

Application of Target Cost Management in Enterprise Economic Management

Dayu Chen

College of Modern Economics & Management JUFU, Jiangxi, Nanchang, 330013

Keywords: Target cost, Cost management, Economic management

Abstract: In the fierce market competition, the cost advantage of enterprises is a very important competitiveness. Therefore, every enterprise should choose a cost management scheme suitable for its own enterprise according to the actual situation of the enterprise. Target cost management can effectively control costs, optimize business processes, and improve the market competitiveness of enterprises. Firstly, this paper analyzes the value of target cost management in the economic management activities of enterprises, and then summarizes the implementation process of target cost management. Finally, combined business activities with cost management, this paper elaborates how to use various cost control methods to achieve target cost management in product design, procurement, inventory, production and sales stage.

1. Introduction

With the development of market economy and global integration, competition among enterprises is becoming increasingly fiercer and fiercer. In particular, the popularization and application of information technology has promoted the new demand of the market and the rise of new production methods of enterprises. Therefore, the traditional enterprise cost management system is facing more severe challenges. Cost management is not only limited to the cost control in the production process, but also needs to pay attention to cost avoidance. In this context, the method of target cost management came into being, which is a management method that starts from the entire production and operation link and can be combined with orthopedic needs for cost control.

This article mainly focuses on the application of target cost management in enterprise economic management, combining business activities and cost management, to elaborate how to use various cost control methods to achieve target cost management in product design, procurement, inventory, production and sales stage.

2. The Value of Target Cost Management

The process of target cost management includes a series of complex technologies and tools. However, these complex and diverse management decision-making methods revolve around a simple idea, that is, the price of the product is determined by the market, and the profit is to exclude the cost from the price. In general, target cost management has the following values in the economic management activities of enterprises.

2.1 Market Oriented

The development of information technology increases the risk of market uncertainty faced by enterprises. Moreover, the buyer's market characteristics of oversupply will inevitably lead to fierce competition among manufacturers. Target cost management adapts to this kind of market competition environment, one of its characteristics is market-oriented. The market-oriented cost management mode is embodied in taking the product price as the starting point of calculating the target cost. This kind of cost management mode reveals that the market price is obtained by the cost of the enterprise's products plus the profit calculated on the basis of cost. Such a cost management model implies that the supply of enterprises determines the demand of the market. The initiative of the enterprise can make the enterprise obtain considerable profit.

2.2 Focus on Customer Needs

Since market demand determines the price of products, the analysis of the determinants of market demand has become an important part of target cost management. Paying attention to customer's demand is the supplement to price orientation. If we only pay attention to the market price of the product and reduce the cost of the product, and do not pay attention to whether the customer's demand can be met, then the enterprise can obtain considerable profits in the short term, but it will affect the long-term development of the enterprise. From another point of view, if the function of the product is increased compared with that of the previous generation, the price of the product needs to be increased, and the cost of the product needs to be increased to ensure the function.

2.3 Life Cycle Cost Planning

The concept of cost in target cost management has broken through the original concept of product production cost. The traditional cost management method focuses on the cost accounting and management in product manufacturing, while the target cost method plans the cost from the whole life cycle of product design, production, use, repair, disposal and waste through the research on customer demand, product design, cross functional team participation and other methods, in order to minimize the cost in the product life cycle.

2.4 Match the Competitive Strategy of Enterprises

Porter divides enterprise strategy into low-cost strategy, difference strategy and centralization strategy. There is no doubt that target cost management can support low-cost strategy. Target cost management attaches importance to the functions and characteristics of products. In value engineering, different functions of products are allocated to different proportions of costs shares, and these costs are considered necessary to support the function. Under the differentiation strategy, differentiation can be the unique shape of the product, the new function of the product, or even the unique service of the enterprise. Through consumer analysis, these functions can be included in the design system of target cost management. Therefore, the differentiation strategy can also use target cost management.

3. Implementation Process of Target Cost Management

Target cost management begins with researching the market, to produce the products that meet customer needs and determining competitive market prices based on the situation of customers and competitors, and meanwhile determine the reasonable target profit in combination with the actual situation of the enterprise. And then, determine target cost based on price and expected profit, and make target cost decisions to ensure the feasibility and reality of the final target cost. And then decompose target cost to make target cost specific. Next, implement the target cost step by step according to the decomposition task of the target cost. Finally, conduct target cost accounting and cost evaluation. The implementation process of target cost management is shown in Figure 1.

