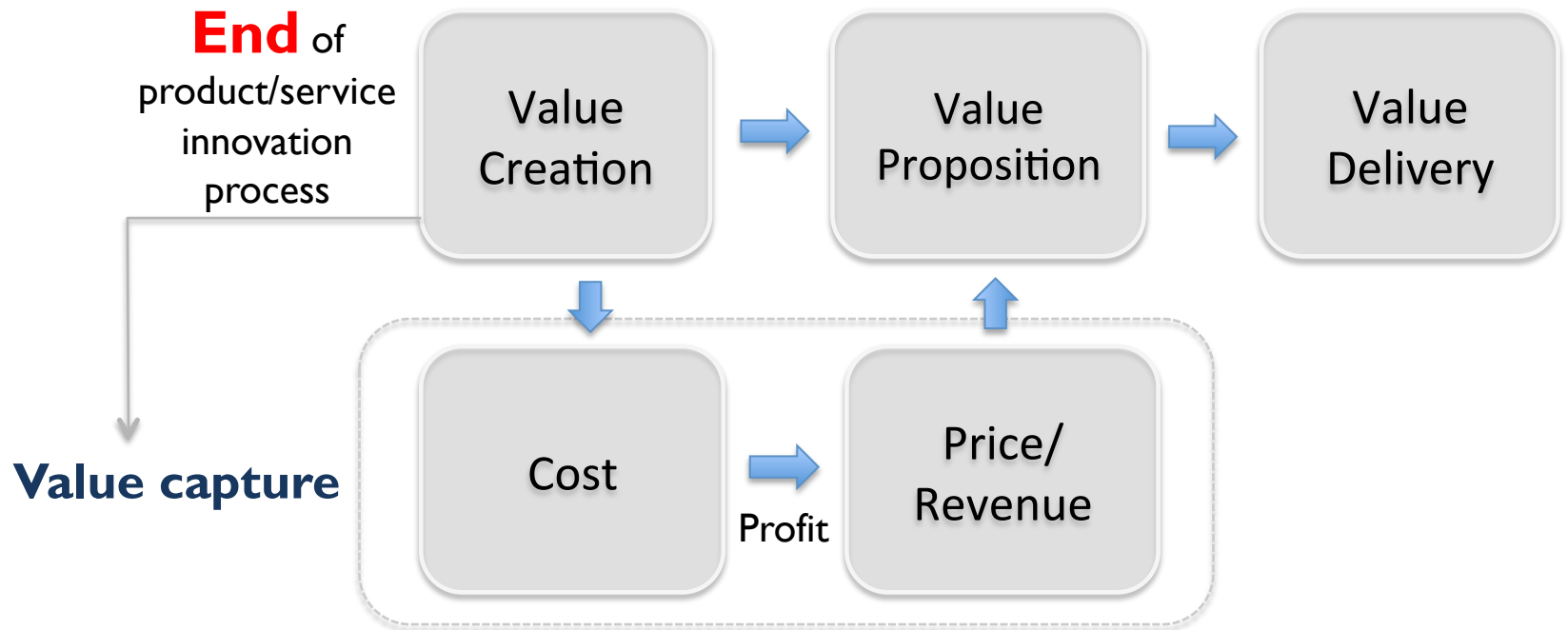
How to accelerate the transition and unfold its full potential?



