



# Involving the Extended Value Chain in a Whole Life Target Costing Model

A Study Sponsored by the CAM-I Target Costing Interest Group



Tami Capperauld  
The Boeing Company  
CAM-I Summit

# CAM-I's Membership

- CAM-I's international consortium consists of:
  - Manufacturing companies
  - Service organizations
  - Government
  - Professional bodies
  - Software companies
  - Consultancies
  - Academia



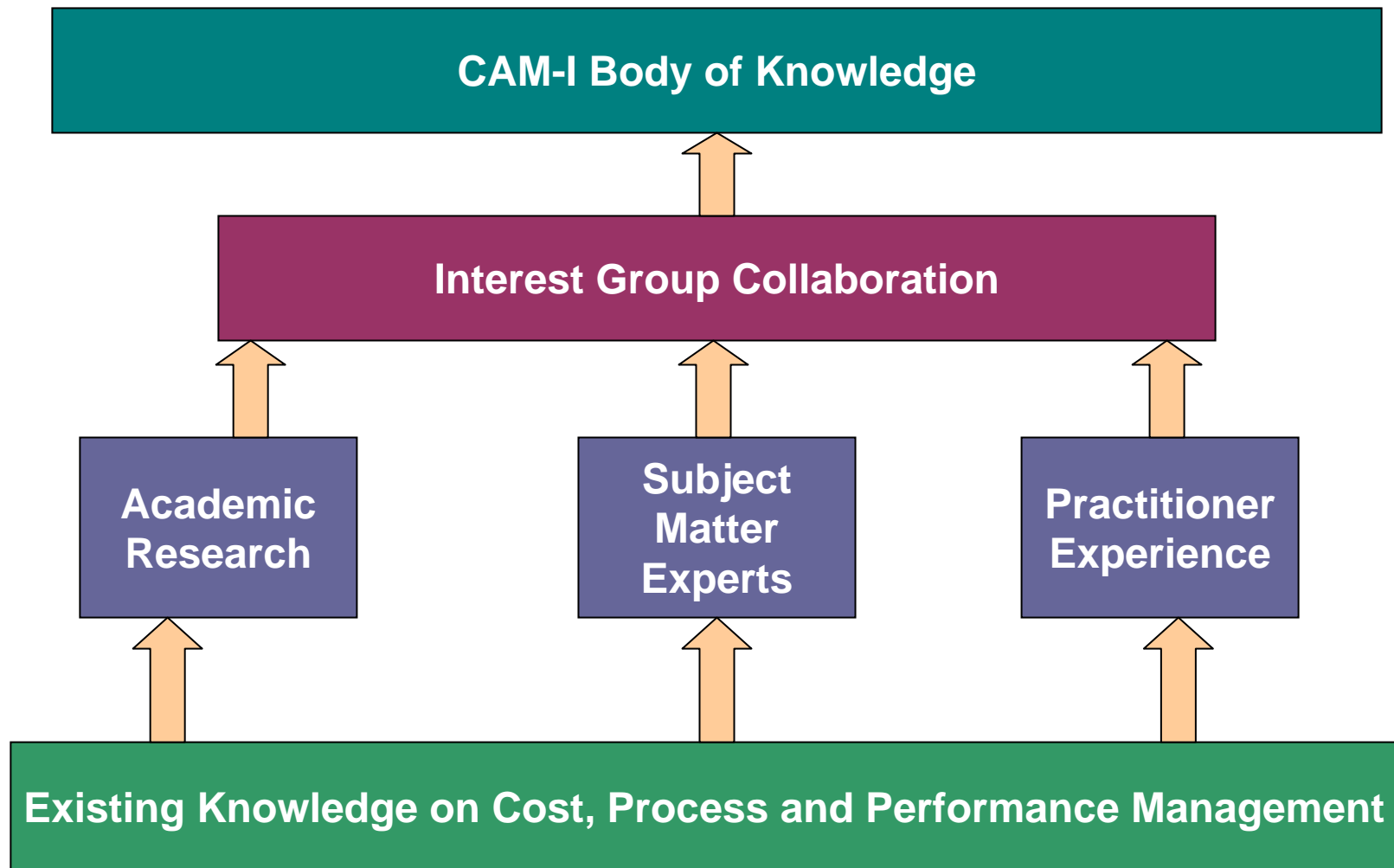
Who work in collaboration to solve management problems and critical business issues that are common to the group in the areas of cost, process and performance management

