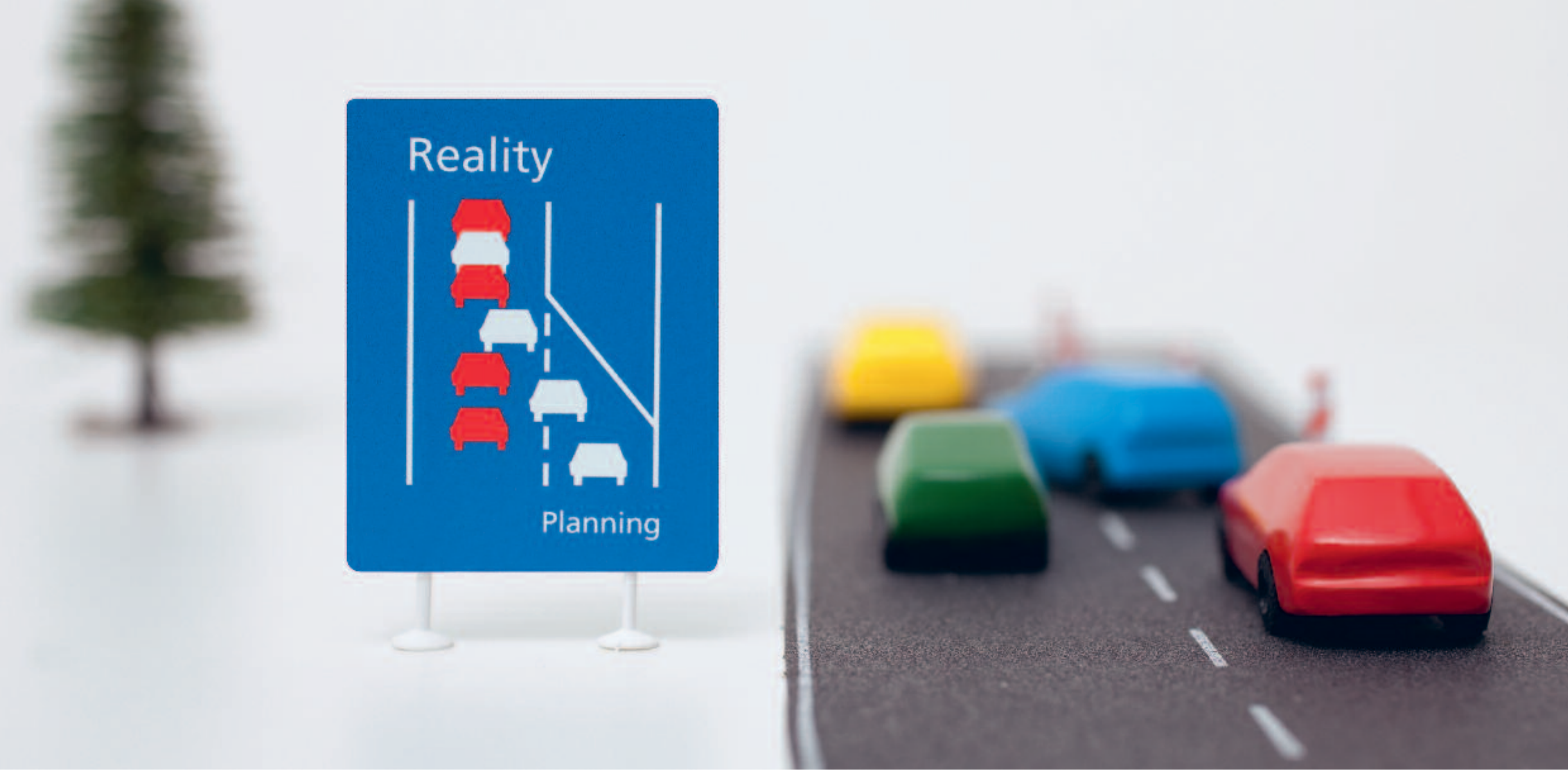


Product-related costs – the management perspective

The product-related costs of a car – think here of development, production-material, manufacturing and marketing costs – are an automotive manufacturer's largest cost block, accounting for 80 percent of entire costs. Put into monetary terms, this means that the product-related costs of a typical mid-sized vehicle amount to about €15,000 and can rise to €30,000 in the luxury segment. Lowering costs by 3 percent to 5 percent increases profit in the value chain, by hundreds of millions over the entire unit count.

Costs under control

John Lucci,
Lars Stolz

Product-related costs truly start becoming the focus of a company's optimization efforts when the profit situation is tense, product requirements expand and the availability of capital becomes limited. Effectively planning and controlling these costs over a vehicle's entire life cycle and functions – from development to sales – is a prerequisite for sustained profitability. But in many cases, product-related costs are negatively impacted in all phases of the product life cycle, and managers cannot do anything about it.

