



- Master's thesis
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Title	Developing a standard costing system for a customer oriented make-to-order company, Case: Carrus Oy		
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Abstract

Little academic effort has been devoted to research how standard costing could support customer oriented strategies. The case organization is a Finnish bus body manufacturer executing a customer oriented strategy based on a high capability of product customization. The implementation of the case organization's standard costing system has been problematic as direct materials and labor are sacrificed in production in a nonuniform way due to a large product variation. The objective of the study is to present a construction proposal that delivers reliable cost information for pricing, cost control and decision making at the case organization. This objective is obtained by using the constructive research method. Data was gathered by interviews, taking notes and making probing questions while working as team member in the case organization.

Standard costing, target costing and modularity are studied to gain a general understanding of the problem at hand. Standard costing was developed for mass production and it has been argued that it is not suitable in a customer oriented environment. Higher profits are sought through customization of products by offering product features that satisfy the individual needs of customers. This strategy is usually supported by the make-to-order approach. Customization leads to high product variation and a large amount of data that should be controlled. Value analysis and engineering are parts of target costing used to ensure that only products with the wanted features, right price and cost are launched. Modularization has been developed to facilitate control over designing, pricing and cost control of multiple product configurations.

Production at the case organization hardly presents the ideal form for standard costing and standard costing can not be used in its traditional form to support the case organization. However, the suitability can be enhanced with tighter production control. A detailed analysis of the present state of standard costing in the case organization concluded that adequate measures have not been developed to control and document the data and changes of each product variant.

The construction proposal is based on former theory and innovation. Combined with features of target costing and modularization of the product correspondingly to product features, standard costing can be adapted to the needs of the case organization. These measures facilitate adequate cost data for pricing and the setting of work number specific standards for cost control. Separation of customization costs based on a definition of standard and custom made product features would facilitate performance measurement, decision making and future pricing. As this paper does not report the implementation of the construction, no conclusions about the generalizability of the construction can be drawn.

Key words	Standard costing, customer orientation, make-to-order, target costing, modularization
Further information	Secret until 30.6.2008. Decision 13/03.