# CAM-I Member Companies



- ABS Consulting, Inc.
- ATI
- Bank of America
- BAE Systems
- Bob Paladino & Associates, LLC
- Boeing Company
- Business Objects
- CALIBRE Systems
- Cost Vision
- **CMA (Canada)**
- Department of Defense
- Executive Management Associates
- Godrej & Boyce Manufacturing
- Grant Thornton LLP
- IBM Corporation
- International Truck & Engine Company
- On Semiconductor
- Pilbara Group Inc.
- Regence
- Rockwell Collins
- Royal Australian Navy
- SAP AG
- SAS Institute
- Synerma, Inc.
- Tata Consulting Services Limited
- U. S. Air Force
- U. S. Coast Guard
- U. S. Marine Corps
- U. S. Navy
- U. S. Patent and Trademark Office
- VEN International

# How Interest Groups Create the CAM-I Body Of Knowledge



# CAM-I Target Costing Best Practice Interest Group

## ■ Mission:

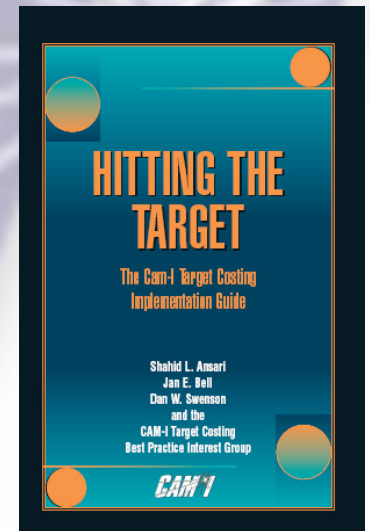
Develop an ongoing vehicle for sharing target costing practices among the participants

## ■ Members

- Boeing – BCA, IDS, PW
- CostVision
- IBM
- Regence Group
- Rockwell Collins
- US Air Force
- US Coast Guard
- VEN International

## ■ Academics

- Dr. Shahid Ansari – Babson College
- Dr. Mohan Gopalakrishnan – Arizona State University



# 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)

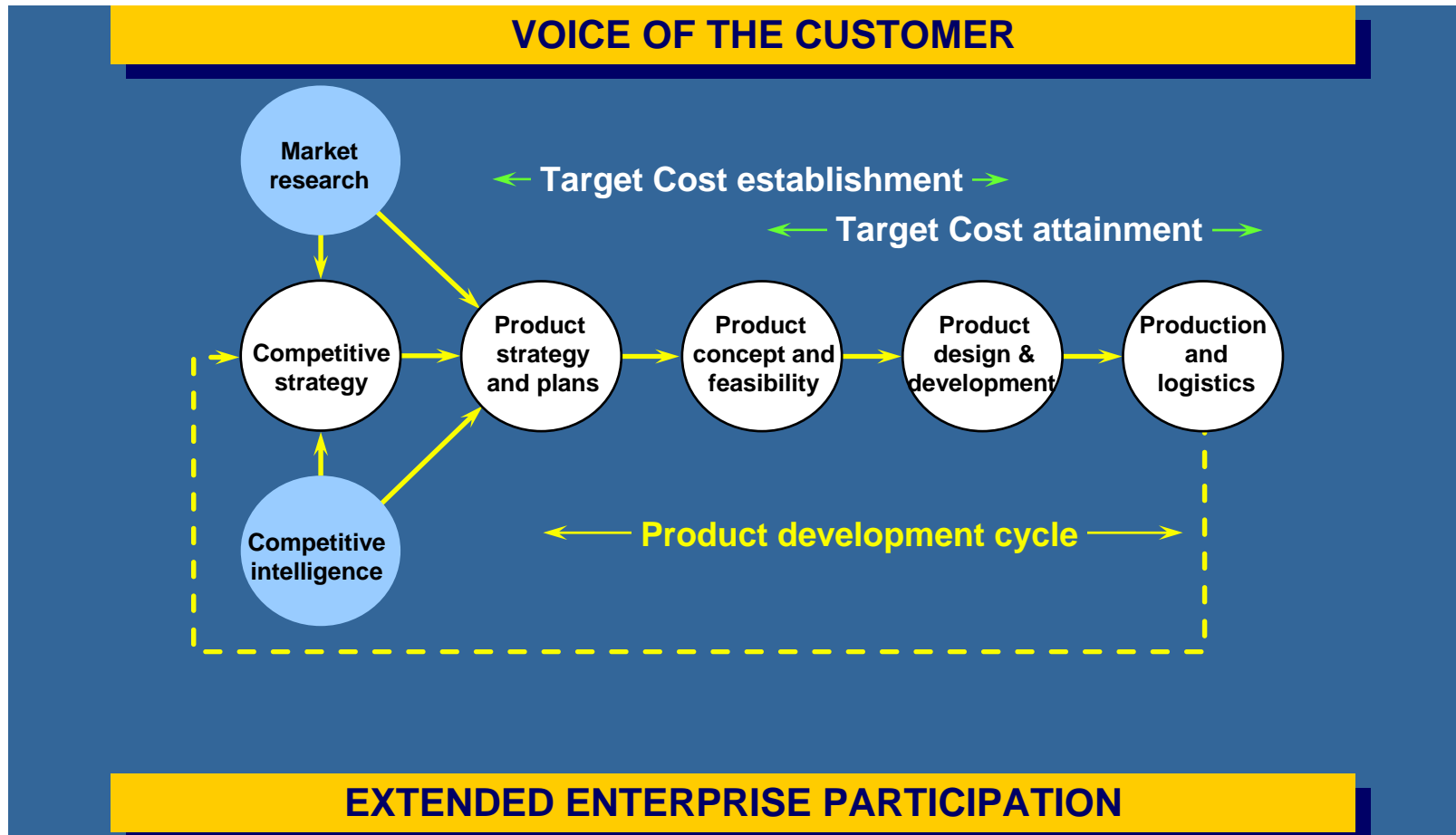
## Why do Target Costing?

