

COST OF QUALITY REPORTS AND VALUE ENGINEERING

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- Study case

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ABSTRACT

This case study examines the concept of Quality Management and its importance in the modern business environment. It provides an overview of the Cost of Quality Reports and Value Engineering and how they can be implemented into the Balanced Scorecard. Additionally, it highlights the shortcomings of implementing the Balanced Scorecard without proper regard to employee concerns. Students may use this instructional case study to illustrate the concepts discussed. Through this case study, students can gain a better understanding of Quality Management and its importance in the business world. Furthermore, they can learn how to apply the Cost of Quality Reports and Value Engineering to the Balanced Scorecard in order to improve the overall quality of their organization.

Keywords: Target costing; Total Quality Management; Strategy Map; Balanced Scorecard; teaching material.

1 INTRODUCTION

Being part of a conglomerate, HyggeHouseholds (HyHo) is a division that manufactures kitchen devices used for heating foods. It is time to introduce the 8th version of their Toaster, the “ToastMaster8” (TM8). HyggeHouseholds’ production facility is just getting a customized, not re-deployable update of four production lines to meet the specific needs of switching from TM7 to TM8.

The fixed costs of these production lines exceed the cost of direct material and the cost of highly trained staff. HyggeHouseholds is known for the high quality of its products. At the same time, it needs to set the price for TM8 well: first, the market for toasters is competitive. Second, customers might switch to substitute products of toast, such as microwavable snacks, or fresh bread. Thus, HyggeHouseholds needs to find out what the customer is specifically willing to pay for. HyggeHouseholds is still in a phase where the way that TM8 will be produced can be changed.

2 TARGET COSTING (APPROX. 40 MINUTES)

Mette is the manager in charge of launching TM8. She has been spearheading a cross-functional team that calibrates TM8 for its target audience through applying target costing. Mette had focus groups test the TM8 prototype. The team leader of marketing, Rasmus, tells her:

“We started with some qualitative interviews to find out what people value about a toaster, and condensed them into the three most relevant factors. Then, we drafted a large-scale survey where we asked customers of the current TM7-model how relevant these factors are on a scale from 1 to 7. This is the results from our research:

- *Extra Wide Slots: Slots must fit large slices of bread (e.g., bagels and hot pockets with filling).*
- *Smart heating: Customers of the TM7 do not use the toaster for classic toast. They defrost whole-grain bread, re-heat pizza, and keep food warm for a short while. They need a slow-heating option to warm up the middle of snacks without burning the outsides.*