Business model canvas







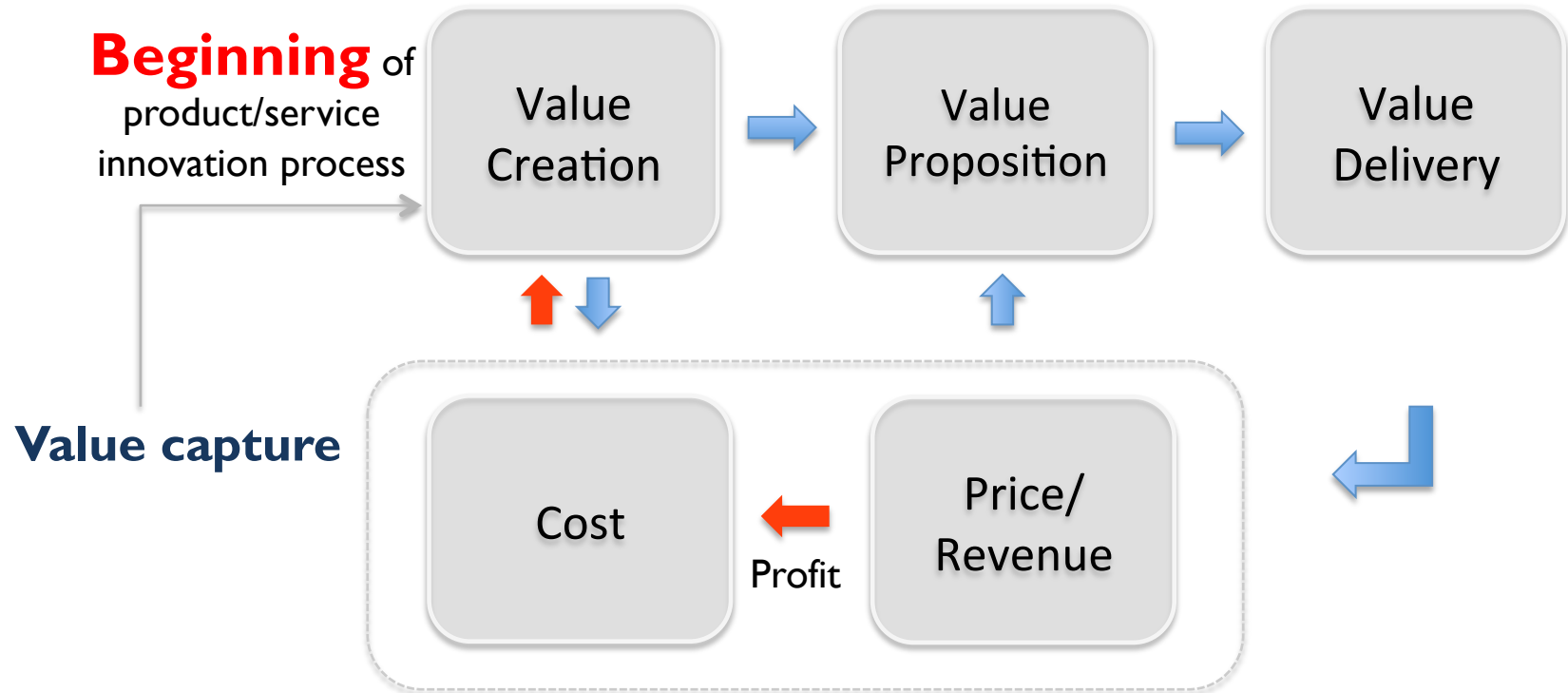
Product focus

Limited interacts within
organization and with
external environment

Cost reduction focuses on
waste and inefficiency

Costs determine price