Product life cycle disturbances

A whole series of disturbances, starting with initial planning and continuing through to series production and vehicle sale, can cause additional unplanned costs. Poor design or quality issues often require technical adjustments to be made to the originally assessed target product. Changing requirements stemming from new customer priorities or the activities of competitors lead to delays and increased product customization, which drive up costs. When the product reaches series production, insufficient volume planning, higher-than-expected marketing and subsidy costs as well as high losses of residual value drive up production expenditures. Costly product appreciation in the form of extensive model upgrading, which seems necessary because of competitive pressure, pushes product-related costs even higher. Managing these costs should be a central task that spans across the whole company for the entire product life cycle.

Controlling costs

Unfortunately, the processes and systems in place at many companies are inadequate for managing product-related costs and the growing challenges. Five main areas receive insufficient attention today. Companies can take the following action:

1 Introduce a change of perspective
During the initial phase, top-down validation takes place using reference models only and insufficient bottom-up validation is planned into the process.

2 Show more discipline in the process
Excessive product alterations during product creation and series production lead to unjustifiable additional costs along the entire value chain.

3 Lay a systematic-process foundation
In many places, a systematic-process foundation is lacking that would allow permanent initiatives that reduce product-related costs to be implemented effectively and efficiently.

4 Actively manage with a forward-looking outlook
Instead of an overarching program and risk management, reactive incremental measures remain in place.

5 Organize cost management
Finally, organizations that do not pay strict attention to product-related costs everywhere are frequently the most prevalent. They don't have the necessary resources, target systems or control of functions.

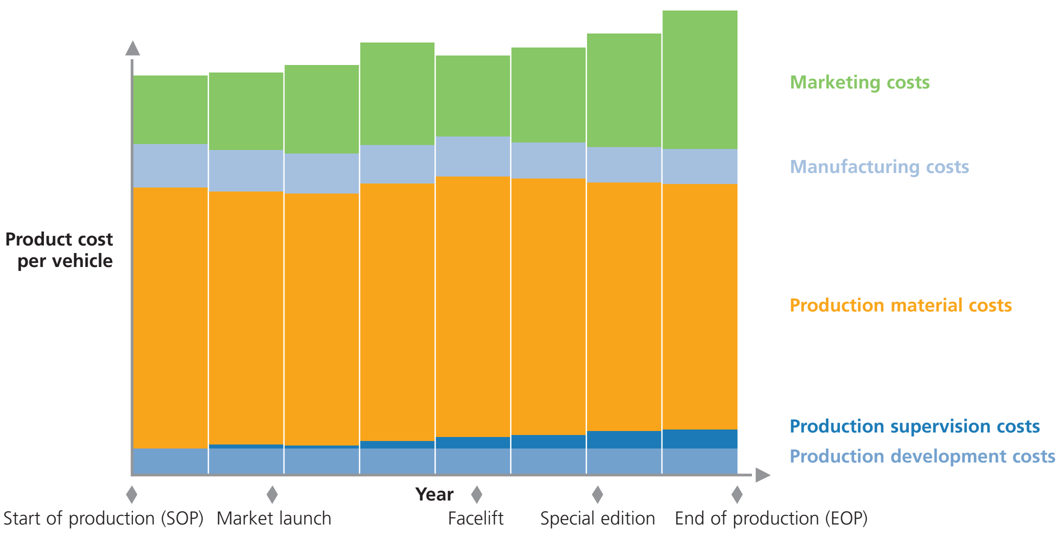
Best practices: Focus on products and processes

Best-practice companies that excel in managing product-related costs know that cost-impacting processes, and not necessarily the products themselves, should become the focal point of their work. That is why successful companies tend to follow two lines of attack simultaneously. They continuously work on ensuring that product-related costs are competitive before the start of production, during the launch and throughout series production. But at the same time they expand the cross-functional processes and structures that support a product life cycle during cost planning and steering. This second line of attack has only recently come into focus.

»Lowering product-related costs has entered the next round. Only those companies that manage to create effective companywide management processes will be successful.«

Permanent initiatives focus largely on the modular matrixes in terms of design to value and design for manufacturing and assembly. They also address reducing material costs in series production. In these areas, sales departments make a critical contribution when they integrate processes that enable marketing and subsidy funds to be allocated more effectively. Important processes include target costing, modular design management, change management in series development and supervision, and residual value management. These processes should be embedded in a comprehensive risk-management system for product-related costs. Such a holistic understanding of product-related costs will become a supporting pillar of cost management among successful automotive manufacturers.

Product-related costs per vehicle over the product life cycle



Source: Oliver Wyman