



Target Costing and Mass Customization

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ABSTRACT

Mass Customization has become a key issue for many industries with the computer industry leading the most others. In the apparel industry the topic has been discussed extensively, and a few companies like IC3D.com or Made4Me.com have taken on the challenge of implementing it. However, to date most of the intentions and activities origin in areas of technology. Unanswered remains the question of cost efficiency. Target Costing provides the theoretical basis to address this issue. The following paper analyzes the cost of mass customization with the help of the target costing approach.

Keywords: Mass Customization, Target Costing, Strategic Analysis

Introduction

Customer orientation is extremely critical ever since many industries have changed from being a seller's market to being a buyer's market. In spite of this focus on customer trends, the mass market for apparel still shows all the markings of a seller's market. Apparel is planned seasonally, often produced in low-labor-cost countries, stored, and then moved over several intermediates to the retailer who sells it to the consumer. The consumer receives standard products in standard sizes. Confronted with fitting problems or disliking specific minor details on a piece of apparel, the customer has to invest a lot of time and effort in finding the desired product. More often than not the final purchasing decision is a compromise or put off indefinitely. In the latter case, the retailer may not be able to sell the product before the next buying season, and the product is sold at a discount.

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The concept of **Mass Customization** is supposed to present a solution for this situation. Mass Customization means offering an individual product to the consumer that exactly matches his or her desires at the price of traditional mass-produced merchandise. A lot has been done on the technology side to make such mass customized supply possible, e.g., single-ply automated cutters, body scanners, interactive communication tools. A major challenge remains the final part of the definition of mass customization: the price. The key question is: In the long run, how can industrially produced, tailored products be offered at prices of mass-produced standard products?

An important tool in answering this question is **Target Costing**. It provides a company with a holistic cost management approach for all aspects of product development and