
Target Costing at Goodyear

Sam Gibara

EXECUTIVE SUMMARY

- Target costing has helped Goodyear bring higher-quality products to consumers faster, more profitably, and at lower costs than ever before.
- The focus is to build a cost structure and a business mix that allows the company to grow throughout business cycles, and target costing is a key factor in meeting that objective.
- New product development traditionally begins by focusing on the characteristics of performance and value, which often means conducting a needs analysis to identify specific features of tires and all the related benefits of each feature.
- Without the guiding light of a cost target, there is always the danger that a company will provide elegant solutions to consumer needs that no one can afford.
- Target costing is expected to grow in importance.

At The Goodyear Tire & Rubber Company, *target costing* helps us bring higher-quality products to consumers faster, more profitably, and at lower costs than ever before. It has the great advantage of being driven by competitive market prices and shaped by the customer. We survey our customers to determine their needs and acceptable marketplace prices, then use target costing throughout all stages of product development—from designs on the drawing board and until consumers actually use the products on their vehicles.

... target costing helps us bring higher-quality products to consumers faster, more profitably, and at lower costs than ever before.

STRATEGIES DRIVEN BY THE MARKET

Following strategy that is driven by the marketplace gives engineers and production people a context for the products they develop. Goodyear has set up cross-functional teams to take responsibility for all costs. What used to be only a finance function is now the responsibility of each strategic business unit.

These cross-functional product and process teams include representatives from product technology, manufacturing, marketing, logistics, and finance. In addition to surveying customers, the teams

Samir G. Gibara is chief executive of The Goodyear Tire & Rubber Company in Akron, Ohio.

CCC 1098-9382/99/040049-04
© 1999 John Wiley & Sons, Inc.

get feedback and suggestions from other outside participants, including suppliers, dealers, distributors, and service providers.

Goodyear takes the position that cost management has to begin before manufacturing ever starts—at the product- and process-design stages. We try to avoid having to make changes that increase costs and the time it takes to bring a product to market. After production begins, there is continuous improvement, but product features and benefits change only if they meet customer expectations about value and only if the additions enhance market share or sales.

“A STRONG COMPANY IN A CYCLICAL BUSINESS”

At Goodyear, our focus has been to build a cost structure and a business mix that allow us to grow throughout business cycles. We want to be known as a strong company in a cyclical industry—not a strong cyclical company—and we consider target costing a key factor in meeting that objective.

Target costing played a key role in three recent product developments at Goodyear:

- The Aquatred passenger tire, introduced in 1991;
- The EMT (or “Run-Flat” tire), introduced in early 1998; and
- The Quantum truck tire, also introduced in 1998.

The following sections discuss each of these products briefly.

THE AQUATRED TIRE

Although Goodyear had been moving toward target costing for years, we did not call it that at first. The Aquatred changed that.

We began development work on the Aquatred in our traditional way: by focusing on the characteristics of performance and value. We surveyed other products on the market and evaluated them for benchmarking purposes. But because we were creating a new market niche, we also conducted a *needs analysis* by interviewing consumers. This in-depth study identified specific features of tires and all the related benefits. Because wet traction and safety headed the list, our product-development staff paid special attention to incorporating those attributes in the Aquatred.

Under our traditional approach, only after we were getting close to our goal was marketing research used to answer the following important question: “How much is the market willing to pay for a tire that meets these needs?” When we did ask that question, however, it helped us see the light: That a market-set price minus the desired profit equaled our target cost.

THE “RUN-FLAT” TIRE

More recently, target costing played a far more important role in Goodyear’s development of the EMT, or “Run-Flat” tire, which we introduced in 1998. The Run-Flat tire was so revolutionary that it required significant changes in our manufacturing process and

Target costing played a key role in three recent product developments at Goodyear.

But because we were creating a new market niche, we also conducted a needs analysis by interviewing consumers. This in-depth study identified specific features of tires and all the related benefits.

required tire dealers to make minor adjustments in mounting, balancing, and maintaining the tires.

The goal was to provide a new and reassuring driving experience by providing a tire that can travel from 50 to 200 miles—and at speeds of from 50 to 55 miles an hour—after a complete loss of air pressure. Development of the EMT has rewritten the book in terms of roadside safety, spare tires, and peace of mind for drivers.

As we were developing the EMT, we asked motorists what they wanted from a tire. According to the responses we received, motorists wanted the tire to do the following:

- Provide performance that equaled or bettered that of conventional tires.
- Keep their cars rolling long enough after a puncture either to reach home or to get help.
- End the hassle of having to carry and fumble with a spare tire.

Simultaneously, the automotive industry was telling Goodyear that *it* wanted the following features or benefits:

- Reduced vehicle weight;
- Improved fuel economy;
- The marketing advantages offered by new safety features; and
- Opportunities to add space and improve styling by eliminating spare tires.

“Elegant Solutions That No One Can Afford”

Goodyear has always strived to offer products that meet customers’ needs—and from a fresh perspective. But without the guiding light of a cost target, there was always the danger that we might provide elegant solutions to consumer needs that no one in the world could afford.

And, in fact, that appears to be precisely what happened to some of our competitors. Some have tried to introduce run-flat tires, but often by using special wheels and sensors that made their products prohibitively expensive. Their solutions missed the point of target costing; thus they have never been fully accepted in the marketplace.

One of the major cost obstacles on the EMT project was the monitoring system needed in each wheel to warn drivers if a tire goes flat. Without it, a driver might not know that a tire had lost air pressure. Our research and development (R&D) staff worked closely with suppliers to develop a cost-effective warning system that provides drivers a visual signal from each tire. This is a good example of how target costing should work and how all the members of the value chain contribute.

THE QUANTUM TRUCK TIRE

Target costing also played a big role in the development of the Quantum truck tire. As with the other two products, input from consumers and the automotive industry was vital. We expect the

Without the guiding light of a cost target, there was always the danger that we might provide elegant solutions to consumer needs that no one in the world could afford.

Target costing ultimately helped us provide the efficiency improvements, the productivity gains, and the global response times needed to meet the demands of markets spread across five continents.

Quantum tire to have strong appeal for both replacement and original-equipment customers.

Development of the Quantum emphasized improvements in mileage, wear, and retreadability, yet the tire also had to meet existing pricing levels across all our existing markets. Target costing ultimately helped us provide the efficiency improvements, the productivity gains, and the global response times needed to meet the demands of markets spread across five continents.

The design and construction profile of the Quantum will make it competitive internationally, not only from a cost perspective but also from a performance standpoint across a broad range of climates, vehicle applications, and road conditions.

FUTURE OF TARGET COSTING

As Goodyear embarks on its second century in the tire and rubber products business, we believe that target costing—or some form of it—will continue to grow in importance, not only for Goodyear but for our customers and suppliers.

We have found a win-win environment by using target costing—one that helps us, our customers, and our suppliers control costs through better communication and cooperation. We have strengthened our reputation for commitment and reliability among our customers and suppliers, and we also have created a competitive advantage that translates into gains in market share.