

Increasing of competitiveness in furniture manufacturing by the value analysis principles

**“COMPETITIVENESS OF WOOD PROCESSING
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Managerial accounting = information support for controlling

Strategic orientation of managerial accounting is reflected in market orientation and customer preferences. Methodic of Target costing.

With a projected cost of the product should be considered already at the stage of research and development .

Target costing

Allowable costs = target price – target profit

Target profit is usually determined by an absolute amount or the profitability indicators using **Return on sales ROS = Profit/Sales**, or **Return of cost ROC=Profit/Cost**

Target Profit = Target price x (ROS/100)

Target Profit = (Target price x index ROC) / (1+ index ROC)

Value analysis principles represents a systematic approach to evaluation of product characteristics that enables to fix alternatives that can improve the product quality, defined as the proportion of its commercial characteristics and costs. The author of this methodology is Lawrence Delos Miles from the General Electric Company.

Quantity-function deployment (QFD) define the relationship between the customers' requirements on product quality and its individual parameters

Functional costs analysis (FCA) detecting differences between customers' preferences and actual costs level of the product

The marketing analysis of the market for a new development model of PC desk Classic, it was found that in terms of view, potential customers are buying the following essential features with their weights of importance:

- enough storage space 35%,
- modular principle 22%,
- possibility of ergonomic adjustment 5%
- spacious working space 30%,
- sliding bar keyboard 8%

The price survey pointed out that an ideal initial market price would be 120 €. For the company is adequate return of cost on the level 10%. After quantitative functional analysis of customers' requirements on function and its individual components were found the following facts

Functions	Components				
	Corpus	Work tops	Doors and drawer	Connecting materials and forging	Mounts and legs
Storage space (35%)	35 %	10 %	45 %	10 %	-
Working Space (30%)	10 %	90 %	-	-	-
Modular principle (22%)	30 %	-	25 %	40 %	5%
Sliding bar keyboard (8%)	20 %	-	30 %	50 %	-
Ergonomic adjustment (5%)	5 %	-	-	-	95 %

The level of individual components importance is determined as the collation of importance scale of individual customers' preferences and percentage of assurance level of a particular preference by individual components

Functions	Components				
	Corpus	Work tops	Doors and drawer	Connecting materials and forging	Mounts and legs
Storage space (35%)	12,25 %	3,50 %	15,75 %	3,50 %	-
Working Space (30%)	3,00 %	27,0 %	-	-	-
Modular principle (22%)	6,60 %	-	5,50 %	8,80 %	1,10 %
Sliding bar keyboard (8%)	1,60 %	-	2,40 %	4,00 %	-
Ergonomic adjustment (5%)	0,25 %	-	-	-	4,75 %
Total	23,70%	30,50 %	23,65 %	16,30 %	5,85 %

Allowable cost of individual components: (importance x allowable costs)

Target profit = (120 € x 0,1) / (1+0,1) = 10,9 € Allowable costs = 120 € - 10,9€ = 109,1 €

Corpus – 0,2370 x 109,10 € = 25,86 €, Work tops = 33,28 €, Doors and drawer = 25,81 €, Connecting materials and forging = 17,79 €, Mounts and legs = 6,36 €

Functional costs analysis detecting differences between customers' preferences and actual costs level of the product is determined as the collation of individual components importance and percentage of assurance level of a particular preference by individual components

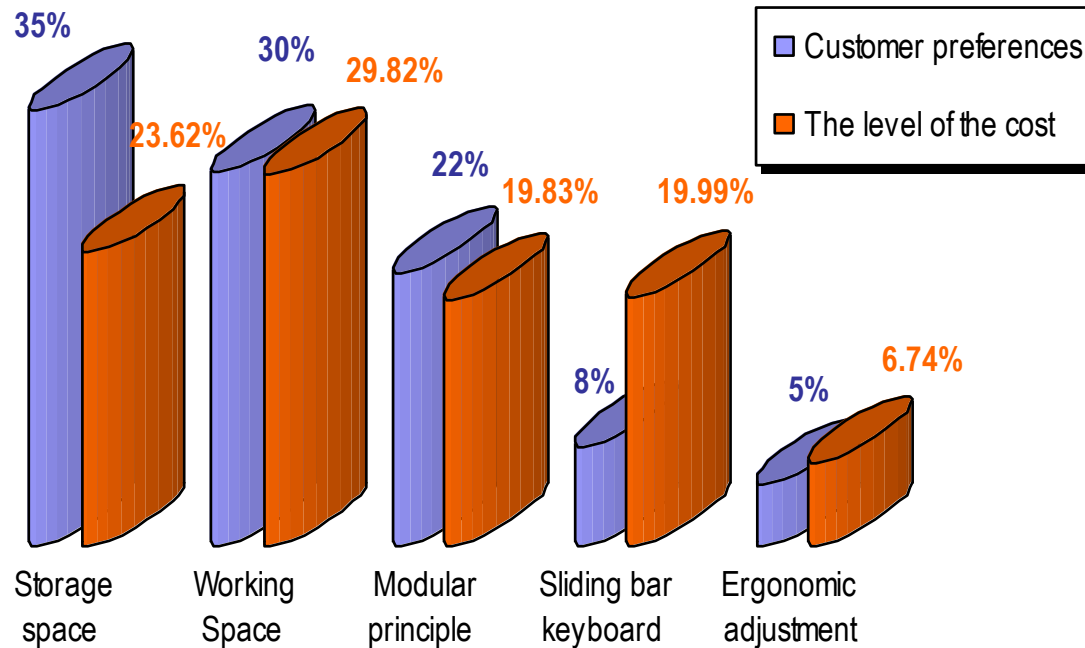
Functions	Components					Total
	Corpus	Work tops	Doors and drawer	Connecting materials and forging	Mounts and legs	
Storage space	8,295 %	3,050 %	10,6425 %	1,630 %	-	23,62 %
Working Space	2,370 %	27,450 %	-	-	-	29,82 %
Modular principle	7,110 %	-	5,9125 %	6,520 %	0,2925%	19,83 %
Sliding space keyboard	4,740 %	-	7,095 %	8,150 %	-	19,99 %
Ergonomic adjustment	1,185 %	-	-	-	5,5575 %	6,74 %
Total	23,70%	30,50 %	23,65 %	16,30 %	5,85 %	100,00 %

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Difference between customer preferences and the level of costs over the target costing



The biggest disproportion -between the customer's preference and the level of functional costs for the function of sliding space for keyboard of PC desk furniture. While customers' preferences are at the level of 8 %, the costs for this function reach 20 % from the total costs. Removing this function can probably lower the sales volume but on the other hand there can be reached a reduction of total cost of 20% which can be used to lower the selling price or improve other important functions.

Benefits of application Target costing

- focused on the customer - properties, production methods and product costs are in proportion in relation to price and customer requirements***
- focused on reducing the cost pre-production phases,***
- determined target or allowable costs for subcontractors***
- implementing the strategic ex ante, before the manufacturing process, together with precise marketing research***

Risk of application Target costing:

- application especially in the electronics and engineering industry ,***
- quality development of quantitative functional deployment of customers' requirements***
- alternative for determining the amount allowable cost components***

Thanks for your attention



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