- 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.*

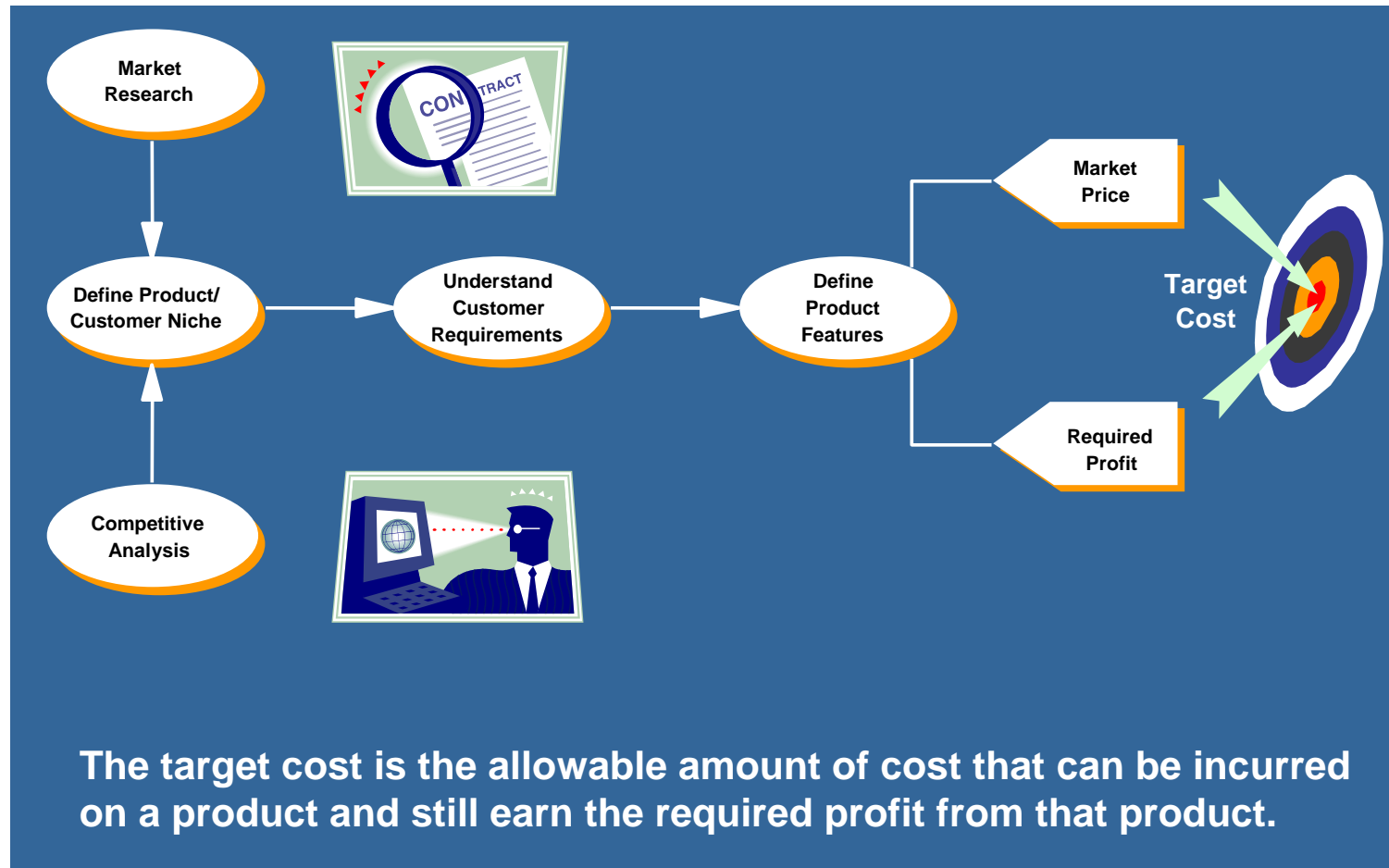


# Process Overview



