

# CIMA RESEARCH INITIATIVE

## Costing

To its surprise Porsche learned that Tesla launched an electric car that accelerated faster than a regular Porsche. How was that possible and at what costs did they produce the car? These were the questions facing Porsche. Porsche is not the only incumbent firm that is facing real issues that pertain to products and costs. The hospitality industry is facing similar issues with web-based solutions affecting the business model of incumbent firms. Think of Airbnb that increases the competition in the industry; think of Uber taking on the taxi industry. In fact almost all industries have to be aware of how entrants pose a threat to the current business given that they can deliver similar or even better products or services at competitive cost.

Some firms are, however, well aware of the challenges they face. A recent study by Chang, Ittner and Paz (Journal of Management Accounting Research 2014) suggests that management accountants in practice estimate that the importance of their role in managing costs exceeds their effectiveness at doing so. They have similar experiences with respect to their role in enhancing improvements and supporting growth. This is in contrast with, for instance, compliance and control tasks where effectiveness and importance more closely match. Add to this that researchers appear to have paid less attention to costing issues, as suggested for example by the share in accounting journals dedicated to the topic. Given the importance and perceived efficacy of costing in practice, we believe that costing topics call for more attention. Considering the change in context in which costing questions are prevalent also creates a need for new inquiry or re-examination (eg, in e-commerce, for 'disruptive' technologies and innovations, or for 'bundled' products and services). Some indicative but not exhaustive topics for investigation that might be relevant are:

- **Costing and profitability analyses** – The 'whale curve' features in most management accounting textbooks where it is maintained that 80%, say, of the channels, customers or products/services make up more than 100% of the profits, while the remainder reduce the profit back down to 100%. Research into whether and how this analysis affects decision making of firms (eg, which customers to target or how to encourage 'high-cost' customers to move to online or self-service), and what types of costs are being considered when making such an analysis is scant. And there are also timing or lifecycle considerations: channels, customers or products/services that 'drive down' profit now may become highly profitable in the future. How is all this taken into account in the costing calculations?
- **Costing over the lifecycle** – How can, and do, firms evaluate the future potential of a customer and make reasonable 'Customer Lifetime Value' (CLV) calculations?
- **Costing of innovations** – In many sectors, products and services may, and do, become obsolete over a short period of time. New products or services or delivery modes are often 'disruptive'. While rapid technological developments exacerbate this, it is unclear whether and how costing data come into play to assess the 'real' profitability, pay-back, and feasibility of product and service innovations.
- **Costing of product/service 'bundles'** – How are costs and revenues efficiently allocated across 'bundled' product/service combinations, eg, where hardware is a loss leader for subsequent profitable service contracts? How do firms cost their non-product 'costs to serve'?
- **Contemporaneous costing approaches** – research on the use and usefulness of activity-based costing, target costing, and other costing approaches developed in the 1980s brought into the present time and adopted in contemporaneous settings such as predominantly service-oriented rather than manufacturing-focused contexts. This also includes costing in various different settings such as the public sector, healthcare, NGOs, charities, and so on. Finally, this rubric continues to include the perennial question of adequate cost allocations which may have taken even greater importance given product and service diversity and complexity.
- **Cost-based pricing, including transfer pricing** – while full cost transfer pricing seems to be denounced as a useful decision-making tool for operational decision making in textbooks, a survey by EY documents that about 50 percent of the global firms they survey use this approach. What are the tradeoffs firms are making? Complexity, accuracy, data availability?
- **Analytics** – has costing at all been affected by the prevalence of an abundance of data, real-time or historical, including 'big data'? What depth of detail and complexity is required?

*CIMA invites applications for research projects in these and related areas of costing issues broadly defined. The complexity and scope of this topic mean that all methodologies are potentially relevant, similarly there are no restrictions on the theoretical frameworks that might be fruitfully drawn upon. Detailed research proposals are invited.*

## APPLICATIONS

Grants are typically between £5,000 and £40,000 depending on the scope of the project and its outputs.

Applicants are strongly advised to read the Guidance Notes prior to application. Details and application forms can be found at [www.cimaglobal.com/research](http://www.cimaglobal.com/research)

The closing date for applications is 31 August 2016. Shortlisted applicants will be invited to present their proposals to a CIMA review panel in October 2016.

For further information please contact CIMA's research team:  
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