Less market consideration

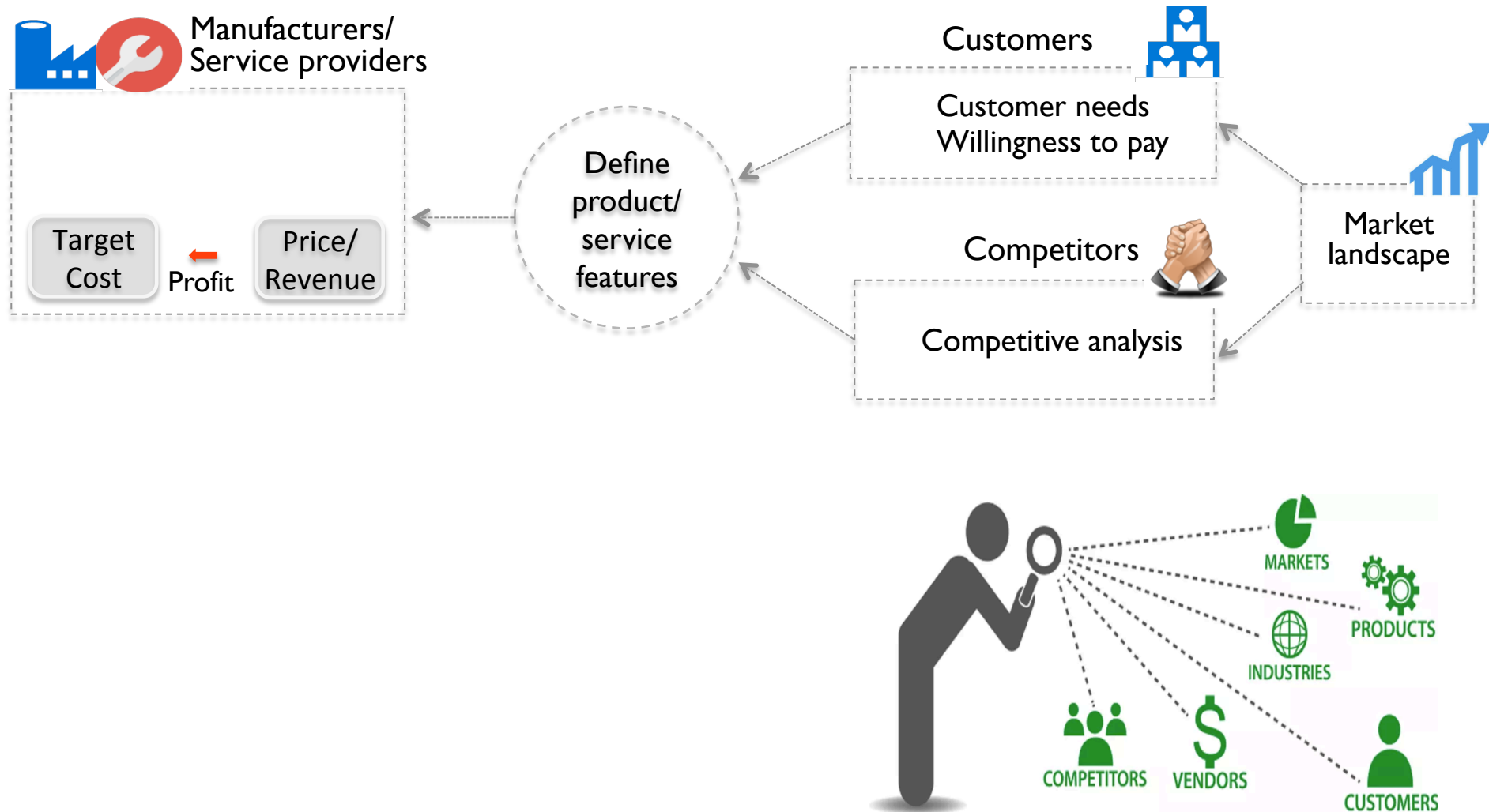


Step 1. Establishing target costs

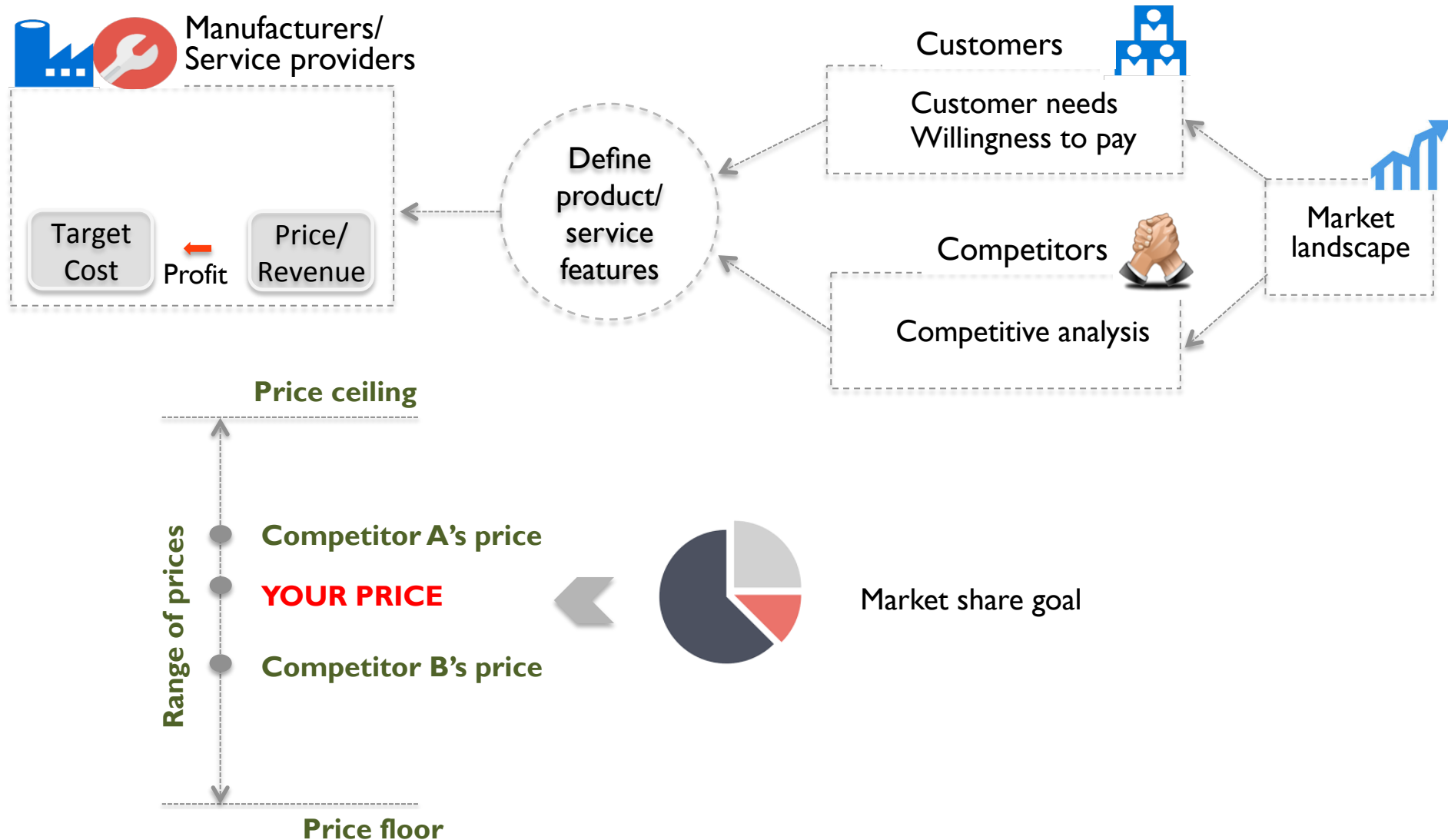
Step 2. Attaining target costs

Step 1. Establishing target costs