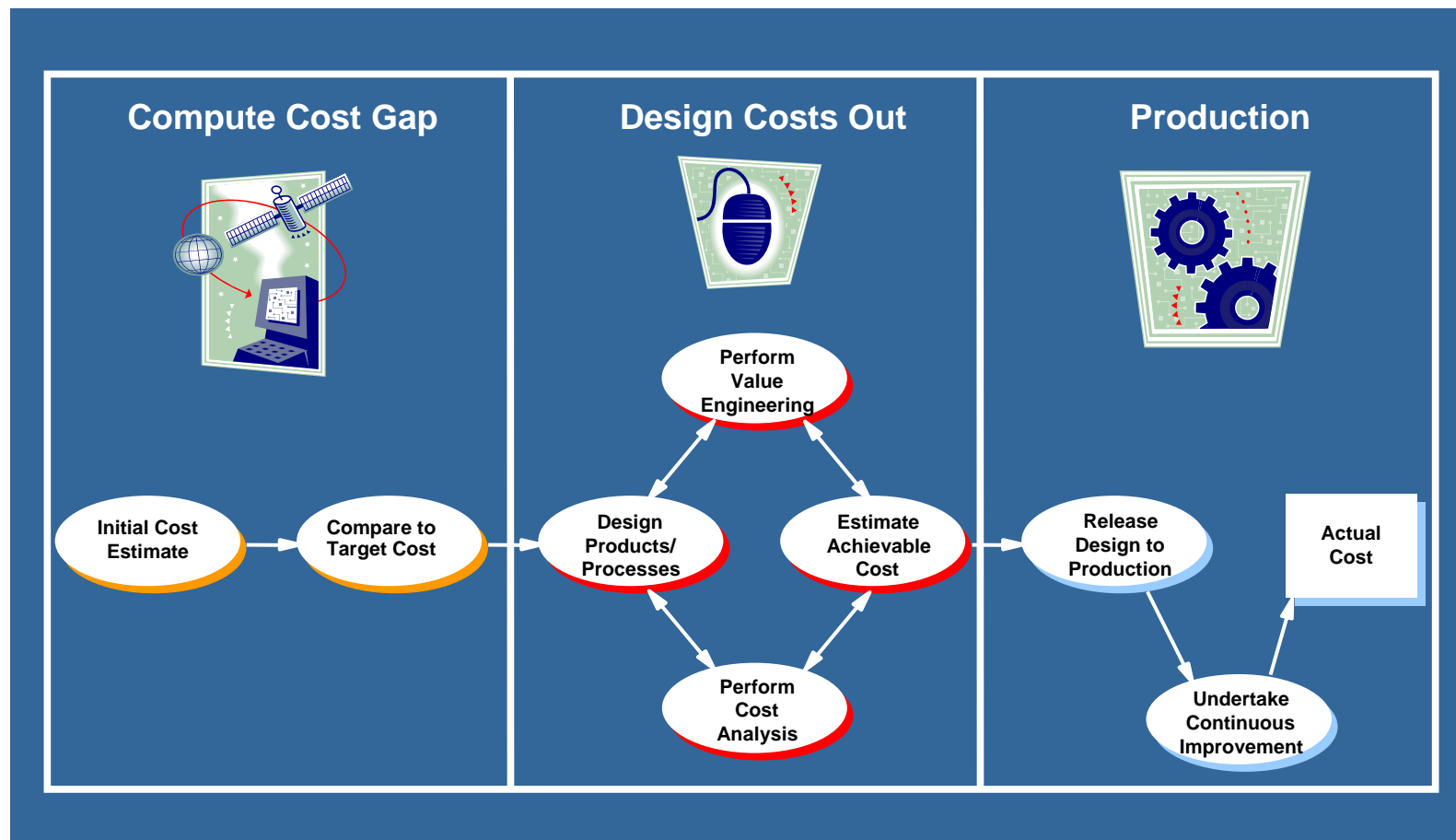
From the book, "Target Costing, The Next Frontier in Strategic Cost Management," a CAM-I Publication

