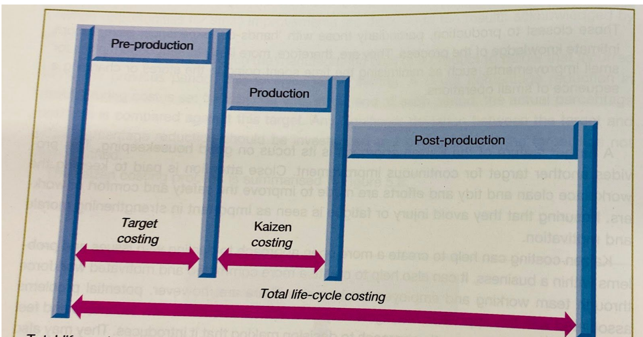
- [2] set cost reduction target for the next period
- [3] determine actual cost reduction achieved
- [4] compare target cost reduction with the actual cost achieved
- [5] where significant deviation occurs, take appropriate action.

- Kaizen costing can help to create a more open approach to dealing with issues and problems within a business. It can also help to create a more committed and motivated workforce team working and employee involvement.



Total life-cycle costing covers all three phases of the product life cycle, whereas target costing and kaizen costing are each concerned with only a single phase.

Figure 5.9 The relationship between the three types of costing

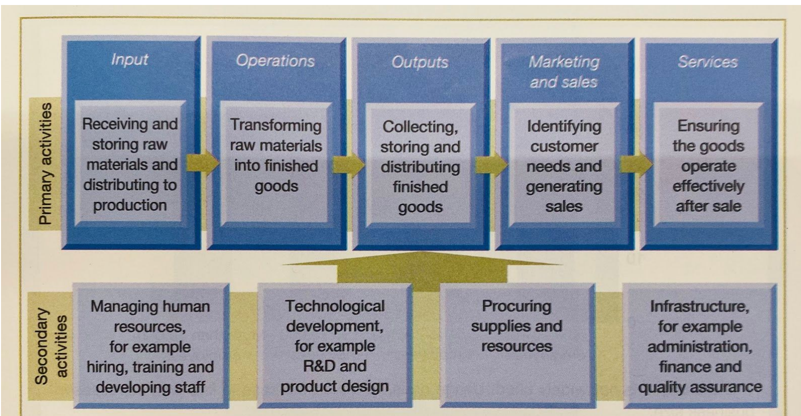
5. Other approaches in managing cost in the modern environment

5.1. Value chain analysis

➔ Securing competitive advantage can be only done by ensuring that the key activities of the business must be performed more successfully than the competitors.

➔ The business must either:
- obtain some cost advantage over its competitors
- differentiate itself away from them

➔ The **value chain analysis** is necessary to identify in which way the competitive advantage can be achieved. The business is divided into a serie of value-creating sequences and managers examines the potential of each activity and how to maximize on them.



The five primary activities which form the links in the value chain are underpinned by four support activities.

Source: Adapted from Porter, M. (1985) *Competitive Advantage: Creating and Sustaining Superior Performance*, The Free Press. Copyright © 1985, 1998 by Michael E. Porter. All rights reserved. With the permission of The Free Press, a Division of Simon & Schuster, Inc.

Figure 5.10 The main links in the value chain of a manufacturing business