Establishing target cost

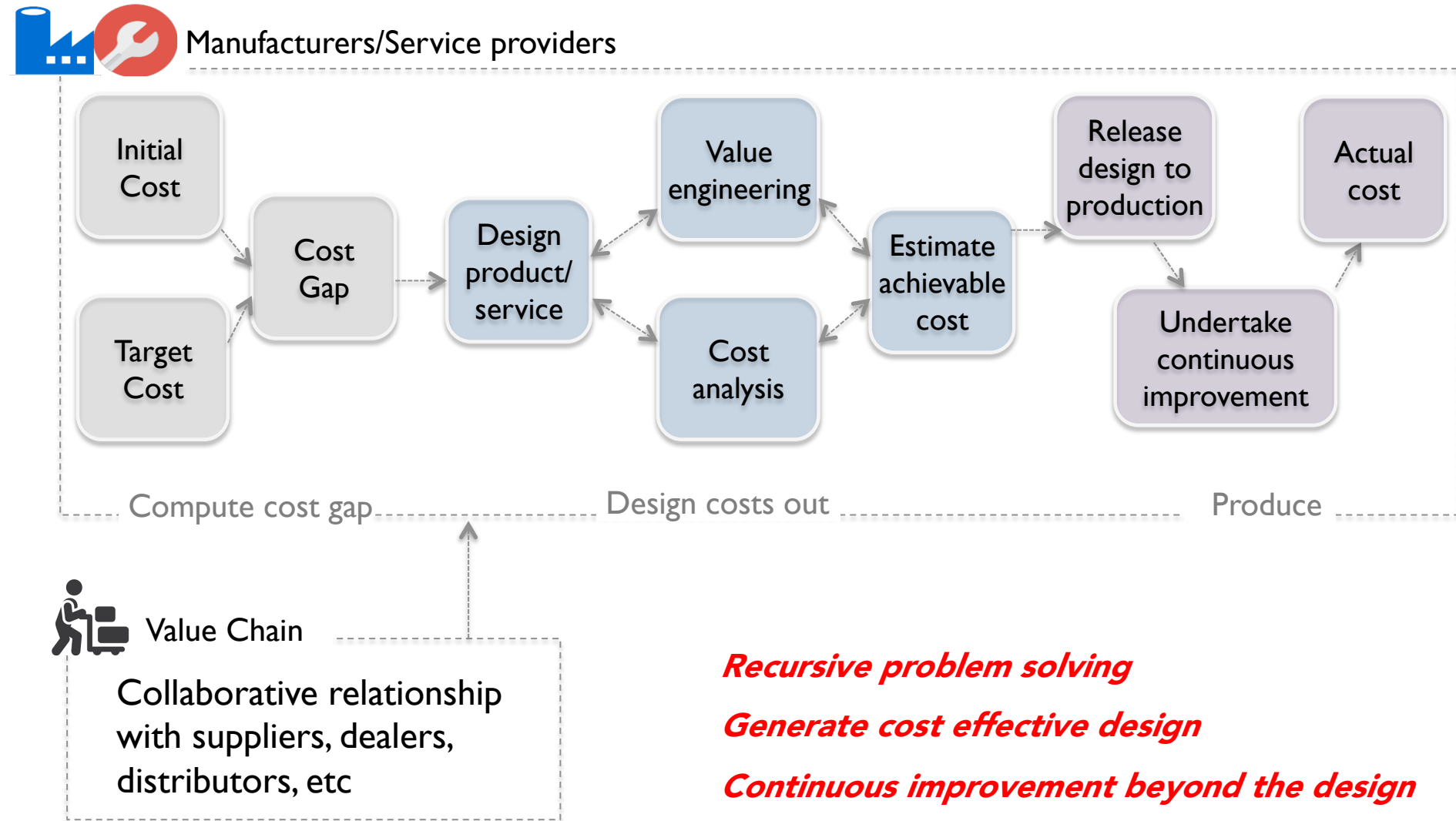


Establishing target cost

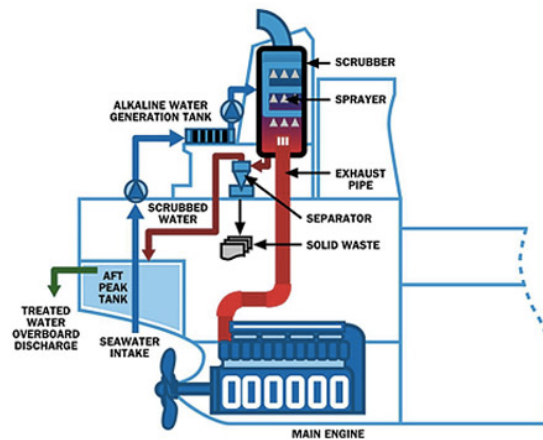


Step 2. Attaining target costs

Attaining target costs



