



## Six Sigma Tool for Cost Reduction, Measurement and Estimation

### Objectives

To provide managers with useful information to help them make better decisions, which often includes managing and controlling costs. This training will provide an overview of the basic terminology and concepts underlying Cost Measurement and Cost Estimation.

The goal of cost estimation is to identify and estimate the underlying drivers, or factors, that cause total cost to change. Managers need to understand what drives cost so that they can manage cost--so that they make better decisions--and so that they can plan (or budget) for the future.

### Course Contents

Costs can be measured, or categorized, in a lot of different ways. For external financial reporting purposes, we must categorize cost according to whether it is a manufacturing or non-manufacturing cost. However, for internal managerial purposes, we often care about whether the cost is: variable or fixed, relevant or irrelevant to a particular decision and controllable or uncontrollable to a specific manager

Cost estimation is the process of trying to determine what factor (or factors) is causing cost to be incurred. We used several approaches to estimate costs, including: graphical approaches, the high-low method and regression approaches.

Although Excel make it very easy to calculate simple and multiple regression, it is very important to understand the interpretation of the output and what value it might have for managerial decision making.



### Course Outlines

1. The Importance of Cost Management.
2. The Various Types of Cost.
3. Variable, Fixed, Step (Semi-Fixed) and Mixed (Semi-Variable) Costs.
4. Scattergraph to visually depict the Relationship between Cost and Activity.
5. The High-Low Method to estimate variable cost per unit and total fixed cost.
6. Simple and multiple regression analysis to estimate cost behavior.

### Designed For

Managers and decision makers dealing with cost measurements and estimation to make better decisions in managing and controlling costs.