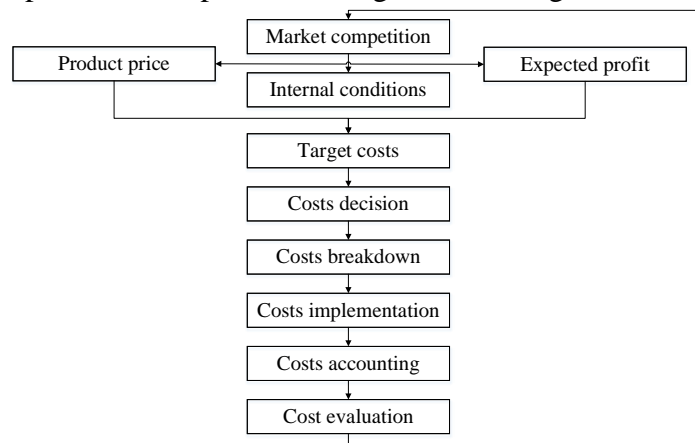


Figure 1: Implementation process of target cost management.

4. Application of Target Cost Management in Corporate Economic Activities

In corporate economic activities, target cost management is to integrate the estimated costs according to the value activities in each link of the value chain, and then break down the target costs that need to be achieved into the value activities of each link. And then, according to the comparison result of the estimated cost and the target cost of value activities, take measures to control the cost according to the actual situation of the enterprise, control the estimated cost to the range of the target cost, and achieve the goal of the enterprise to control the cost.

Target Cost Management at Product Design Stage. Product design is the foundation of production, so the product design stage is also a key stage of target cost control. Target cost control of product design, also known as "cost planning", is a cost control method created by the Japanese business community in the 20th century. The basic idea of cost planning is to combine market orientation and consumer demand to design products that meet consumer goals. In the design process, trying to reduce the weight of parts, choose appropriate materials and processing methods, improve material utilization, and reduce scrap rate are all effective ways to reduce the cost of product design.

The process of target cost management at the product design stage includes the following three steps:

1) Carry out technical briefing and propose a rough plan: based on the company's technical requirements for products, engineering and technical personnel put forward a rough design structure method of product structure, type, technical parameters, etc.

2) Make product quotation and release design target cost: first, the ordering department makes a product quotation according to the rough design plan; the planning department focuses on the parts that account for a large proportion of the product cost, analyzes the target cost of the main parts of the product according to the function coefficient of the part, and implements the target cost responsibility of the part to the specific designer. The Calculation formula of target cost of parts is as follow:

$$\text{Target cost of parts} = \text{Total target cost of product} \times \text{Function coefficient of parts}$$

3) Calculate design costs: after the drawing of the product parts is completed, the professional of the design department estimates the design cost; after the preparation of product technical data is completed, before the product is put into production, the accounting department shall prepare the fixed product cost. Through layer-by-layer accounting, the target cost of the product design stage is controlled within the prescribed limit.

The target cost control process at the product design stage is shown in Figure 2.

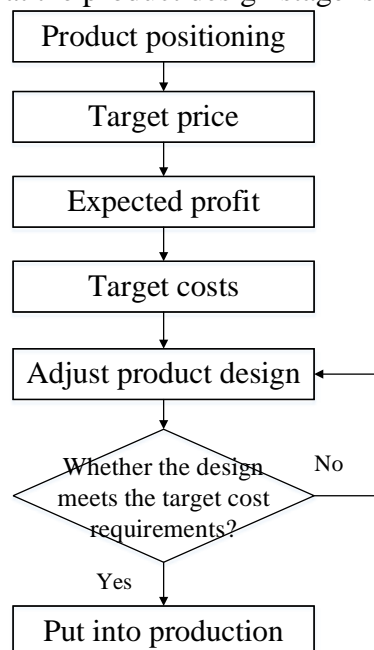


Figure 2: Target cost control process at the product design stage.

4.1 Target Cost Management at Product Procurement Stage

Purchasing costs include the price of the purchased materials, order costs, management costs of the purchasing team, etc. Modern procurement is based on the concept of cost minimization, focusing on the balance of the dimensions of purchasing materials, quality, delivery time and service in the procurement activities. Target cost management at product procurement stage, first of all, is to estimate the cost of purchasing activities and external logistics activities, and then compare the estimated cost with the target cost of the link, take measures to control the cost, and complete the target cost control at the procurement stage.

Product procurement can use the following target cost control methods:

1) Overall strategic purchasing ideas: purchasing decision-making should consider the price factor along with the use cost, management cost and other intangible costs, based on all links in the entire value chain system, so as to achieve the goal of the lowest overall cost.

2) Optimize the procurement process: first, introduce the supplier competition mechanism by means of public bidding, so as to select the most suitable suppliers; second, use online platforms for purchases, thereby greatly reducing travel and transportation costs; finally, choose the raw materials provided by the supplier, and select the preferential combination purchase method of the materials required by the enterprise, thereby reducing the overall procurement cost.