Exhaust gas scrubber case for step 1



Scrubber – market landscape

Figure 1: Solutions to meet the SOx challenges in SECAs from 2015

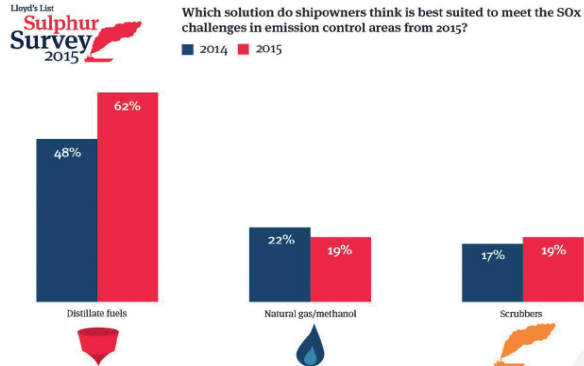
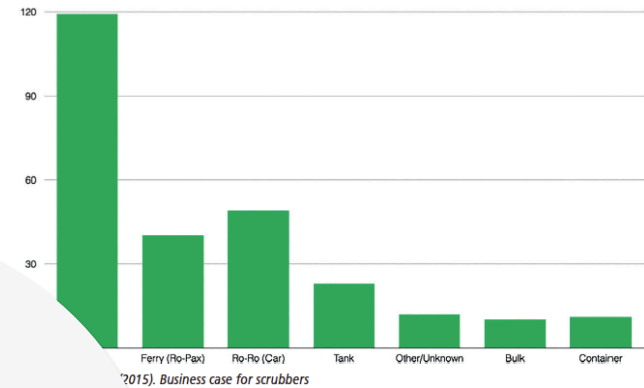


