

A TARGET COSTING APPROACH TO DEVELOPING AN ONLINE DISTRIBUTION CHANNEL - Case study -

Rainer Lueg, Leuphana University, Germany and University of Southern Denmark, Denmark

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ABSTRACT

This case study illustrates how a retail company uses target costing to develop its online sales channel. The case elaborates on a setting where the investment choices into the different components of the online distribution channel appear intuitive and simple. However, a data-driven analysis that relates user preferences and customer requirements to capital expenditure decisions (target costing) mandates another course of action. The case then addresses managerial implications, specifically in the area of the cost of quality.

Keywords: Target costing; online distribution channel; customer accounting; cost of quality; teaching notes.

1. INTRODUCTION

SEND is a retailer that sells fashion and decoration. Several times a year, it sends its glossy catalogues to its customers. Orders can then be placed via mail or phone.

Trained phone personnel (toll-free for the customer) is the main channel of communication and the most important way to create customer relationships. Customers can only use a debit card for payments. As usual in this industry, SEND offers free shipping and has a no-questions-asked return policy.

2. BALANCED SCORECARD (approx. 40 minutes)

SEND plans to implement a Balanced Scorecard (BSC) to execute its strategy better.

Required:

2.1. The Chief of Marketing (CMO) explains: “We should think about the customer part of our strategy. We have many loyal customers. Mostly, they are families that buy from us, basically, crossing generations. Our customers tend to be the mature, educated, wealthy, conservative type who like and can afford our traditional merchandise.

Typical items we sell are, for example, luxurious electronics, wooden and plated silver decorations, or merino wool sweaters and blankets that start at 400 EUR apiece. We do not sell “brands”, because our merchandize is so good that you know it when you touch it.

And our customers like to put our catalogue on their coffee tables, so their guests know where the sofa pillows are from. Our suppliers are very exclusive, you do not get our merchandize in other places, at least not in this quality. So the typical online retailer is not our competition. Customers love our catalogues. That does not mean that we should not look at what we could do online.

Our customers have all electronic gimmicks you can imagine. But they behave differently online from the average internet user. For them, it must be super simple, super secure, and different from what other