3) Institutionalized management of procurement: the goal of institutionalized management of procurement business is to coordinate employee behavior in procurement activities with the overall goals of the enterprise, and to improve the effectiveness and economy of procurement activities. Purchasing management system is the guarantee for the operation of enterprise procurement organization structure, and its focus is on procurement management business process standards and procurement management work standards.

4.2 Target Cost Management at Inventory Stage

The target cost management in the inventory stage is mainly to grasp a balance between procurement and inventory. Controlling and maintaining proper inventory is a common and important issue in the production and operation of enterprises. The criterion of inventory decision is to obtain the best order quantity with the lowest cost. The lowest cost depends on the inventory cost and is also an important factor that affects the storage cost of the warehouse.

ABC classification key management method is an important way to reduce the cost of warehouse reserves. Commonly used ABC classification standards are shown in Table 1.

Table 1: ABC Classification Standards.

Category	Proportion of consumption	Proportion of funds
Class A materials	About 10%	About 30%
Class B materials	About 20%	About 30%
Class C materials	About 70%	About 10%

4.3 Target Cost Management at Production Stage

The target cost management in the inventory stage is mainly to grasp a balance between procurement and inventory. Controlling and maintaining proper inventory is a common and important issue in the production stage. The target cost control of the product production stage is to determine the estimated cost of the production stage according to the production activities and internal logistics activities, and then compare it with the target cost allocated to each value activity of the product production stage, and then take measures to control the cost of the production stage.

The target cost control methods in the product production stage include on-site cost control, production process reengineering and lean production.

1) On-site cost control: it refers to the management and control of the materials, power, manpower and various expenses consumed in the production process in the production process.

2) Production process reengineering: it aims to provide customers with high-quality products in a short time under the premise of meeting the market demand, through the rearrangement of facilities

layout, management mode and organization structure in the production process of the enterprise.

3) Lean production: Lean production regards the production and management process as a dynamic system. In the whole process of production, it constantly adjusts the system according to the needs of users, and streamlines all useless and redundant things in the production process, so as to achieve the best result in all aspects of the production process.

4.4 Target Cost Management at Sales Stage

Under the condition of market economy, the difficult problem for enterprises in the sales stage is that they cannot determine how much cost they put into the sales stage to achieve greater publicity effect and greater product income. The first step of target cost control in product sales stage is to determine the sales expense budget, and then determine a sales budget based on various sales costs, including labor, advertising, pre-sales and after-sales service costs, etc.

Collaborative marketing can be introduced as the target cost management method of product sales. Collaborative marketing refers to the cooperation of several independent enterprises in each stage of sales to build a marketing cooperation network for the needs of market competition, so as to increase market share, sales volume and sales profit, thus opening up a mutually beneficial and win-win situation. Once the collaborative marketing mode is officially launched, the promotion of new products will become very smooth, and the cost in the sales stage will be greatly reduced.

5. Conclusion

Fistly, this paper analyzes the value of target cost management in the economic management activities of enterprises, from the perspective of market orientation, customers needs, life cycle cost planning and competitive strategy of enterprises. Then, we summarize the implementation process of target cost management, including target cost setting, cost decision-making, cost decomposition, cost implementation, cost accounting and cost evaluation. Finally, combined business activities with cost management, we elaborate how to use various cost control methods to achieve target cost management in product design, procurement, inventory, production and sales stage.

References

- [1] Yasukata K , Yoshida E , Yamada I , et al. A longitudinal case study of target cost management implementation at a shipbuilding company[J]. *Journal of Accounting & Organizational Change*, 2013, 9(4):448-470.
- [2] Mehmet C. Kocakülh, Austill D . Product Development And Cost Management Using Target Costing: A Discussion And Case Analysis[J]. *Journal of Business & Economics Research*, 2011, 4(2):35-68.
- [3] Yang WS. Direct Cost Control in Construction Stage of EPC Based on Target Cost Management% [J]. *Journal of Shijiazhuang Railway University*, 2014, 008(004):60-63,105.
- [4] Baharudin N , Jusoh R . Implementation of target cost management in a non-Japanese environment[J]. *Qualitative Research in Accounting & Management*, 2019(5):22-40.
- [5] Xiang X. Discussion on the Financial Target Cost Management of EPC Project of Construction Enterprises[J]. *Management and technology of small and medium-sized enterprises*, 2019, 000(003):74-75.
- [6] Park S J , Park W J , Woo S . Implementation Of Automated Systems For Target Cost Management And Assessing Performance: A Case Study In A Global Automobile Component Company[J]. *The journal of applied business research*, 2016, 32(3):829-855.
- [7] Jing-Kuang L , Yi-Yong L , You-Song W . Analysis of Limitation of Target Cost Management at The Early Stage of Construction Project[J]. *supervision test and cost of construction*, 2014, 24(002):78-106.