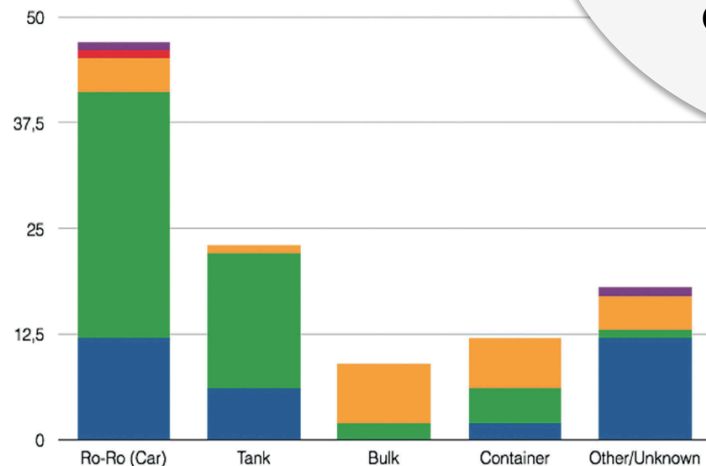
Figure 2: Segments with scrubbers installed or contracted in 2015



Updates on regulation
Scrubber technology
Level of acceptance
Scrubber uptake by ship type
Orders and installations