# Process: Target Establishment





# Process: Target Attainment



From the book, "Target Costing, The Next Frontier in Strategic Cost Management," a CAM-I Publication

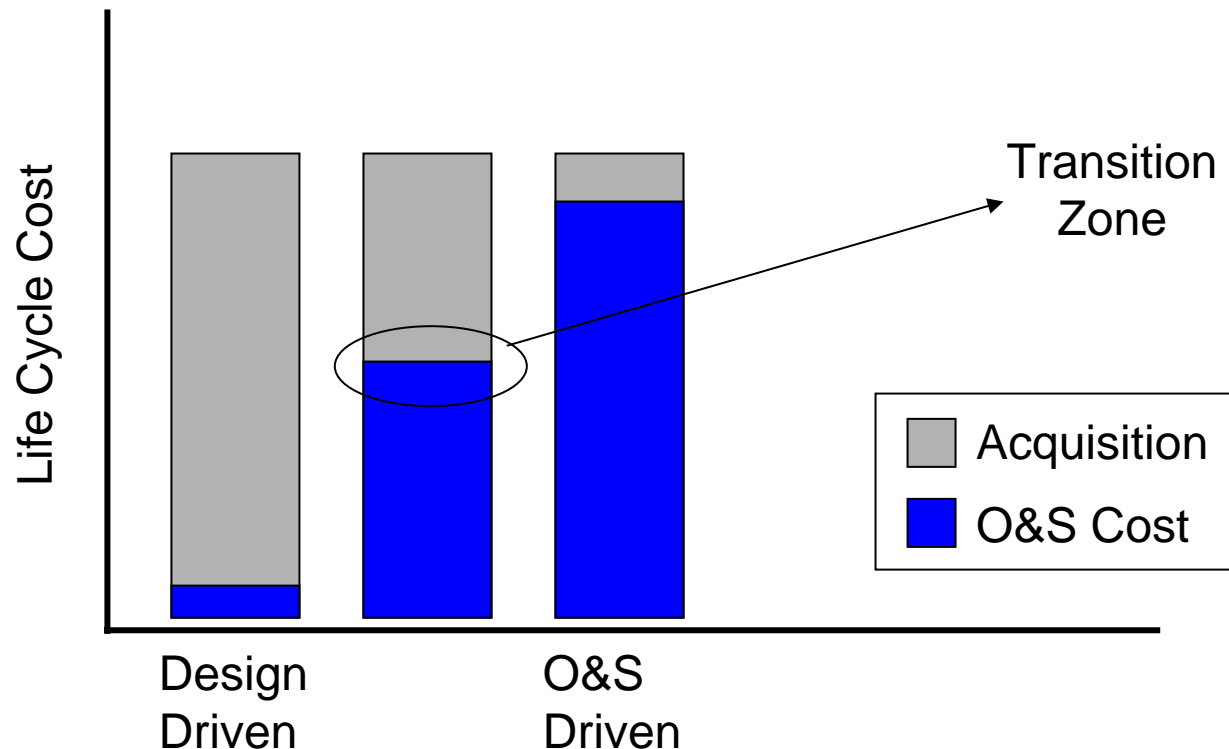
# Involving the Extended Value Chain in a Whole Life Target Costing Model

- Purpose and Scope
- Importance of Study
- Overview of Preliminary Findings
- How You Can Help