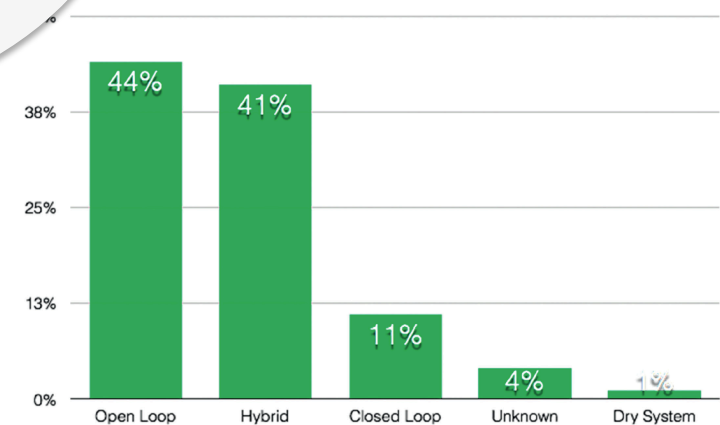
Market landscape

Figure 4: Technology per target segment (cargo vessels only) in 2015



Source: Berger, J. (2015). Business case for scrubbers

Scrubber type installed or sold in 2015



Source: Berger, J. (2015). Business case for scrubbers

Scrubber – Customers and competitors

Customers



Customer needs
Willingness to pay

Scrubber
features/
Service
solutions

Price/
Revenue

Target
Cost

Simple physical integration
Performance reliability
Service and support
Disposal

Financial instruments

Scrubber CAPEX
Scrubber OPEX

Maintenance costs
Disposal costs

Needs:
Meet the reduction target
without spending a fortune

WTP :
Total cost of ownership (TCO) < Savings

Fuel price spread:
LSF-HFO or LNG-HFO

LSF or LNG

Competitors



Competitive analysis



BELCO®

Fuji Electric

ecospec



OCEANOX



What is the issue?

Why is it important?

What can be done?

Next step

-
- Setting price
 - Cost analysis for both manufacturers/service providers and customers
 - Approach to evaluating risks and profits
 - Bilateral industry dialogue and case studies

Thank you !

Questions?

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CBS MARITIME

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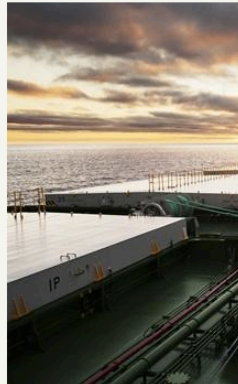
Network

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Research projects

CBS Maritime's research is organized into a number of interacting projects with a common reference to the dual relationship between "maritime industry dynamics" and "increasing global integration", but each with their own outline and sub-projects. Below are examples of the central questions being addressed.



NEWS

30.09.2016

[The Rise and Fall of the East Asiatic Company](#)

26.09.2016

[CBS Maritime Expanding Partnership on Governance and Innovation for a Sustainable Maritime Supply Chain](#)

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EVENTS

No current events.

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Foto: Iris/Scanpix

Some of the projects are funded by the EU 7th framework program (FP7), the Joint Committee for Nordic Research Councils for the Humanities and the Social Sciences (NOS-HS), Canada's Social Sciences and Humanities Research Council (SSHRC), the Danish Maritime Fund, DS-Orient's Fund, and the Lauritzen Foundation.

[Organizational Innovation in Shipping, Ports and Maritime Industry](#)

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[Green Shipping: Governance and Innovation in the Maritime Supply Chain](#)

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[Blue INNOship - Servitization: Creating the market by understanding price, cost, contracts and financing](#)

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[The Entrepreneurship Dynamics of a Nomadic Workforce](#)

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[Nordic Shipping in a Global Context](#)

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[The Climate Challenge for Shipping: Incentives for Reduction of CO2 Emissions](#)

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7 thematic seminars

- 1) Target costing as a strategic tool to commercialize the product and service innovation
- 2) Pricing management and strategy for the maritime equipment manufacturers and service providers (December 14th)
- 3) Optimization and handling of risks and cost within the service contracts
- 4) The strategic decision making of ship owners in investing in maritime equipment manufacturers and service providers
- 5) Financing of new business models that can promote business and sales within the maritime industry – general
- 6) Financing of new business models that can promote business and sales within the maritime industry – cases
- 7) Negotiation and collaboration through international contracts

Optional workshops

- 1) Lego game workshop on the application of target costing (optional)
- 2) Workshop on marine equipment leasing (Optional)