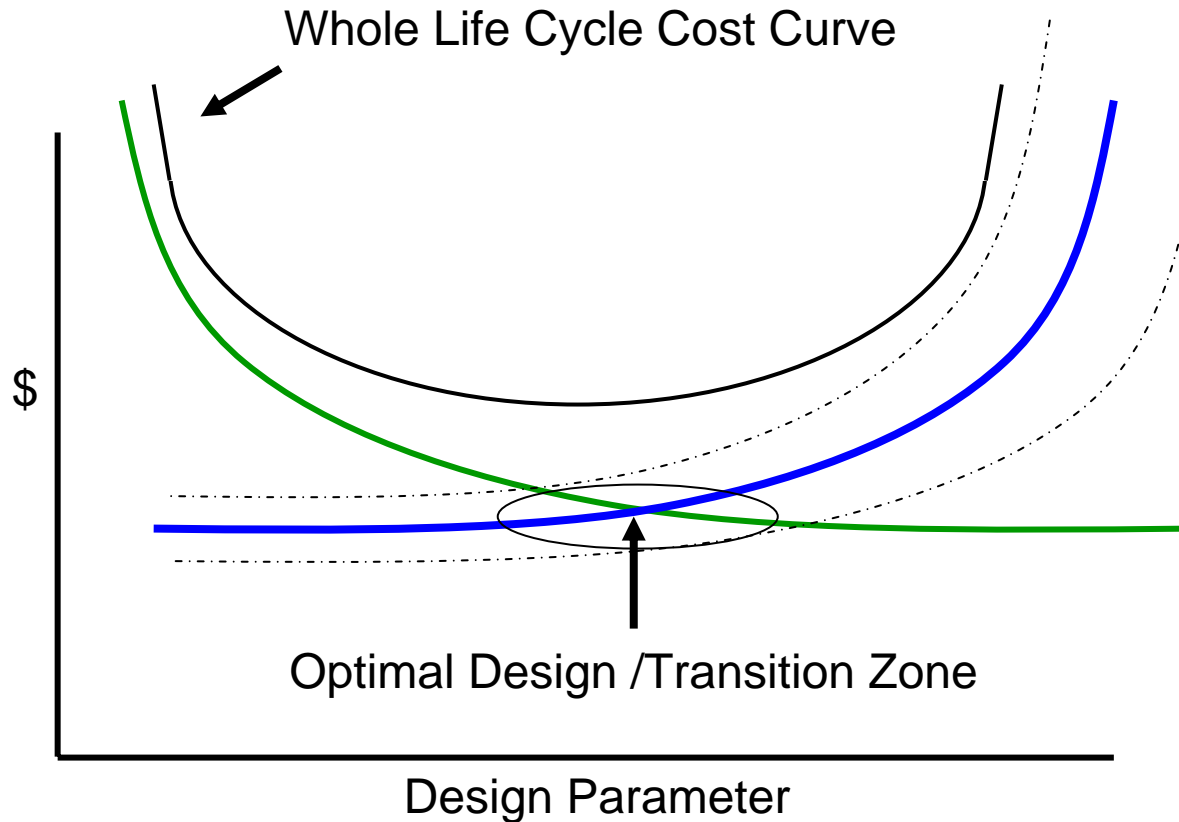
# Purpose

- How to involve Operations & Support (O&S) suppliers as partners in design process when O&S cost is a significant proportion of Life Cycle Cost



# Concept of the Bulletin

- Acquisition versus O&S Paradigm



**Illustration  
Purposes  
Only**

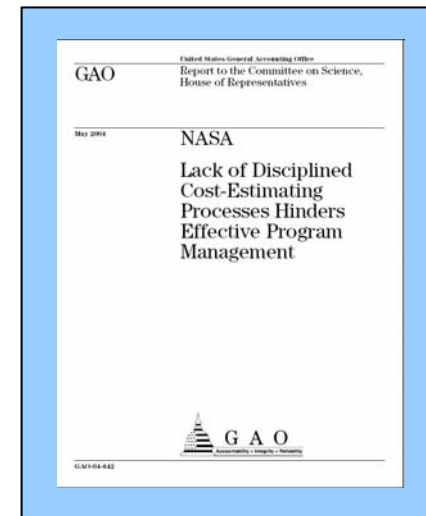
## Legend

Acquisition Cost

O&S Cost

# Why is this important?

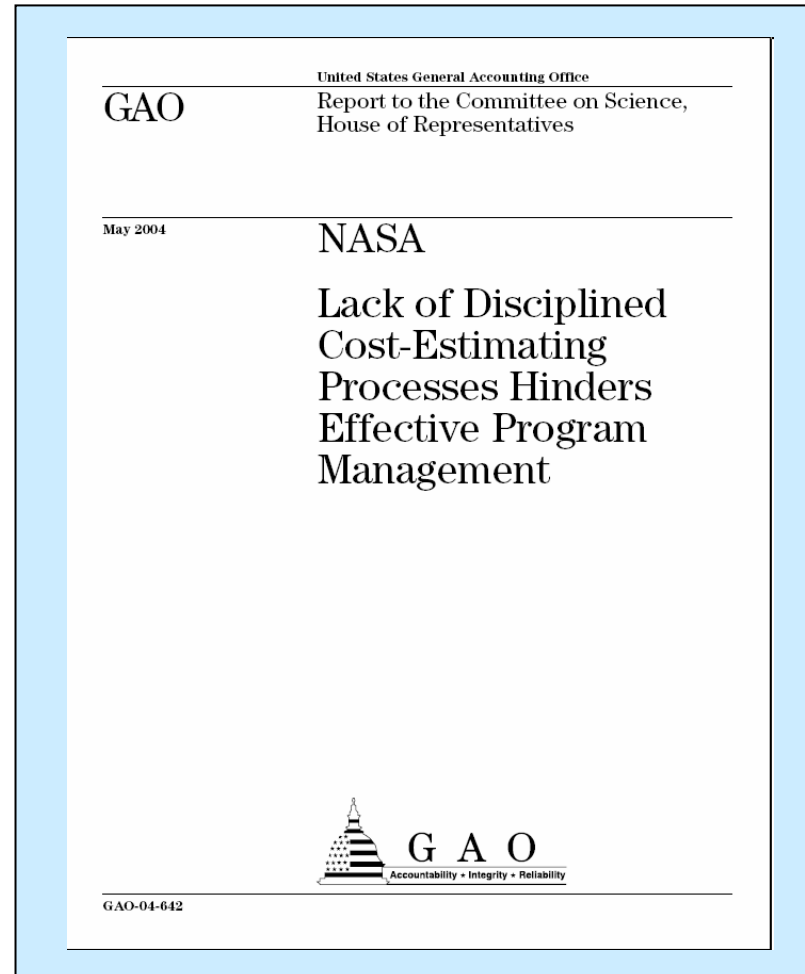
- GAO report findings on NASA (5/04):
  - Focus on annual budgets vs. *managing* total program costs
  - Space Station: budgets not credible -- LCC estimates not prepared
  - Underestimating full LCC *creates risk* that program be under-funded and subject to major cost overruns
  - 7 of 10 programs *fail independent review* of supplier estimates (problem: low bid to win contract)



Inadequate planning for O&S costs drives budget overruns

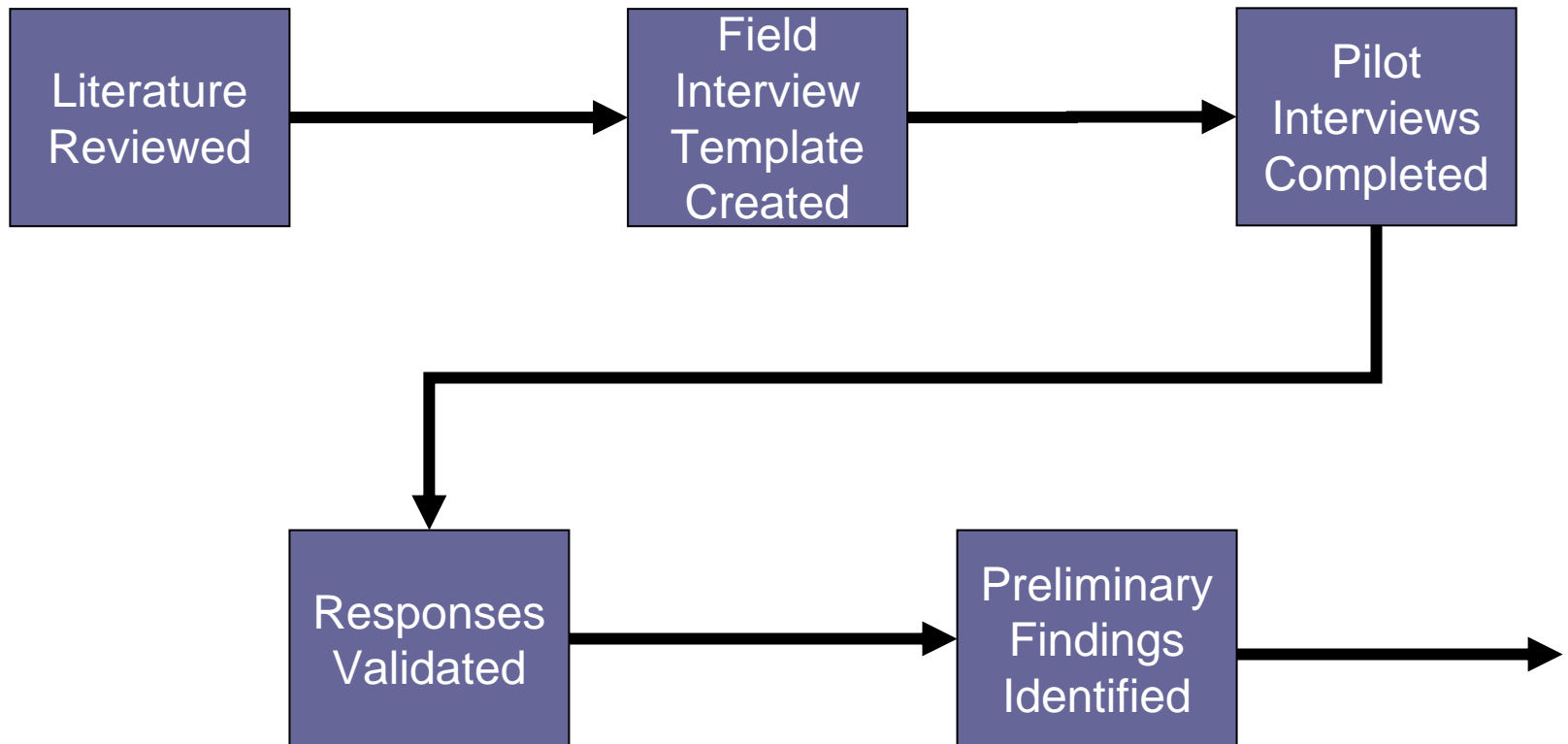
# GAO Findings

- Recommendations:
  - “...establish a standard framework for developing lifecycle cost estimates”
  - “base its cost estimates on a full life cycle for the program...that encompass both in-house and contractor efforts”





# What We Have Done



# Interview Questions Set Around 4 Themes



- Supplier involvement & engagement
- Contractual issues
- Setting & accepting O&S targets
- Managing risk and uncertainty

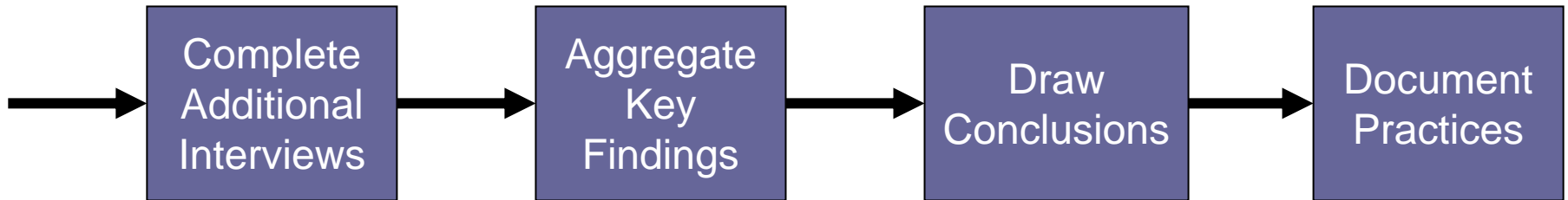
# Preliminary Findings

- Contractor does not receive O&S targets
- Lacking justification for estimate
- Reluctance to commit for activities 10 + yrs out
- O&S costs takes lower priority than technical performance and schedule
- Insufficient development budget for O&S analysis
- Suppliers see skewed data
- Incentivized to win proposal, no incentive for O&S
- Estimates vary widely based on changing assumptions
- Data not collected at an appropriate level to create Cost Estimating Relationships



GAO findings were published 3 years ago, likely developed ~5 years ago.  
According to the preliminary findings, **not much has changed**

# Next Steps

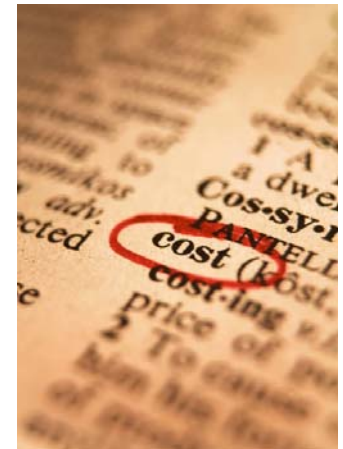


# How you can help

- Participate in survey
- Suggest potential interviewees
- Validate findings
- Be our guest at CAM-I in Austin, Texas



- Benefits
  - Contribute to leading edge research
  - Complimentary executive summary
  - Latest knowledge of Target Costing



# References

- GAO Report

 [www.gao.gov](http://www.gao.gov)



- CAM-I

■ [www.cam-i.org](http://www.cam-i.org)  




- Tami Capperault

- (425) 234-4458
- [Tami.I.capperault@boeing.com](mailto:Tami.I.capperault@boeing.com)





# How to 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](http://www.CAM-I.org)

**Join the CAM-I Target Costing Interest Group!**

For more information contact Tami Capperault at:

Tami.l.capperault@boeing.com



## Commercial Airplanes Finance



# Questions?